JPMorgan Japan Smaller Companies Trust plc

Annual Report & Financial Statements for the year ended 31st March 2016

J.P.Morgan
Asset Management

Features

Investment Objective

The Company's objective is to achieve long-term capital growth through investment in small and medium-sized Japanese companies. Its benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.

Investment Policy

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of investments almost wholly invested in Japan, emphasising capital growth rather than income.

To obtain this exposure, investment is permitted in Japanese quoted companies other than the largest 200 measured by market capitalisation, Japanese domiciled or unquoted companies, Japanese domiciled companies quoted on a non-Japanese stock exchange and non-Japanese domiciled companies which have at least 75% of their revenues derived from Japan. Investment is also permitted in UK and Japanese government bonds. Borrowings may be utilised to enhance shareholder returns.

The Board sets no minimum or maximum limit on the number of investments in the portfolio. For information only, in the financial year under review, the number of investments ranged from 85 to 95.

Investment Restrictions and Guidelines

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

- The Company will not invest more than 5% of its assets in any one individual stock, at the time of its acquisition.
- The Company's current gearing policy is to operate within a gearing range of 5% net cash to 15% geared in normal market conditions with maximum levels of 10% net cash or 25% geared.
- The use of derivatives and currency hedging transactions are permitted with the prior approval of the Board. Such transactions, when used, will be for the purposes of efficient portfolio management and not for speculative purposes.

Compliance with investment restrictions and guidelines is monitored by JPMorgan Funds Limited ('JPMF' or the 'Manager') and is reported to the Board on a monthly basis. The benchmark index, as well as the limits and restrictions described above, may be varied by the Board at any time at its discretion, although any material changes to the investment policy must be approved by Shareholders in accordance with the Listing Rules.

Monitoring of Compliance

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.

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, although investors should note that there is no recognised benchmark that closely reflects the Company's stated investment policy.

Capital Structure

As at 31st March 2016, the Company's issued share capital comprised 47,326,086 Ordinary shares of 10p each, of which 409,500 were held in Treasury, and 8,618,474 Subscription shares of 0.1p each.

Currency

The Company does not currently hedge the currency exposure that arises from having assets and bank debt denominated in Japanese yen.

Management Company

The Company employs the Manager as its Alternative Investment Fund Manager. JPMF delegates the management of the Company's portfolio to JPMorgan Asset Management (Japan) Limited through JPMorgan Asset Management (UK) Limited.

Association of Investment Companies ('AIC')

The Company is a member of the AIC and complies with both the AIC Code of Corporate Governance and the Financial Reporting Council's UK Corporate Governance Code.

Website

The Company's website can be found at www.jpmjapansmallercompanies.co.uk and includes useful information about the Company, such as daily prices, factsheets and current and historic half year and annual reports.

FCA Regulation of 'Non-Mainstream Pooled Investments'

The Company currently so conducts its affairs that the shares it issues can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority ('FCA') in relation to non-mainstream investment products.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

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Financial Results

TOTAL RETURNS AS AT 31ST MARCH 2016

+13.9%
Portfolio total return net of fees and expenses[1,2]
(2015: +30.2%)

+12.2%
Diluted return on net assets[1,3]
(2015: +30.9%)

+6.9%
Benchmark return[4]
(2015: +22.4%)

+7.8%
Ordinary share price return[5]
(2015: +35.9%)

Financial Data

	31st March 2016	31st March 2015	% change
Shareholders' funds (£'000)	152,714	132,232	+15.5
Ordinary shares in issue[6]	46,916,586	46,282,582	
Undiluted net asset value per Ordinary share	325.5p	285.7p	+13.9
Diluted net asset value per Ordinary share[3]	312.7p	278.6p	+12.2
Ordinary share price	269.5p	250.0p	+7.8
Ordinary share price discount to diluted net asset value per Ordinary share	13.8%	10.3%	
Subscription share price	26.8p	26.6p	
Subscription shares in issue	8,618,474	9,252,478	
Gearing (%)	5.2	10.3	

1 Source: J.P. Morgan.
2 Return on net assets calculated using the undiluted net asset value.
3 The net asset value per Ordinary share assumes that all outstanding Subscription shares converted into Ordinary shares were dilutive at the period end.
4 Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.
5 Source: Morningstar.
6 Excludes 409,500 (31st March 2015: 409,500) shares held in Treasury.

A glossary of terms and definitions is provided on pages 65 and 66.

Strategic Report

CHAIRMAN'S STATEMENT

Dear Shareholders,

The Company's undiluted total return on net assets, net of fees and expenses (or portfolio return) for the year ended 31st March 2016, was 13.9%, versus 6.9% for the benchmark. The Company's diluted return on net assets, which assumes that all of the Subscription shares in issue were exercised at the rate of 243 pence per share, was 12.2%. The share price total return was 7.8%.

Investment Performance

As you will see from the Investment Managers' Report, despite a weak market background our Company enjoyed a further year of positive returns. In local currency terms, the portfolio's diluted total return on net assets was 1.8% versus -3.0% for the benchmark. The strengthening of the yen boosted the portfolio's returns in sterling terms to 12.2%, an increase of 10.4%, while the negative benchmark return moved to a positive outcome of 6.9%.

But whether we focus on the sterling or yen returns, our Investment Managers achieved another year of strong relative performance, further consolidating the medium and longer term record of the Company. I am particularly pleased with this transformation of our performance record since our present team took fund management responsibility in 2012. Our year by year results have been consistently good and have been accomplished by the disciplined application of a well constructed investment approach and process.

Borrowing

The Company has a Japanese Yen 3.0 billion credit facility with ING which gives the Investment Managers the ability to gear tactically. The Company's investment policy permits gearing within a range of 10% net cash to 25% geared. However, the Board requires the Company, in normal market conditions, to operate in the range of 5% cash to 15% geared. The level of gearing is reviewed by the Directors at each Board meeting. During the year the Company's gearing level ranged between 4.8% and 10.3% and finished the fiscal year at around 5.2%.

Subscription Shares

In December 2014, Shareholders approved a further bonus issue to Ordinary shareholders of one Subscription share for every five Ordinary shares held. The conversion rights attached to these Subscription shares are exercisable between 30th January 2015 and 30th November 2016 at 243 pence per share. A total of 9,255,764 Subscription shares were duly allotted in December 2014 and, from 30th January 2015 to 31st March 2016, 637,290 Ordinary shares were issued following receipt of valid notices of exercise from Subscription shareholders. Between 1st April 2016 and the date of this report, a further 154,218 Ordinary shares have been issued on the same basis.

Board of Directors

After many years of valuable service to your Company, Chris Russell will retire from the Board following the 2016 Annual General Meeting and will not seek reappointment. Chris has been an outstanding independent director and Audit Committee Chairman. The Board, and I personally, will miss his support and wise counsel.

CHAIRMAN'S STATEMENT *CONTINUED*

Further progress in implementing the Board's current succession plan, which will complete next year with a further retirement, was achieved with the appointment on 11th April of Alexa Henderson as an independent Non-executive Director. I am delighted that Alexa agreed to join our Board and that she will succeed Chris Russell as Audit Committee Chair. Alexa possesses substantial financial services experience, including with other investment companies, and I look forward to her receiving shareholders' support as she seeks reappointment at our forthcoming Annual General Meeting.

Outlook

After enjoying extremely strong growth in our previous financial year, the latest twelve months have been more challenging for your Company although our Managers have successfully navigated the prevailing choppy waters. Looking ahead, some of the uncertainties which have caused concern remain largely unresolved for example, the anxieties about the resilience of the Chinese economy or the broader worries about the health of the global economy. Furthermore, Japan continues to wrestle with its own challenges, as our Investment Managers explain in their report.

Our much improved performance record has been achieved principally by our Investment Managers' ability to identify those companies within our investable universe with strong growth characteristics, allied with capable managements and secure finances. Investment in such companies has served us well. I believe that excellent research-based, active investment management is the appropriate approach in a generally low growth environment.

Alan Clifton
Chairman — 10th June 2016

INVESTMENT MANAGERS' REPORT

Shoichi Mizusawa, lead manager, is Head of the Emerging Markets and Asia Pacific Equities Japan team. Based in Japan, he joined JPMorgan Asset Management (Japan) Limited in 1997.

Nicholas Weindling, Co-manager, is an investment manager in the Emerging Markets and Asia Pacific Equities Japan team. He joined JPMorgan Asset Management (Japan) Limited in 2006.

Naohiro Ozawa, Co-manager, is an investment manager in the Emerging Markets and Asia Pacific Equities Japan team. He also joined JPMorgan Asset Management (Japan) Limited in 2006.

Market Review

The Company's Net Asset Value gained 13.9% in sterling terms on an undiluted basis for the fiscal year ended in March 2016. The positive return for the fiscal year was attributable to solid performance of smaller companies in general, the fall in the value of sterling against the yen and above all the excess return that we generated over the benchmark. Over the same period, the broader Japanese equity market, measured by the bellwether TOPIX index, fell by more than 10% in yen terms. The yen strengthened from circa ¥120 to ¥112 against the dollar and from about ¥180 to ¥160 against sterling. The appreciation of the yen was more strongly pronounced against sterling due to concerns that the UK may vote to leave the European Union at the referendum in June 2016.

It was a challenging year for equities not only in Japan but also globally. The MSCI All Country World (excluding Japan) index fell by 3.5% in dollar terms, which is only marginally better than the dollar-based TOPIX return of –5%. Commodity prices fell sharply and the crude oil price, which traded as high as $90/barrel in 2014, fell to below $30 in January 2016, the lowest level in 12 years. The initial trigger for the sell-off in risk assets was the unexpected devaluation of the Chinese currency in August 2015. The devaluation raised concerns that the Chinese economy might be performing much worse than widely believed and also that it might lead to a negative spiral as in the Asian currency crisis. The Chinese currency fell further against the dollar in December 2015 and January 2016, accelerating cash outflows from a broad range of risk assets, including equities, commodities and high-yield fixed income products.

Partly because of the deteriorating outlook for the global economy, investors became increasingly concerned about the health of the US economy which for the past several years had been the most reliable source of growth for the world. The Federal Reserve Board has echoed investor concerns by being cautious in raising interest rates and has so far done so only once, in December 2015, by 0.25%. The bond market has performed strongly under these conditions and the US 10-year government bond yield fell from as high as 2.5% in July 2015 to circa 1.8% in March 2016. The currency market has also adjusted to this shift in the balance of risks by selling dollars.

In Japan, the domestic economy has not responded to the tightening labour market where the ratio of job offers to applications continues to make all-time highs. The economy contracted in the second and fourth quarters of calendar year 2015. Wages are not growing strongly enough to stimulate consumption growth and companies remain reluctant to invest in Japan. Inflation remains low, although this is partly the result of falling commodity prices. It is because of these factors that the Bank of Japan (BOJ) announced a third round of monetary easing on 29th January. The second round announced in October 2014 focused primarily on the expansion of asset purchase programme. This time, the BOJ introduced negative interest rates. The initial reaction was to sell the yen and buy equities. However, the equity market came under renewed selling pressure as the BOJ's action failed to reverse the yen appreciation and investors became concerned about the adverse impact of negative interest rates on the financial system. One area where the additional stimulus has had a positive impact is in the domestic bond market: yields on Japanese government bonds are negative for maturities of up to 10 years.

Despite the headwinds from the macro economy, listed companies in Japan have continued to make positive progress in terms of both earnings and corporate governance. Although the recent strength of the yen negatively impacts export sector earnings, aggregate profit for the fiscal year 2015 is expected to have grown to a record high. Total dividend payments have also increased to pass the previous peak in 2007 and the number of share buybacks is continuing to grow.

INVESTMENT MANAGERS' REPORT *CONTINUED*

Over the last 12 months, defensive and domestic-focused sectors, such as food, telecommunications, pharmaceuticals, construction and retail, outperformed the broader market. On the other hand, sectors that are exposed to emerging economies and/or commodities including energy, steel and capital goods underperformed. Financials also performed poorly as a result of negative interest rates.

Portfolio Review

The Company delivered an undiluted return on net assets of +13.9% in sterling terms, 7.0% ahead of the benchmark S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms. The Company is ahead of the benchmark for each of the preceding one, three and five-year periods. Over the last five years, the cumulative total return was 91.6%

During the last fiscal year, approximately three quarters of the excess return was attributable to our stock selection and the remainder is explained by sector allocation. Stocks that contributed most positively to the excess return included Peptidream (pharmaceuticals, biotechnology & life sciences), GMO Payment Gateway (software & services), Invincible Investment Corp. (real estate), Anicom Holdings (insurance) and Sohgo Security Services (commercial & professional services).

- Peptidream is a biotechnology company. Using its proprietary technology platform, pharmaceutical companies attempt to discover peptide drugs for various diseases. Since the end of 2014, the company has signed seven new licensing contracts with drug companies. It has partnerships with global mega pharmaceutical companies including AstraZeneca, Novartis, Bristol-Myers Squibb, Amgen and GSK.
- GMO Payment Gateway provides a payment processing service, with a primary focus on credit card payments for online shopping. It is dominant amongst small merchandisers and has grown strongly on the back of increasing diffusion of e-commerce. It is diversifying: (1) its customer base to cover larger firms and public entities; (2) into overseas markets; and (3) into new lines of business. We believe the company can continue to grow earnings by 20~30% per annum over the medium term.
- Invincible Investment Corporation is a REIT that has increased exposure to hotels through acquisitions. The REIT performed strongly, supported by rising hotel revenues. The hospitality industry is enjoying strong demand from an increasing number of inbound tourists, in particular from Asia. The REIT sector is likely to benefit from increasing demand from financial institutions in the negative interest rate environment.
- Anicom provides pet insurance, a market which is still in its infancy in Japan and is continuing to grow strongly. The ageing population acts as a tailwind for the company as an increasing number of elderly people live with pets and have a high propensity to spend on them.
- Sohgo Security Services is the second-largest operator of home and office security services in Japan after Secom. The company has grown strongly over the last few years, under the new management team that took charge in 2012, following many years of stagnation. Its profit margin still lags that of Secom and we believe there is further scope for the company to expand its margins and therefore its profits.

On the other hand, Dowa Holdings (materials), Taiheiyo Cement (materials) and Aida Engineering (capital goods) were among stocks that detracted most from performance.

- Dowa Holdings is a diversified industrials company whose businesses range from industrial waste management, to niche electronics materials, to auto parts. Its earnings have been under downward pressure because falling commodity prices have depressed the profit from the sale of recycled precious metals.

- Taiheiyo Cement is the largest producer of cement in Japan with operations in the US, ASEAN and China. The company's short-term earnings outlook deteriorated throughout the year due to poorer-than-expected demand in Japan.
- Aida Engineering manufactures press machines for the auto industry. It is the second largest manufacturer of its kind globally and has enjoyed strong order growth as the manufacturing process becomes increasingly complex. We believe that the poor performance is attributable to concerns about the global economic outlook in general and the auto industry capital expenditures in particular.

In each of the above cases, we believe that this is a short-term cyclical setback and that their investment cases are intact. As such, we have maintained the positions.

With respect to sector allocation, the top contributors include software & services (overweight), banks (underweight) and insurance (overweight). The level of gearing fell from 10.3% at the end of March 2015 to 5.2% in March 2016 primarily as a result of our bottom-up investment decisions.

PERFORMANCE ATTRIBUTION
FOR THE YEAR ENDED 31ST MARCH 2016

	%	%
Contributions to total returns		
Benchmark return		+6.9
Sector allocation	+2.0	
Stock selection	+6.6	
Investment Managers' contribution		+8.6
Portfolio total return		+15.5
Management fee/other expenses	-1.4	
Exercise of Subscription shares	-0.2	
Net asset value total return (undiluted)		+13.9
Subscription share dilution effect		-1.7
Net asset value total return (diluted)		+12.2
Ordinary share price total return		+7.8

Source: Factset, JPMAM, Morningstar.

All figures are on a total return basis.

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

A glossary of terms and definitions is provided on pages 65 and 66.

INVESTMENT MANAGERS' REPORT *CONTINUED*

- There are broadly two subsets within the software & services sector: domestic-oriented service companies, which tend to be defensive in terms of both their earnings and share price performance; and internet companies. The former performed better than the broader market in the volatile environment, and internet companies in general performed well in line with their strong earnings growth.
- Banks underperformed significantly after the introduction of negative interest rates in January.
- The insurance sector performed strongly thanks to the largest constituent Anicom.

There has been little change in the overall structure of the portfolio, excepting the reduction in gearing. As a result, turnover for the year was 30%. We maintained a bias towards quality and growth companies rather than cyclical companies, favouring those with strong balance sheets and cash flows. Although quality companies tend to command a valuation premium, we believe the premium will be sustained in the current environment of slow growth and low inflation. In addition, the growth bias of the portfolio reflects our desire to invest in companies with durable competitive advantage that can deliver long-term growth in earnings and shareholder returns.

On the other hand, we continued to avoid companies that operate in industries plagued by excess supply. A number of commodities and commodity-related goods and services fall into this category. Consumer durables such as TVs, white goods and even mobile devices are also examples.

We have continued to allocate a large part of the capital to our long-lasting investment themes, including healthcare, factory automation and e-commerce/mobile internet. We also own a number of companies which we believe will benefit from increasing demand for domestic infrastructure investments. Infrastructure in Japan entering a replacement phase as many infrastructure projects were completed around the last time of the Olympic games in Tokyo in 1964. We continue to believe REITs offer very attractive yields, and have owned several of them, including the large position in Invincible Investment Corp.

Outlook and Strategy

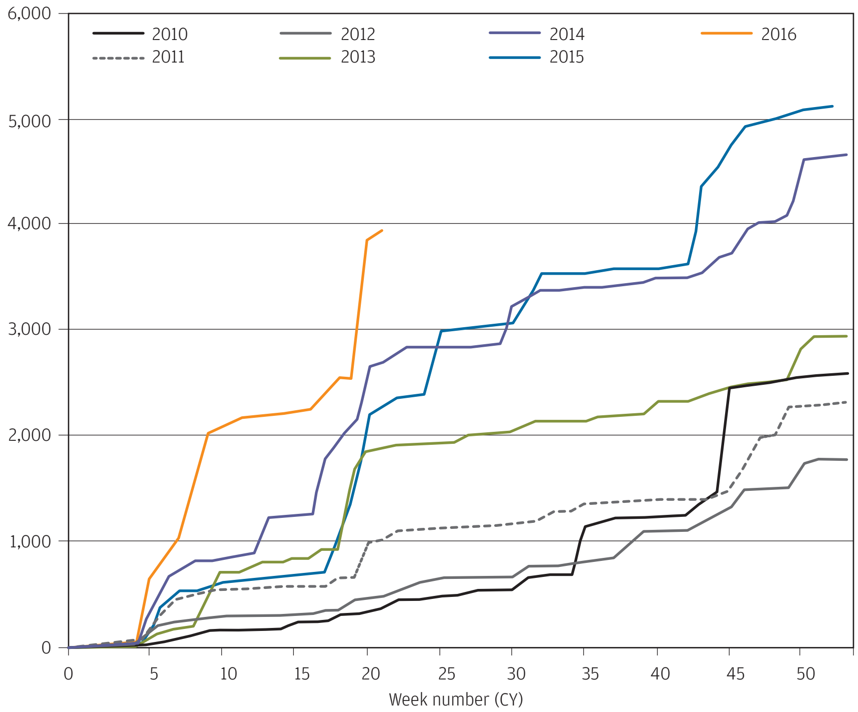
We have been positive on the Japanese market since at least 2012, and remain so on a medium-term basis. Our base case remains that the global economy will continue to expand, albeit slowly. Accordingly, we believe that corporate earnings will prove resilient to the stronger yen and we do not expect a material fall from the previous year. Corporate governance reforms, in terms of better capital management and shareholder returns, combined with unwinding of cross shareholdings, are slowly but steadily taking hold. Listed companies in general have healthy balance sheets and can afford much higher payout ratios. The valuations are not at all demanding in our opinion. The TOPIX Index trades on around 13x prospective earnings and 1.1x book value, and is cheap relative to its own history. Such positive fundamentals provide downside support in the short term and create opportunities in the medium term.

Given the recent poor performance of the domestic economy and the equity market, it is not surprising that investors are starting to ask whether "Abenomics" has failed. Indeed, many foreign investors appear to have given up on Abenomics and the statistics show they were sellers of Japanese equities throughout most of the last 12 months. It is true that inflation expectations remain low, or are even falling, and as a result both households and corporations are reluctant to spend. Our view is more balanced. We consider the following as the achievements of Abenomics:

- agricultural reform;
- Trans-Pacific Partnership (this is yet to be ratified by the member states including Japan);
- a rise in female participation in the labour market as well as an increase in overall employment;
- corporate tax cuts;
- promotion of Japanese tourism; and
- Stewardship Code and Corporate Governance Code.

Indeed, we are encouraged by the level of shareholder returns that have been announced so far. Although companies in aggregate are guiding their profit to be lower in FY2016, most companies are forecasting dividends to be at least the same as, or even higher than, last year. Share buyback announcements have also been positive. As of 16th May, over 98% of all listed companies had reported their earnings for FY2015 and issued profit guidance for the new fiscal year. The data showed that operating profits grew by over 10% in FY2015 and are expected to fall by circa 3% in FY2016. We believe that such outcomes are largely reflected in the share price as the TOPIX Index has fallen by more than 10% since the end of 2015.

Announced share buybacks (TSE1, Aggregate value, ¥'bn)



Source: Goldman Sachs as of 15th April 2016.

INVESTMENT MANAGERS' REPORT *CONTINUED*

Risks

We acknowledge that downside risks are greater now than six months ago when we wrote our commentary for the interim report. Firstly, we did not anticipate the strength of the yen. Our view has been that the normalisation of US monetary policy, and the widening interest rate differential as a result, should put downward pressure on the yen. It now appears more likely that the pace of US monetary policy normalisation will be much slower than we originally foresaw, capping the upside for the dollar. Secondly, the domestic economy has failed to gain traction. If the government goes ahead with the planned consumption tax increase from the current 8% to 10% in April 2017, it is likely to put additional downward pressure on the economy and inflation expectations. Although we continue to believe that the BOJ is committed to its 2% inflation target, recent events have shown that there are limits to what monetary policy alone can achieve. As a result, the earnings outlook for 2016 and beyond is less positive than six months ago. Banks and insurance companies will suffer pressure on net interest margins and investment returns but we need more time before assessing the impact of negative interest rates on the domestic economy.

In addition, there are several risks that are structural in nature and we have commented on them in previous reports: the demographic headwind in Japan will only intensify and domestic demand continues to disappoint despite positive employment data; the Chinese economy continues to face downward pressure from the structural shift from investment to consumption; the European Union is yet to address properly the imbalances within the European economy which is therefore susceptible to shocks.

Based on the outlook, our investment strategy remains unchanged. We intend to stay overweight quality and growth. At the same time, we remain cautious towards economically sensitive companies with weak balance sheets, in particular in industries which face structural challenges in terms of the outlook for demand, excess supply, or a combination of both. Above all, we try to identify company-specific growth opportunities that can withstand external shocks and can be sustained over the long term.

The caveat is that we are paying a valuation premium. If global growth accelerates and/or interest rates rise significantly, the valuation premium is likely to come under pressure. Although such a scenario is not our central case, we must remain flexible and make changes when the balance of risk and reward is no longer compelling. We are therefore committed to maintaining valuation discipline and keeping the portfolio well diversified.

At JPMorgan we have a large team based on the ground in Tokyo which is foccussed on identifying significant changes in sectors and companies. A team based locally is increasingly unusual and we expect this to be a source of continuing competitive advantage. Overall, we are positive on the outlook for the market, on active fund management and on the future performance of the Company.

Shoichi Mizusawa
Nicholas Weindling
Naohiro Ozawa
Investment Managers

10th June 2016

SUMMARY OF RESULTS

	2016	2015	
Total returns for the year ended 31st March			
Ordinary share price return[1]	+7.8%	+35.9%	
'Unit' return to shareholders[2,3]	+7.6%	+34.6%	
Benchmark return[4]	+6.9%	+22.4%	
Undiluted return on net assets[3]	+13.9%	+30.2%	
Diluted return on net assets[3,5]	+12.2%	+30.9%	
Net asset value, share price and discount as at 31st March			**% change**
Shareholders' funds (£'000)	152,714	132,232	+15.5
Undiluted net asset value per Ordinary share	325.5p	285.7p	+13.9
Diluted net asset value per Ordinary share[5]	312.7p	278.6p	+12.2
Ordinary share price	269.5p	250.0p	+7.8
Ordinary share price discount to diluted net asset value per Ordinary share	13.8%	10.3%	
Ordinary shares in issue, excluding shares held in Treasury	46,916,586	46,282,582	
Subscription share price	26.8p	26.6p	
Subscription shares in issue	8,618,474	9,252,478	
Revenue for the year ended 31st March			
Gross revenue return (£'000)	2,259	1,640	+37.7
Net loss attributable to shareholders (£'000)	(134)	(441)	
Loss per Ordinary share – diluted	(0.29)p	(0.95)p	
Gearing as at 31st March	**5.2%**	**10.3%**	
Ongoing Charges	**1.42%**	**1.52%**	

[1] Source: Morningstar.

[2] A Unit comprises 5 Ordinary shares and 1 Subscription share.

[3] Source: J.P. Morgan.

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

[5] Assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end.

A glossary of terms and definitions is provided on pages 65 and 66.

FIVE YEAR FINANCIAL RECORD

As at 31st March	2011	2012	2013	2014	2015	2016
Total assets less current liabilities (£m)	65.6	65.9	82.5	104.2	149.1	152.7
Undiluted net asset value per Ordinary share (p)	166.2	167.1	211.2	219.5	285.7	325.5
Diluted net asset value per Ordinary share (p)[1,2]	163.2	164.0	205.4	212.8	278.6	312.7
Ordinary share price (p)	145.0	147.0	183.0	184.0	250.0	269.5
Ordinary share price discount to diluted net asset value per Ordinary share (%)	11.2	10.4	10.9	13.5	10.3	13.8
Gearing (%)	1.5	6.1	6.3	13.6	10.3	5.2
Subscription share price (p) (2009 Subscription shares)	41.5	20.0	19.8	6.5	n/a	n/a
Subscription share price (p) (2014 Subscription shares)	n/a	n/a	n/a	n/a	26.6	26.8
Year ended 31st March						
Gross revenue return attributable to Ordinary shareholders (£'000)	1,223	1,296	1,261	1,242	1,640	2,259
Revenue (loss)/return per Ordinary share – diluted (p)	(1.11)	(0.42)	0.04	(1.36)	(0.95)	(0.29)
Ongoing charges (%)	1.96	1.87	1.61	1.59	1.52	1.42
Rebased to 100 as at 31st March 2011						
Ordinary share price total return[3]	100.0	101.4	126.2	126.9	172.4	185.9
Diluted net asset value total return[4]	100.0	100.5	125.9	130.4	170.7	191.6
Benchmark[5]	100.0	106.0	124.2	119.2	145.9	156.0

1 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 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. Further details are given in note 14 on page 52.

2 2016 and 2015 figures relate to the new Subscription shares issued on 16th December 2014; 2011 to 2014 figures relate to the old Subscription shares, issued on 5th March 2009 which had a final exercise date of 31st March 2014.

3 Source: Morningstar.

4 Source: J.P. Morgan.

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

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TEN LARGEST INVESTMENTS AS AT 31ST MARCH

Company and Japanese Company Code	Sector	2016 Valuation £'000	%[1]	2015 Valuation £'000	%[1]
Invincible Investment Corporation (8963)	Real Estate	6,107	3.8	4,416	3.0
Asahi Intecc (7747)	Precision Instruments	4,985	3.1	3,605	2.5
Peptidream (4587)[2]	Pharmaceutical	4,691	2.9	1,376	1.0
Anicom (8715)	Insurance	4,233	2.7	3,489	2.4
Sohgo Securities (2331)	Services	4,143	2.6	3,062	2.1
GMO Payment Gateway (3769)[2]	Information & Communication	3,302	2.1	1,118	0.8
SMS (2175)[2]	Services	3,087	1.9	937	0.6
Nohmi Bosai (6744)[2]	Electric Appliances	3,051	1.9	1,373	0.9
Cosmos Pharmaceutical (3349)[2]	Retail Trade	2,952	1.8	1,812	1.2
M3 (2413)	Services	2,904	1.8	2,896	2.0
Total[3]		**39,455**	**24.6**		

[1] Based on total investments of £160.1m (2015: £145.7m).

[2] Not included in the ten largest investments at 31st March 2015.

[3] At 31st March 2015, the value of the ten largest investments amounted to £31.3m, representing 21.5% of total investments.

SECTOR ANALYSIS

	31st March 2016 Portfolio %[1]	31st March 2016 Benchmark %	31st March 2015 Portfolio %[1]	31st March 2015 Benchmark %
Services	17.9	6.3	16.2	6.3
Retail Trade	10.8	9.5	9.3	8.3
Real Estate	9.9	8.9	11.9	8.0
Information & Communication	8.6	4.8	5.5	4.2
Machinery	6.8	7.4	7.1	8.5
Electric Appliances	6.6	7.4	6.3	7.8
Precision Instruments	5.2	2.0	4.4	1.9
Chemicals	5.1	7.1	6.4	7.0
Pharmaceuticals	4.9	3.6	2.5	3.3
Construction	4.7	5.6	4.5	5.7
Wholesale Trade	3.4	6.0	3.6	5.4
Metal Products	2.9	1.4	2.1	1.4
Insurance	2.7	0.1	2.4	0.1
Transportation Equipment	2.2	3.3	3.2	3.7
Other Financing Business	2.2	1.7	2.8	1.8
Nonferrous Metals	1.5	1.4	1.6	1.5
Other Products	1.4	2.6	3.6	2.8
Glass & Ceramic Products	1.2	1.1	1.6	1.2
Banks	1.1	5.2	2.7	6.8
Foods	0.9	4.3	0.9	3.2
Rubber Products	–	0.4	0.8	0.7
Iron & Steel	–	1.2	0.6	1.2
Land Transportation	–	2.1	–	2.1
Textiles & Apparels	–	1.8	–	2.1
Securities & Commodity Futures	–	1.5	–	1.8
Pulp & Paper	–	0.8	–	0.7
Fishery Agriculture & Forestry	–	0.7	–	0.5
Warehouse & Harbour Transportation	–	0.5	–	0.6
Electric Power & Gas	–	0.4	–	0.4
Marine Transportation	–	0.4	–	0.6
Oil & Coal	–	0.2	–	0.1
Commerce & Industry	–	0.1	–	0.1
Financial Services	–	0.1	–	0.1
Mining	–	0.1	–	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total investments of £160.1m (2015: £145.7m).

LIST OF INVESTMENTS AS AT 31ST MARCH 2016

Company	Valuation £'000
Services	
Sohgo Securities (2331)	4,143
SMS (2175)	3,087
M3 (2413)	2,904
Wellnet (2428)	2,492
H.I.S. (9603)	2,212
Tokyo Individualized Educational (4745)	2,075
Resorttrust (4681)	1,630
Benefit One (2412)	1,580
Kakaku (2371)	1,435
Next (2120)	1,399
Nihon M&A Center (2127)	1,273
CyberAgent (4751)	1,234
N Field (6077)	1,101
Infomart (2492)	816
Litalico (6187)	692
Firstlogic (6037)	621
Total Services	28,694
Retail Trade	
Cosmos Pharmaceutical (3349)	2,952
Seria (2782)	2,606
SAN-A (2659)	2,338
Shimamura (8227)	1,773
Don Quijote (7532)	1,673
MonotaRO (3064)	1,648
Marui (8252)	1,547
Amiyaki Tei (2753)	1,485
Hiramatsu (2764)	1,287
Total Retail Trade	17,309
Real Estate	
Invincible Investment Corporation (8963)	6,107
GLP J-REIT (3281)	1,912
Industrial & Infrastructure REIT (3249)	1,854
Hulic REIT (3295)	1,447
Star Mica (3230)	1,270
Nippon Prologis REIT (3283)	1,250
Kenedix Retail REIT (3453)	1,098
Arealink (8914)	903
Total Real Estate	15,841

Company	Valuation £'000
Information & Communication	
GMO Payment Gateway (3769)	3,302
Digital Garage (4819)	2,002
Okinawa Cellular (9436)	1,894
Otsuka (4768)	1,666
Square Enix (9684)	1,664
Fuji Soft (9749)	1,313
DTS (9682)	1,262
Weathernews (4825)	713
Total Information & Communication	13,816
Machinery	
Aida Engineering (6118)	2,615
Harmonic Drive Systems (6324)	2,219
Miura (6005)	1,935
Disco (6146)	1,524
Teikoku Electric (6333)	1,331
Nittoku Engineering (6145)	1,040
Shibuya Kogyo (6340)	224
Total Machinery	10,888
Electric Appliances	
Nohmi Bosai (6744)	3,051
Optex (6914)	2,349
Casio Computer (6952)	2,257
Iriso Electronics (6908)	1,679
Mabuchi Motor (6592)	1,198
Total Electric Appliances	10,534
Precision Instruments	
Asahi Intecc (7747)	4,985
Shimadzu (7701)	1,484
Nakanishi (7716)	1,008
Topcon (7732)	858
Total Precision Instruments	8,335
Chemicals	
Daicel (4202)	2,323
Aica Kogyo (4206)	2,265
FP (7947)	1,779
Nifco (7988)	1,778
Total Chemicals	8,145

LIST OF INVESTMENTS *CONTINUED*

Company	Valuation £'000
Pharmaceuticals	
Peptidream (4587)	4,691
Sosei (4565)	1,598
Nippon Shinyaku (4516)	1,550
Total Pharmaceuticals	7,839
Construction	
Kumagai Gumi (1861)	2,473
Sumitomo Densetsu (1949)	1,936
Sho-Bond (1414)	1,884
Raito Kogyo (1926)	1,245
Total Construction	7,538
Wholesale Trade	
Daiichikosho (7458)	2,488
Misumi (9962)	1,660
Yokohama Reito (2874)	1,292
Total Wholesale Trade	5,440
Metal Products	
Rinnai (5947)	2,012
Sanwa (5929)	1,871
Yokogawa Bridge (5911)	722
Total Metal Products	4,605
Insurance	
Anicom (8715)	4,233
Total Insurance	4,233
Transportation Equipment	
Unipres (5949)	1,821
Musashi Seimitsu Industries (7220)	913
Shinmaywa Industries (7224)	840
Total Transportation Equipment	3,574
Other Financing Business	
Mitsubishi UFJ Lease & Finance (8593)	1,901
Hitachi Capital (8586)	1,607
Total Other Financing Business	3,508
Nonferrous Metals	
Dowa (5714)	1,477
UACJ (5741)	978
Total Nonferrous Metals	2,455

Company	Valuation £'000
Other Products	
Fuji Seal International (7864)	1,480
Shoei (7839)	775
Total Other Products	2,255
Glass & Ceramic Products	
Taiheiyo Cement (5233)	1,885
Total Glass & Ceramic Products	1,885
Banks	
Suruga (8358)	1,713
Total Banks	1,713
Foods	
Kewpie (2809)	1,473
Total Foods	1,473
Total Portfolio	160,080

The portfolio comprises 87 equity investments.

BUSINESS REVIEW

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company, its development and performance throughout the year, including analysis of the key performance indicators, its share capital, a description of the principal risks and uncertainties and how the Company seeks to manage those risks and the Company's environmental, social and ethical policies and its approach to human rights.

Business Model

JPMorgan Japan Smaller Companies Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. Its objective is to achieve long-term capital growth for its shareholders through investments in a diversified portfolio of small and medium-sized Japanese companies, emphasising capital growth rather than income.

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') which, in turn, delegates the active management of the Company's assets to JPMorgan Asset Management (Japan) Limited ('JPMAM Japan') through JPMorgan Asset Management (UK) Limited ('JPMAM UK').

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010).

The Company's Investment Policy and related guidelines and limits are described on the inside front cover.

Review of Performance

In the year ended 31st March 2016, the Company produced an undiluted return on net assets of +13.9%, a diluted total return on net assets of +12.2% and a total return to Ordinary shareholders of +7.8%. This compares with the return on the Company's benchmark index of +6.9%. As at 31st March 2016, the value of the Company's investment portfolio was £160.1 million. The Investment Managers' Report on pages 5 to 10 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £21.3 million (2015: £36.0 million) and the net total return after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £18.9 million (2015: £34.0 million). The revenue loss for the year amounted to £0.1 million (2015: £0.4 million). There is no dividend for the year (2015: nil).

Key Performance Indicators ('KPIs')

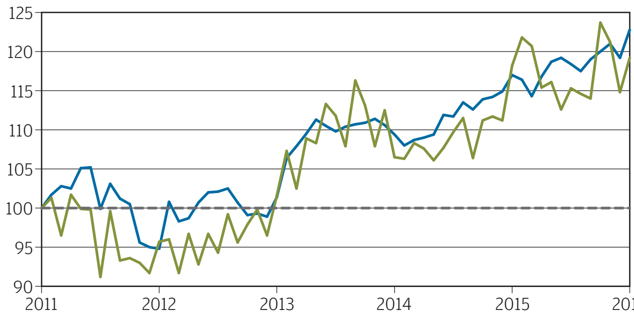
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Absolute performance**
  The Company seeks to provide long-term capital growth through investment in small and medium-sized Japanese companies. Positive absolute returns are an essential prerequisite for achieving this objective.

- **Performance against the Company's peers and the benchmark index**
  The principal objective is to achieve capital growth. The Board monitors performance relative to both the benchmark and a broad range of competitor funds. The following chart details the Company's performance against its benchmark.

Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 AS AT 31ST MARCH 2011



Source: Morningstar/Datastream (total return).

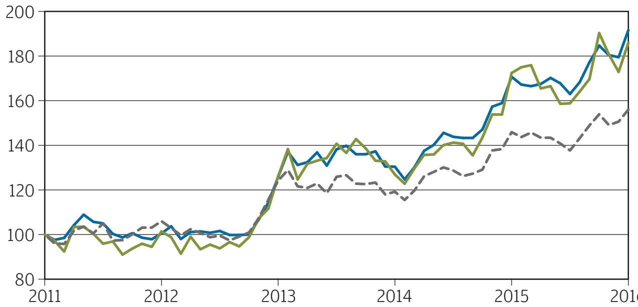
JPMorgan Japan Smaller Companies – Ordinary share price.

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 AS AT 31ST MARCH 2011



Source: Morningstar/Datastream (total return).

JPMorgan Japan Smaller Companies – Ordinary share price.

JPMorgan Japan Smaller Companies – diluted net asset value per Ordinary share.

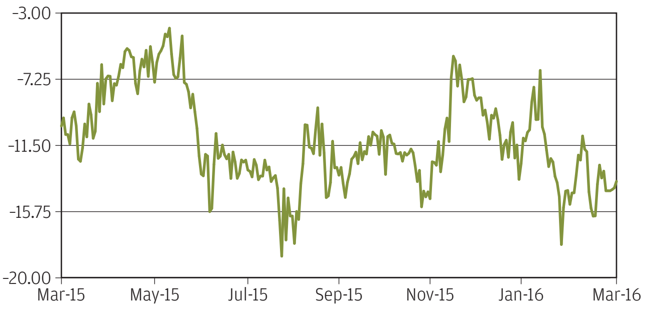
Benchmark.

BUSINESS REVIEW *CONTINUED*

- **Share price discount to net asset value ('NAV') per share**
  The Board recognises that the possibility of a widening discount can be a key disadvantage of investment trusts that can discourage investors.

  The Board therefore has a share repurchase programme which seeks to address imbalances in the supply of and demand for the Company's shares within the market.

Discount Performance



Source: Morningstar (daily data).

JPMorgan Japan Smaller Companies – share price discount to diluted 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 asset allocation and stock selection. Details of the attribution analysis for the year ended 31st March 2016 are given in the Investment Managers' Report on page 7.

- **Ongoing charges**
  The ongoing charges represent the Company's management fee and all other operating expenses, excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 31st March 2016 were 1.42% (2015: 1.52%). Each year the Board reviews an analysis which shows a comparison of the Company's ongoing charges and its main expenses against those of its peers.

Share Capital

The Company has the authority both to repurchase shares in the market for cancellation (or to be held in Treasury) at a discount to net asset value and to issue new shares, or reissue shares out of Treasury, for cash at a premium to net asset value.

Shares would not be reissued out of Treasury at a discount to net asset value.

The Company did not repurchase any shares for cancellation or to be held in Treasury during the year and has not done so since the year end. The Company did not issue any shares during the year other than those issued following the exercise of Subscription shares and has not done so since the year end.

During the year, the Company issued 634,004 Ordinary shares for a total consideration of £1.5 million following the exercise of Subscription shares issued in 2014. Since the year end further Ordinary shares have been issued following the exercise of Subscription shares issued in 2014 and details may be found in the Directors' Report on pages 23 and 31.

Resolutions to renew the authorities to issue new shares, reissue shares from Treasury for cash and to repurchase shares for cancellation or to be held in Treasury will 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 62 to 64.

Principal Risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed or mitigated are summarised as follows:

Investment underperformance and strategy
An inappropriate investment strategy, for example excessive concentration of investments, asset allocation, the level of gearing, or the degree of portfolio risk, may lead to underperformance 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 by the Manager. The Manager 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 Board meetings, and reviews data which show 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 JPMAM Japan in Tokyo on an annual basis to discuss strategy and consider all other relevant aspects of the Investment Management operations.

Discount

A widening of the discount results in loss of value for shareholders. In order to try to manage the Company's discount, which can be volatile, the Company operates a share issuance and repurchase programme. The Board regularly discusses discount policy and has set parameters for the Manager and the Company's broker to follow.

Operational

Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary's or Custodian's records may prevent accurate reporting and monitoring of the Company's financial position. This includes the risk of cybercrime and consequent potential threat to security and business continuity. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal controls are included within the Risk Management and Internal Controls section of the Corporate Governance Statement on pages 26 and 31.

Confidence in Manager

Loss of key staff by the Manager, such as one or more of the Investment Managers, could result in a short-term deterioration in investment performance. The Manager takes steps to retain key personnel as well as 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 may impair the Manager's ability to continue with its investment activity. These risks are discussed by the Board on a regular basis.

Viability Statement

The 2014 UK Corporate Governance Code requires the Board to assess the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

The Company's current position and prospects are set out in the Chairman's Report, the Portfolio Managers' Report and the Strategic Report. The principal risks are set out on pages 18 and 19.

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next three years. They have made that assessment by considering those principal risks, the Company's investment objective of achieving long term capital growth, its ability to liquidate the portfolio and meet its expenses as they fall due, the investment capabilities of the Manager and the current outlook for the Japanese economy and equity market.

Having regard to the Company's objective, which is to achieve long term capital growth for its shareholders, the Directors considered three years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Modern Slavery Act

The Modern Slavery Act 2015 requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. The Board's statement will be set out on the Company's website at www.jpmjapansmallercompanies.co.uk shortly.

Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board and the Board is diverse on the bases of race, gender and nationality.

Employees, Social, Community and Human Rights Issues

The Company has a management contract with the Manager, has no employees, and all of its Directors are non-executive. The day to day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the policy statements of JPMAM UK in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

Social, Community, Environmental and Human Rights

JPMAM UK 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 UK'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.

JPMAM UK is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request.

BUSINESS REVIEW *CONTINUED*

Greenhouse Gas Emissions

The Company is managed by JPMF, with a delegation of the active management of the Company's assets to JPMAM Japan through JPMAM UK. JPMF acts as Company Secretary and provides administrative support. The Company has no employees, all of its Directors being non-executive Directors, the day to day activities being carried out by third parties. Therefore there are no disclosures to be made in respect of employees. The Company itself has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. JPMAM UK is a signatory to the Carbon Disclosure Project and JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

Future Developments

The future development of the Company is dependent upon the success of the Company's investment strategy in the light of economic and equity market developments and the continued support of its shareholders; the Investment Managers discuss the outlook in their report on pages 5 to 10.

By order of the Board
Rhys Williams, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

10th June 2016

BOARD OF DIRECTORS

Alan Clifton
(Independent Non-Executive Director)
A Director since 2003.

Chairman of the Board and the Nomination Committee. Member of the Audit Committee.

Alan Clifton is Chairman of Schroder UK Growth Fund plc and of International Biotechnology Trust plc, a Director of Invesco Perpetual Select 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.

Deborah Guthrie
(Independent Non-Executive Director)
A Director since 2015.

Member of the Audit Committee and Nomination Committee.

Deborah Guthrie is an experienced Japanese equity research sales specialist with Pelham Smithers Associates. She began her career working in the Finance and Environment Branches of the Hong Kong Government. Between 1984 and 1995 she held senior Japanese equity sales roles for Hoare Govett and Smith New Court before joining Merrill Lynch as director, yen equity sales, a role she held from 1995 to 2011.

Alexa Henderson
(Independent Non-Executive Director)
A Director since April 2016.

Member of the Audit Committee and Nomination Committee.

Alexa Henderson is a Non-Executive Director (and the former Chairman) of Scottish Building Society, a role she has held since 2001. She is a Non-Executive Director of Adam and Company Group Plc, Dunedin Smaller Companies Investment Trust Plc, F&C UK Real Estate Investments Limited and James Walker (Leith) Ltd. Mrs. Henderson is a former Managing Director of WM Company, a subsidiary of Deutsche Bank where she headed the Investment Performance Division. She is a member of the Institute of Chartered Accountants of Scotland.

BOARD OF DIRECTORS *CONTINUED*

Yuuichiro Nakajima
(Independent Non-Executive Director)
A Director since 2014.

Member of the Audit Committee and Nomination Committee.

Yuuichiro Nakajima founded Crimson Phoenix K.K. in Japan in 2003 and subsequently established Crimson Phoenix Limited in London in 2012. Crimson Phoenix is a specialist cross-border advisory firm, providing advice on Japan-related M&A transactions, private equity investments and a range of corporate strategy initiatives, from its offices in the United Kingdom and Japan. He is involved with the Asian Football Confederation and Japan Football Association. Formerly a member of the Executive Board of the British Chamber of Commerce in Japan, he spent ten years with S.G.Warburg (later SBC Warburg) and four years with PricewaterhouseCoopers.

Chris Russell
(Independent Non-Executive Director)
A Director since 2006.

Chairman of the Audit Committee and Member of the Nomination Committee.

Chris Russell is a Non-Executive Director of a number of listed and unlisted investment and financial service companies in the UK, Guernsey and Asia. These include London listed F&C Commercial Property Trust Ltd, of which he is Chairman, HICL Infrastructure Company Ltd and the Macau Property Opportunities Fund Limited where he is also Chairman. He is a former Deputy Chairman of the Association of Investment Companies. He was 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.

Robert White
(Independent Non-Executive Director)
A Director since 2008.

Member of the Audit Committee and Nomination Committee.

Robert White 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.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31st March 2016.

Management of the Company

The Manager of and Company Secretary to the Company is JPMF. Active management of the Company's assets is delegated to JPMAM Japan through JPMAM UK. The Manager and Company Secretary 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.

The Manager is a wholly owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides accounting, banking, dealing and custodian services to the Company.

The current Management Agreement was entered into with effect from 1st July 2014 following the implementation of a number of changes required by the AIFMD, as set out below.

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. Part of this evaluation includes a consideration of the management fees and whether the service received is value for money for shareholders. No separate Management Engagement Committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process. The Board has thoroughly reviewed the performance of the Manager in the course of the year. The review covered the performance over the long term of the Manager, its management processes, consideration of the investment strategy, resources and risk controls and the quality of support that the Company received, including the marketing support provided. The latest evaluation was carried out in May 2016. As a result of that process, the Board confirms that it is satisfied that the continuing appointment of the Manager and the Company Secretary is in the interests of shareholders as a whole.

The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF has been appointed as the Company's alternative investment fund manager ('AIFM'). JPMF has been approved as an AIFM by the Financial Conduct Authority ('FCA'). For the purposes of the AIFMD the Company is an alternative investment fund ('AIF').

The Company entered into a new investment management agreement with JPMF on 1st July 2014. JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMAM. JPMF is required to ensure that a depositary is appointed to the Company. The Company therefore has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N.A. BNY remains responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows. The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information. The Investor Disclosure Document is available on the Company's website at www.jpmjapansmallercompanies.co.uk.

There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider. As an authorised AIFM, JPMF will make the requisite disclosures on remuneration levels and polices to the FCA at the appropriate time.

Management Fee

For the year ended 31st March 2016, the management fee was charged at 1% per annum of gross assets, calculated and paid monthly. A secretarial fee is paid to the Company Secretary out of this management fee. If the Company invests in funds managed or advised by the Manager or any of its associated companies that charge an underlying fee, those investments are excluded from the calculation and therefore attract no additional fee.

In addition, the Company reimburses the Manager for the costs of administering its shareholders who hold their shares through the JPMAM UK savings products.

Going Concern

The Directors believe that, having considered the Company's investment objective (see inside front cover), risk management policies (see page 30), liquidity risk, capital management policies and procedures (see pages 58 and 60), the nature of the portfolio and expenditure and cashflow projections, 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 financial statements.

DIRECTORS' REPORT *CONTINUED*

Directors

With the exception of Alexa Henderson, who joined the Board on 11th April 2016, all Directors served throughout the year. Director biographies are included on pages 21 and 22. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 32.

In accordance with the Company's Articles of Association, the Directors retiring at the forthcoming Annual General Meeting will be Alan Clifton and Chris Russell due to length of service, and Yuuichiro Nakajima who was last reappointed in 2014. Being eligible, all of them except Chris Russell, will offer themselves for reappointment. Alexa Henderson will also stand for reappointment at the forthcoming Annual General Meeting.

The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its Committees, confirms that each Director standing for reappointment continues to be independent, effective and demonstrates commitment to the role. The Board recommends to shareholders that those Directors seeking reappointment be reappointed.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. For those Directors who served during the year under review, these indemnities were in place throughout the year and as at the date of this report.

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 Auditor is unaware, and

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

Independent Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office as the Auditor and a resolution to reappoint Grant Thornton UK LLP and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Capital Structure

At 31st March 2016, the Company's share capital comprised 47,326,086 Ordinary shares of 10 pence each, of which 409,500 were held in Treasury, and 8,618,474 Subscription shares of 0.1 penny each. The Ordinary shares have a premium listing on the London Stock Exchange. The Subscription shares issued in 2015 have a standard listing on the London Stock Exchange. The standard listing of the Subscription shares issued in 2009 was suspended following the final exercise date and subsequently cancelled.

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 conferred 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.

On 1st April 2014, 4,030,780 Ordinary shares were issued following the exercise of conversion rights by uncertificated shareholders and on 14th April 2014, 6,028 Subscription shares held by certificated holders were converted into Ordinary shares.

As a result, 2,747,739 Subscription shares remained outstanding after the final exercise and a Trustee was appointed to consider the decision whether or not to exercise the Subscription rights attaching to these outstanding Subscription shares. The exercise of these Subscription shares resulted in an issue of a further 2,747,739 Ordinary shares. These Ordinary shares were then sold and, after the deduction of the conversion price of 174 pence per share, together with all associated fees, costs and expenses (including brokerage commission), 7.55 pence per Subscription share was distributed to the Subscription shareholders on whose behalf the Trustee had exercised the Subscription share rights.

In December 2014, the Company issued 9,255,764 Subscription shares as a bonus issue to 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 at the predetermined price of

243 pence per share on any business day during the period from 30th January 2015 until 30th November 2016. From 30th January 2015 to 31st March 2015, 3,286 Subscription shares were exercised and from 1st April 2015 to 31st March 2016, 634,004 Subscription shares were exercised, resulting in an issue of 637,290 Ordinary shares.

From 1st April 2016 to the date of this report, a further 154,218 Ordinary shares were issued following the exercise of conversion rights by Subscription shareholders.

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 64.

Notifiable Interests in the Company's Voting Rights

As at 31st March 2016, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	% voting rights[1]
Lazard Asset Management	9,764,050	20.81
1607 Capital Partners	4,698,744	10.02
Wells Capital Management	4,164,793	8.88
South Yorkshire Pension Authority	3,781,860	8.06
LIM Asia Multi-Strategy Fund Inc. and LIM Japan Master Fund	2,147,739	4.58

[1] At the time of announcement.

Since the year end, 1607 Capital Partners has announced slight decrease in its holding to 9.99%.

The Company is also aware that as at 31st March 2016, approximately 4.5% of the Company's total voting rights were held by individuals through savings products managed by JPMorgan and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances, JPMorgan has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

The rules concerning the appointment, reappointment and replacement of Directors, amendment of the Company's Articles of Association and powers to issue or repurchase the Company's shares are contained in the Articles of Association 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 to which the Company is party that affect its control following a takeover bid; and no agreements between the Company and its Directors concerning compensation for loss of office.

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 adviser 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.

The full text of the Resolutions is set out in the Notice of Meeting on pages 63 to 64:

(i) Authority to allot new Ordinary shares and to disapply statutory pre-emption rights (Resolutions 8 and 9)
The Directors will seek renewal of the authority at the Annual General Meeting to issue new Ordinary shares for cash, or reissue Ordinary shares from Treasury, up to an aggregate nominal amount of 474,803, 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 or, if different, the number of Ordinary shares which is equal to 10% of the Company's issued share capital (including Treasury shares) as at the date of the passing of the Resolution. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2017 unless renewed at a prior general meeting.

Resolution 9 will enable the allotment of Ordinary shares otherwise than by way of a pro rata issue to existing shareholders.

It is advantageous for the Company to be able to issue new Ordinary shares, or reissue Ordinary shares from Treasury, to investors purchasing shares through the JPMorgan savings products and also to other investors when the Board considers it in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the net asset value ('NAV'), thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee, which is charged on the value of the Company's gross assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

DIRECTORS' REPORT *CONTINUED*

(ii) Authority to repurchase the Company's shares (Resolution 10)

The authority to repurchase up to 14.99% of the Company's issued Ordinary shares, granted by shareholders at the 2015 Annual General Meeting, will expire on 16th January 2017 unless renewed at the forthcoming Annual General Meeting. The authority to repurchase up to 14.99% of the Company's issued Subscription shares, granted by shareholders at the 2015 Annual General Meeting, will expire on 16th June 2017 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of these authorities is in the interests of shareholders as a whole, as, in the case of Ordinary shares, the repurchase of Ordinary 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 10 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 authority limits the number of shares that could be purchased to a maximum of: (i) 7,055,913 Ordinary shares; and (ii) 1,268,791 Subscription shares, representing approximately 14.99% of the Company's issued Ordinary shares (excluding Treasury shares) and issued Subscription shares respectively as at the latest practicable date before the publication of this document or, if different, the number of Ordinary shares which is equal to approximately 14.99% of each of the Company's issued Ordinary share capital (excluding Treasury shares) and Subscription share capital as at the date of the passing of the Resolution. The authority also sets minimum and maximum prices.

As at 9th June 2016 (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 8,464,256 Subscription shares in issue (each of which gives the holder thereof the right to subscribe for one new Ordinary share) which represent 18.0% 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% of the Company's issued Ordinary share capital.

If Resolution 10 is passed at the Annual General Meeting, the Board may repurchase shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. Repurchases will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining Ordinary shares, or reducing the potential dilutive impact in respect of the Subscription shares, and when market conditions are appropriate. This authority will expire on 15th January 2018, or when the whole of the relevant 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2017 Annual General Meeting.

Recommendation

The Board considers that Resolutions 8 to 10 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, where voting rights are exercisable, in respect of their own beneficial holdings which, as at the date of this report, amounted in aggregate to 123,610 Ordinary shares with voting rights representing approximately 0.26% of the voting rights of the Company.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 35, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the Association of Investment Companies' ('AIC') Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts. Copies 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.

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 the appointment of a Senior Independent Director, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company and JPMF sets out the matters which have been delegated to the Manager. 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.

At each Board meeting, Directors' interests are considered. These are reviewed carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. It was resolved that there were no actual or indirect interests of a Director which conflicted with the interests of the Company which arose during the year.

Following the introduction of The Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery. It 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.

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, which is responsible to the Board for ensuring that Board procedures are followed and for compliance with applicable rules and regulations.

Board Composition

The Board, chaired by Alan Clifton, comprises six non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent of the Manager. Bernard Grigsby retired from the Board following the 2015 Annual General Meeting. On 11th April 2016 Alexa Henderson joined the Board. Chris Russell will retire from the Board following the 2016 Annual General Meeting and Alan Clifton intends on retiring following the 2017 Annual General Meeting. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 21 and 22. There have been no changes to the Chairman's other significant commitments during the year under review.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a Senior Independent Director should be appointed and has concluded that, due to the Company's nature of business as an investment trust and because the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussions with the Chairman.

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 reappointed by shareholders. Thereafter, Directors are required to submit themselves for reappointment at least every three years. Any Directors with more than nine years' service are required to submit themselves annually for reappointment. Subject to the performance evaluation carried out each year, the Board agrees 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 reappointment but, when making a recommendation, the Board will take into account the ongoing requirements of the UK Corporate Governance Code and the AIC Code, including the need to refresh the Board and its Committees.

The Board recommends the reappointment of Alan Clifton, Yuuichiro Nakajima and Alexa Henderson who, between them, have a wealth of experience in the financial sector and make a valuable contribution to the workings of the Board.

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

Induction and Training

On appointment, the Manager and the Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of training needs are carried out by the Chairman by means of the evaluation process described below.

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 formal Board and Committee meetings attended by each Director. During the year there were six Board meetings, which included a private session of the Directors to evaluate the Manager and an overseas visit to the offices of JPMAM Japan in Tokyo to discuss strategy, three Audit Committee meetings

DIRECTORS' REPORT *CONTINUED*

and two Nomination Committee meeting. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition, there was a Board strategy meeting and regular contact between the Directors, the Manager and the Company Secretary throughout the year.

Meetings Attended

Director	Board	Audit Committee	Nomination Committee
Alan Clifton	6/6	3/3	2/2
Bernard Grigsby[1]	3/3	1/1	1/1
Deborah Guthrie[2]	6/6	3/3	2/2
Yuuichiro Nakajima	6/6	3/3	2/2
Chris Russell	6/6	3/3	2/2
Robert White	6/6	3/3	2/2

[1] Bernard Grigsby retired on 17th July 2015.

[2] Deborah Guthrie was appointed on 1st April 2015.

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.

Due to the specialist nature of experience required, Alexa Henderson, who joined the Board on 11th April 2016, was identified through industry contacts rather than through the use of a recruitment agency or use of open advertising.

The Board's policy on diversity, including gender, is to take account of the benefits of these during the appointment process. However, the Board remains committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity. Therefore, no targets have been set against which to report.

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together.

Questionnaires, drawn up for the Board, with the assistance of the Manager and a firm of independent consultants, are completed by each Director. The responses are collated and then discussed by the Committee. The evaluation of individual Directors is led by the Chairman who also meets with each Director. The Audit Committee Chairman leads the evaluation of the Chairman's performance.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate in relation to the remuneration policy. This review forms only a minimal part of discussions and therefore it is felt to be appropriate for Alan Clifton to act as the Chairman of the Committee.

Audit Committee

The Audit Committee, chaired by Chris Russell, comprises all 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. At least one member of the Committee has recent and relevant financial experience. The Board has taken the decision that Alan Clifton should be a member of the Committee because he is independent.

Significant Financial Reporting Judgements

During its review of the Company's financial statements for the year ended 31st March 2016, the Committee considered the following significant issues, including those communicated by the Auditor during its reporting:

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	In accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 45. Controls were in place to ensure that valuations were appropriate and existence was verified through the Depositary and the Custodian reconciliations.
Recognition of investment income	The recognition of investment income was undertaken in accordance with accounting policy note 1(d) to the financial statements on page 45. The Board regularly reviewed subjective elements of income such as special dividends and agreed their accounting treatment.
Compliance with Sections 1158 and 1159 of the Corporation Tax Act 2010	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st April 2012 was obtained and ongoing compliance with the eligibility criteria was monitored on a regular basis.

Having taken all available information into consideration and having discussed the contents of the Annual Report and Financial Statements with the AIFM, the Investment Managers, the Company

Secretary and other third party service providers, the Committee has concluded that the Annual Report for the year ended 31st March 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 35.

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the financial statements.

The Committee reviews the actions and judgements of the Manager and Secretary in relation to the half year and annual financial statements and the Company's compliance with the UK Corporate Governance Code and the AIC Code. It meets to consider the terms of the Management Agreement between the Company and the Manager, reviews the performance of the Manager, reviews the notice period that the Board has with the Manager and makes recommendations to the Board on the continued appointment of the Manager following these reviews, examines the effectiveness of the Company's internal controls systems and receives information from the Managers' Compliance department. The Directors' statement on the Company's system of risk management and internal controls is set out on page 30. The Committee also reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non audit services and the independence and objectivity of the external Auditor. In the Directors' opinion the Auditor is independent. The Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of the external Auditor.

Representatives of the Company's Auditor attend the Committee meeting at which the draft Annual Report and Financial Statements are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditor, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend the Auditor's reappointment. The Board supported this recommendation and a resolution will be put to shareholders at the forthcoming Annual General Meeting.

As part of its review of the continuing appointment of the Auditor, the Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2014, as a result of which Grant Thornton UK LLP was appointed in place of Deloitte LLP. The Company's year ended 31st March 2016 is therefore the new Audit Partner's second of a five year maximum term. The Board reviews and approves any non-audit services provided by the independent Auditor and assesses the impact of any non-audit work on the ability of the Auditor to remain independent. No such work was undertaken during the year. Details of the fees paid for audit services are included in note 6 on page 48.

The Committee reviews and approves any non-audit services provided by the independent Auditor and assesses the impact of any non audit work on the ability of the Auditor to remain independent. No such work was undertaken during the year.

Terms of Reference

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 and for inspection on request at the Company's registered office and at the Company's Annual General Meeting.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the annual report and financial statements and the half year report. These are supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's Ordinary shares and the Company's level of gearing.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager and Secretary are available to meet 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 JPMF 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 support these meetings and to address shareholder queries and consult major shareholders on an annual basis. The Directors may be contacted through the Company Secretary whose details are shown on page 69. The Chairman may also be contacted via the Company's website.

The Company's Annual Report and Financial Statements are published in time to give shareholders at least twenty working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via

DIRECTORS' REPORT *CONTINUED*

the Company's website or write to the Company Secretary at the address shown on page 69.

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

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors to monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. 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 risk management and internal controls which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by the Manager and its associates, the Company's system of risk management and internal controls mainly comprises monitoring the services provided by the Manager and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 18 and 19). This process has been in place for the year under review and up to the date of the approval of the Annual Report and Financial Statements.

Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

The principal elements designed to provide effective internal controls 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 – Appointment of a manager and depositary regulated by the FCA, whose responsibilities are clearly defined in a written agreement.

Management Systems – The Manager's system of risk management and internal controls includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Manager's Compliance department which regularly monitors compliance with FCA 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 risk management and internal controls 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 the Manager's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its Depositary, BNY Mellon Trust & Depositary (UK) Limited, and its Custodian, JPMorgan Chase, the latter of which is itself independently reviewed; and
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal controls for the year ended 31st March 2016 and to the date of approval of this Annual Report and Financial Statements.

The Board confirms that any failings or weaknesses identified during the course of its review of the systems of risk management and internal controls were not significant and did not impact the Company.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager. The following is a summary of the policy statements of JPMAM UK on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on page 19.

Corporate Governance
JPMAM UK 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 UK manages the voting rights of the shares entrusted to it as it would manage any other asset. It is the policy of JPMAM UK 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 UK 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 UK endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. 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.

JPMAM UK's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM UK's website: http://www.jpmorganinvestmenttrusts.co.uk/governance, 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.

Japanese Stewardship and Corporate Governance Codes

The Japanese Stewardship Code was introduced in February 2014. Asset owners and institutional investors are expected to engage in constructive dialogue with investee companies to enhance corporate value.

JPMAM Japan has adopted the Japan Stewardship Code. Engagement with companies is a key part of JPMAM Japan's process and regular, systematic and direct contact with senior company management, both executive and non-executive is regarded as crucially important.

A Corporate Governance Code was introduced in June 2015. Reforms to the Japanese Companies Act are also expected. The Abe administration's focus on corporate governance is part of its efforts to revitalise the Japanese economy and improve corporate profitability.

By order of the Board
Rhys Williams, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

10th June 2016

DIRECTORS' REMUNERATION REPORT

The Board presents the Directors' Remuneration Report for the year ended 31st March 2016, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in its report on pages 36 to 40.

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.

Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote, however, a decision has been taken to seek approval annually and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote is set out in full below and is currently in force.

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 and retained. 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 and responsibilities involved in fulfilling those roles.

Reviews are based on information provided by the Manager and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The involvement of remuneration consultants has not been deemed necessary as part of this review. The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required and there is no employee comparative data to provide in relation to the setting of the remuneration policy for Directors.

All of the Directors are non-executive. There are no performance related elements to their fees and the Company does not operate any type of incentive, share, award 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 granted exit payments and are not provided with compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out of-pocket expenses incurred in attending the Company's business.

In the year under review, Directors' fees were paid at the following rates: Chairman £30,000; Chairman of the Audit Committee £24,500; and other Directors £21,500. These fee levels had been retained for the prior year.

With effect from 1st April 2016, Directors' fees have remained unchanged. With effect from 1st October 2016 Directors' fees will be paid at the following rates: Chairman £34,000; Chairman of the Audit Committee £27,000; and other Directors £23,000. With the retirement of Chris Russell, following the conclusion of the 2016 Annual General Meeting and Alan Clifton, following the conclusion of the 2017 Annual General Meeting, the number of Directors on the Board will reduce from six to four.

The Company's Articles of Association provide that any increase in the maximum aggregate annual limit on Directors' fees, currently £200,000, requires both Board and shareholder approvals.

The Company has not sought shareholder views on its remuneration policy. The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 27.

Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st March 2015.

At the Annual General Meeting held on 17th July 2015, of votes cast in respect of the Remuneration Policy, 99.89% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 0.11% voted against. In respect of the Remuneration Report, 99.89% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 0.11% voted against.

Details of the implementation of the Company's remuneration policy are given below.

Single Total Figure of Remuneration

The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

Single Total Figure Table[1]

	Total fees[2] Year ended 31st March 2016 £	Year ended 31st March 2015 £
Alan Clifton	30,000	30,000
Bernard Grigsby[3]	6,450	21,500
Deborah Guthrie[4]	21,500	n/a
Yuuichiro Nakajima	21,500	21,500
Chris Russell	24,500	24,500
Robert White	21,500	21,500
Total	**125,450**	**119,000**

[1] Audited information. Other subject headings for the single figure table as prescribed by regulation are not included because there is nothing to disclose in relation thereto.

[2] Directors' remuneration comprises an annual fee only. Directors are also reimbursed for reasonable out of pocket expenses incurred in attending the Company's business.

[3] Retired 17th July 2015.

[4] Appointed 1st April 2015.

A table showing the total remuneration for the Chairman over the five years ended 31st March 2016 is below:

Remuneration for the Chairman over the Five Years Ended 31st March 2016

Year ended 31st March	Fees
2016	£30,000
2015	£30,000
2014	£30,000
2013	£28,000
2012	£28,000

Directors' Shareholdings[1]

There are no requirements in the Company's Articles of Association for the Directors to own shares in the Company. The Directors' shareholdings are detailed below. All shares are held beneficially.

Directors' Name	31st March 2016	31st March 2015 or as at date of appointment
Ordinary shares held		
Alan Clifton	17,000	17,000
Bernard Grigsby[2,3]	–	60,000
Deborah Guthrie[4]	nil	–
Yuuichiro Nakajima	5,000	nil
Chris Russell	66,000	66,000
Robert White	21,000	21,000
Subscription shares held		
Alan Clifton	3,400	3,400
Bernard Grigsby[3]	–	12,000
Deborah Guthrie[4]	nil	–
Yuuichiro Nakajima	nil	nil
Chris Russell	13,200	13,200
Robert White	4,200	4,200

[1] Audited information.

[2] Held indirectly.

[3] Bernard Grigsby retired on 17th July 2015.

[4] Deborah Guthrie was appointed on 1st April 2015.

Since the year end Deborah Guthrie has acquired 14,610 Ordinary Shares in the Company. There have been no other changes to the Directors' shareholdings since the year end.

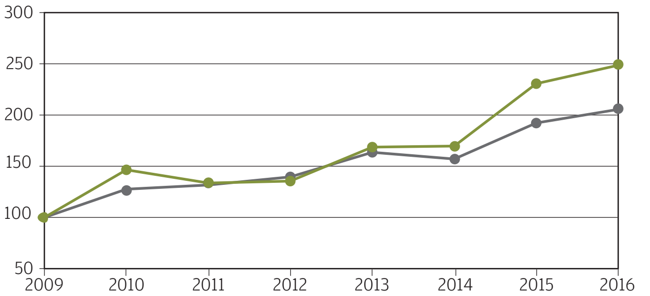
The Directors have no other share interests or share options in the Company and no share schemes are available.

In accordance with the Companies Act 2006, a graph showing the Company's 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 seven years is shown below. Because this Index is the adopted benchmark for the Company, it is deemed by the Board to be the most representative comparator. Although

DIRECTORS' REMUNERATION REPORT *CONTINUED*

the Investment Managers do not track this Index, and there is no formal benchmark that closely reflects the Company's stated investment policy, this is the nearest match available.

Seven Year Ordinary Share Price and Benchmark Total Return to 31st March 2016 (rebased)



Source: Morningstar/Datastream.

Ordinary share price.

Benchmark.

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the Company on Remuneration and Distributions to Shareholders

	Year ended 31st March 2016 £	2015 £
Remuneration paid to all Directors	125,450	119,000
Distribution to shareholders		
– by way of dividend	nil	nil
– by way of share repurchases	nil	nil

For and on behalf of the Board
Alan Clifton
Chairman

10th June 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies Act 2006 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, taken as a whole, the annual report and financial statements are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 a going concern basis unless it is inappropriate to presume that the Company will continue in business;

and the Directors confirm that they have done so.

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 financial statements are published on the Company's website, www.jpmjapansmallercompanies.co.uk which is maintained by the Company's Manager. The maintenance and integrity of the website is, so far as it relates to the Company, the responsibility of the Manager. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. The financial statements are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Strategic Report, Statement of Corporate Governance and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on pages 21 and 22, 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 Strategic 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.

The Board confirms that it is satisfied that the annual report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the position and performance, strategy and business model of the Company.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include 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 the Company faces.

For and on behalf of the Board
Alan Clifton
Chairman

10th June 2016

Independent Auditor's Report

TO THE MEMBERS OF JPMORGAN JAPAN SMALLER COMPANIES TRUST PLC

Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st March 2016 and of its net return for the year then ended;
- have been properly prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Who we are reporting to

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.

What we have audited

JPMorgan Japan Smaller Companies Trust plc's financial statements for the year ended 31st March 2016 comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in their preparation is United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Overview of our audit approach

- Overall materiality: £1,527,000 which represents 1% of the company's net assets value; and
- Key audit risks were identified as:
  - Valuation, existence and ownership of investments; and
  - Accuracy and completeness of investment income.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Valuation, existence and ownership of investments The Company's business objective is to achieve long-term capital growth through investment in small and medium sized Japanese companies. The investment portfolio at £160 million is a significant, material balance in the statement of financial position at year-end and the main driver of the Company's performance. We therefore identified the valuation, existence and ownership of investments as risks that require particular audit attention.	Our audit work included, but was not restricted to: • assessing whether the Company's accounting policy for the valuation of investments is in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') and testing whether management have accounted for valuation in accordance with that policy; • confirming the existence and completeness of investments by agreeing the holdings listed in the portfolio at year end to an independent confirmation we received directly from the Company's custodian;

Area of focus	How we responded to the risk
	• independently pricing 100% of the listed equity portfolio by obtaining the bid prices from independent market sources and calculating the valuation based on the Company's investment holdings, which was agreed to the Company's records; and • to test that investments are actively traded, extracting a report of trading volumes for the equity investments held at the year end from an independent market source. The Company's accounting policy on valuation of investments is shown in note 1(c) and related disclosures are included in note 10. The Audit Committee identified valuation, existence and ownership of investments as a significant issue in its report on page 28, where the Committee also described the action that it has taken to address this issue.
Accuracy and completeness of investment income Investment income is the Company's major source of revenue and material balance in the Statement of Comprehensive Income. Accordingly, we identified the accuracy and completeness of investment income from the investment portfolio as risks that require particular audit attention.	Our audit work included, but was not restricted to: • assessing whether the Company's accounting policy for revenue recognition is in accordance with United Kingdom Generally Accepted Accounting Practice and the SORP; • obtaining an understanding of the Company's process for recognising revenue in accordance with the Company's stated accounting policy; • testing that income transactions were recognised in accordance with the policy by selecting a sample of quoted investments and agreeing the relevant investment income receivable for those quoted equities to the Company's records. Also, for the selected investments, we obtained the respective dividend rate entitlements from independent sources and checked against the amounts recorded in the Company's accounting records maintained by the administrator. In addition, we agreed the receipt of the dividend income to bank statements; and • performing, on a sample basis, a search for special dividends on the equity investments held during the year to check whether dividend income attributable to those investments has been properly recognised. We checked the categorisation of special dividends as either revenue or capital receipts. The Company's accounting policy on income is shown in note 1(e) and related disclosures are included in note 4. The Audit Committee identified recognition of investment income as a significant issue in its report on page 28, where the Committee also described the action that it has taken to address this issue.

Our application of materiality and an overview of the scope of our audit

Materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £1,527,000, which is 1% of the Company's net assets value. This benchmark is considered the most appropriate because net assets are fundamental to the performance and financial position of the business.

Materiality for the current year is higher than the level that we determined for the year ended 31st March 2015 to reflect the increase in the net asset value in the year from £132 million to £153 million.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £76,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit
A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records are outsourced to third-party service providers. Accordingly, our audit work included:

- obtaining an understanding of, and evaluating, relevant internal controls at both the Company and third-party service providers by obtaining and evaluating the internal controls reports on the description, design and operating effectiveness of internal controls at both the Company and the relevant third-party service providers; and
- undertaking substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and our evaluation of the design and implementation of controls and the management of specific risks.

Other reporting required by regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
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 Strategic Report and 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

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' statements in relation to going concern and longer-term viability, set out on page 23 and 19 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of the above.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the directors are responsible for:
As explained more fully in the Statement of Directors' Responsibilities set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:
Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Julian Bartlett (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

10th June 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH 2016

	Notes	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Gains on investments held at fair value through profit or loss	3	–	19,822	19,822	–	33,784	33,784
Net foreign currency (losses)/gains		–	(744)	(744)	–	609	609
Income from investments	4	2,259	–	2,259	1,640	–	1,640
Gross return		**2,259**	**19,078**	**21,337**	**1,640**	**34,393**	**36,033**
Management fee	5	(1,510)	–	(1,510)	(1,233)	–	(1,233)
Other administrative expenses	6	(398)	–	(398)	(414)	–	(414)
Net return/(loss) on ordinary activities before finance costs and taxation		**351**	**19,078**	**19,429**	**(7)**	**34,393**	**34,386**
Finance costs	7	(261)	–	(261)	(270)	–	(270)
Net return/(loss) on ordinary activities before taxation		**90**	**19,078**	**19,168**	**(277)**	**34,393**	**34,116**
Taxation	8	(224)	–	(224)	(164)	–	(164)
Net (loss)/return on ordinary activities after taxation		**(134)**	**19,078**	**18,944**	**(441)**	**34,393**	**33,952**
(Loss)/return per Ordinary share – undiluted	9	**(0.29)p**	**40.76p**	**40.47p**	**(0.95)p**	**74.32p**	**73.37p**
(Loss)/return per Ordinary share – diluted	9	**(0.29)p**	**40.57p**	**40.28p**	**(0.95)p**	**74.32p**	**73.37p**

All revenue and capital items in the above statement derive from continuing operations.

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 notes on pages 45 to 61 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2016

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve[1] £'000	Total £'000
At 31st March 2014	**4,058**	**1,446**	**1,836**	**314,775**	**(222,640)**	**(12,783)**	**86,692**
Bonus issue of Subscription shares	9	(9)	–	–	–	–	–
Conversion of Subscription shares into Ordinary shares[2]	(68)	68	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares[3]	679	10,909	–	–	–	–	11,588
Net return/(loss) on ordinary activities	–	–	–	–	34,393	(441)	33,952
At 31st March 2015	**4,678**	**12,414**	**1,836**	**314,775**	**(188,247)**	**(13,224)**	**132,232**
Conversion of Subscription shares into Ordinary shares[4]	(1)	1	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares[5]	64	1,474	–	–	–	–	1,538
Net return/(loss) on ordinary activities	–	–	–	–	19,078	(134)	18,944
At 31st March 2016	**4,741**	**13,889**	**1,836**	**314,775**	**(169,169)**	**(13,358)**	**152,714**

1 This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

2 Comprises £67,455 for conversion of the remaining 6,784,547 Subscription shares of 1p each issued on 5th March 2009, plus £3 for the conversion of 3,286 Subscription shares of 0.1p each issued on 16th December 2014.

3 Comprises £11,805,112 received upon the conversion into Ordinary shares of the remaining 6,784,547 Subscription shares of 1p each issued on 5th March 2009, plus £7,985 received upon conversion into Ordinary shares of 3,286 Subscription shares of 0.1p each issued on 16th December 2014, less the costs associated with the bonus issue of Subscription shares in December 2014 of £225,324.

4 Comprises £634 for conversion of the 634,004 Subscription shares of 0.1p each issued on each issued on 16th December 2014.

5 Comprises £1,540,630 received upon the conversion into Ordinary shares of the 634,004 Subscription shares of 0.1p each issued issued on 16th December 2014, less the costs associated with the conversion of Subscription shares in December 2014 of £2,655.

The notes on pages 45 to 61 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31ST MARCH 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	160,080	145,730
Current assets			
Debtors	11	1,005	690
Cash and short term deposits		10,643	3,252
		11,648	3,942
Creditors: amounts falling due within one year	12	(19,014)	(589)
Net current (liabilities)/assets		(7,366)	3,353
Total assets less current liabilities		152,714	149,083
Creditors: amounts falling due after more than one year	13	–	(16,851)
Net assets		152,714	132,232
Capital and reserves			
Called up share capital	14	4,741	4,678
Share premium	15	13,889	12,414
Capital redemption reserve	15	1,836	1,836
Other reserve	15	314,775	314,775
Capital reserves	15	(169,169)	(188,247)
Revenue reserve	15	(13,358)	(13,224)
Total equity shareholders' funds		152,714	132,232
Net asset value per Ordinary share – undiluted	16	325.5p	285.7p
Net asset value per Ordinary share – diluted	16	312.7p	278.6p

The financial statements on pages 41 to 61 were approved and authorised for issue by the Directors on 10th June 2016 and were signed on their behalf by:

Alan Clifton
Chairman

The notes on pages 45 to 61 form an integral part of these financial statements.

Company registration number: 3916716.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH 2016

	2016 £'000	2015 £'000
Net cash outflow from operations before dividends and interest (note 17)	(1,032)	(1,753)
Dividends received	1,793	1,389
Interest paid	(254)	(268)
Net cash inflow/(outflow) from operating activities	**507**	**(632)**
Purchases of investments	(44,433)	(52,369)
Sales of investments	49,571	38,908
Settlement of foreign currency contracts	(11)	78
Net cash inflow/(outflow) from investing activities	**5,127**	**(13,383)**
Issue of Ordinary shares on exercise of Subscription shares	1,541	11,813
Costs in relation to issue of shares	(3)	(225)
Net cash inflow from financing activities	**1,538**	**11,588**
Increase/(decrease) in cash and cash equivalents	**7,172**	**(2,427)**
Cash and cash equivalents at start of year	3,252	5,649
Exchange movements	219	30
Cash and cash equivalents at end of year	10,643	3,252
Increase/(decrease) in cash and cash equivalents	**7,172**	**(2,427)**
Cash and cash equivalents consist of:		
Cash and short term deposits	10,643	3,252
Total	**10,643**	**3,252**

The notes on pages 45 to 61 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2015

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 23 of the Directors' Report form part of these financial statements.

(b) Transition to FRS 102

In accordance with the SORP, this set of financial statements includes changes arising from the adoption of FRS 102 which the Company is required to comply with for the first time for the year ended 31st March 2016.

Aside from amendments to the disclosure of fair value hierarchy information and presentational aspects relating to the Statement of Cash Flows, no significant changes have arisen from the adoption of the new standards. Where changes have arisen, they are substantially in relation to presentation, disclosure and non-quantifiable aspects. There has been no impact to financial position or financial performance and no comparative figures require restating.

Early adoption

In March 2016, the FRC published amendments to FRS 102 concerning the fair value hierarchy disclosures. These amendments are effective for accounting periods beginning on or after 1st January 2017. The Company has elected to adopt these amendments early in this set of financial statements. Full disclosure is given in note 20 on page 55.

(c) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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. The 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 treated 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 prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

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

(d) 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income and dealt with in capital reserves within 'Investment holding gains and losses'.

Unrealised gains and losses on foreign currency loans are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Other revaluation reserve'.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

1. Accounting policies *continued*

(e) 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.

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital.

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 is taken to revenue on an accruals basis.

(f) 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 brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 50.

(g) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method.

Finance costs are allocated wholly to revenue.

(h) Financial instruments

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

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value, with debtors 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. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

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

(i) Taxation

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

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax 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) Foreign currency

The Company is required to identify its functional currency, being the currency of the primary economic environment in which the Company 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 financial statements are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value and denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

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

(l) Repurchase of shares to hold in Treasury

The cost of repurchasing Ordinary shares including the related stamp duty and transactions costs is charged to 'Other reserve' and dealt with in the Statement of Changes in Equity. 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 the capital redemption reserve.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised capital 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.

(m) Conversion of Subscription shares

When the holders of Subscription shares exercise their right to convert their shares into Ordinary shares, the nominal value of those Subscription shares is transferred to share premium. The nominal value of the Ordinary shares created is credited to called up share capital with the balance of the consideration credited to share premium.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires management to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

Management do not believe that any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

3. Gains on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on investments held at fair value through profit or loss based on historical cost	8,697	1,736
Amounts recognised in investment holding gains and losses at the previous year end in respect of investments sold during the year	(10,486)	(328)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(1,789)	1,408
Net movement in investment holding gains and losses	21,616	32,380
Other capital charges	(5)	(4)
Total gains on investments held at fair value through profit or loss	**19,822**	**33,784**

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

4. Income

	2016 £'000	2015 £'000
Income from investments		
Overseas dividends	2,259	1,640

5. Management fee

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,510	–	1,510	1,233	–	1,233

Details of the management fee are given in the Directors' Report on page 23.

6. Other administrative expenses

	2016 £'000	2015 £'000
Administration expenses	196	224
Depositary fee	25	16
Directors' fees[1]	126	119
Savings scheme costs[2]	26	31
Auditors' remuneration for audit services	25	24
	398	414

[1] Full disclosure is given in the Directors' Remuneration Report on pages 32 to 34.

[2] Paid to the Manager for marketing and administration of saving scheme products. Includes £nil (2015: £5,000) irrecoverable VAT.

7. Finance costs

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	261	–	261	270	–	270

8. Taxation

(a) Analysis of tax charge in the year

	2016 £'000	2015 £'000
Overseas withholding tax	224	164
Total tax charge for the year	**224**	**164**

(b) Factors affecting total tax charge for the year

The tax assessed for the year is lower (2015: lower) than the Company's applicable rate of corporation tax for the year of 20% (2015: 21%). The factors affecting the total tax charge for the year are as follows:

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net return/(loss) on ordinary activities before taxation	90	19,078	19,168	(277)	34,393	34,116
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 20% (2015: 21%)	18	3,816	3,834	(58)	7,223	7,165
Effects of:						
Non taxable capital gains	–	(3,816)	(3,816)	–	(7,223)	(7,223)
Non taxable overseas dividends	(375)	–	(375)	(300)	–	(300)
Income taxed in different years	(9)	–	(9)	(5)	–	(5)
Unrelieved expenses	366	–	366	363	–	363
Overseas withholding tax	224	–	224	164	–	164
Total tax charge for the year	**224**	**–**	**224**	**164**	**–**	**164**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £3,791,000 (2015: £3,846,000) based on a prospective corporation tax rate of 18% (2015: 20%). The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 18% in 2020. These reductions in the standard rate of corporation tax were substantively enacted on 26th October 2015 and became effective from 18th November 2015. 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.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

9. (Loss)/return per Ordinary share

	2016 £'000	2015 £'000
Revenue loss	(134)	(441)
Capital return	19,078	34,393
Total return	**18,944**	**33,952**
Weighted average number of Ordinary shares in issue during the year used for the purpose of the undiluted calculation	46,809,711	46,279,583
Weighted average number of Ordinary shares in issue during the year used for the purpose of the diluted calculation	47,030,398	46,279,583
Undiluted		
Revenue loss per share	(0.29)p	(0.95)p
Capital return per share	40.76p	74.32p
Total return per share	**40.47p**	**73.37p**
Diluted		
Revenue loss per share	(0.29)p	(0.95)p
Capital return per share	40.57p	74.32p
Total return per share	**40.28p**	**73.37p**

The diluted return/(loss) per Ordinary share represents the return/(loss) on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the year as adjusted in accordance with IAS 33, as required by FRS 102.

10. Investments

	2016 £'000	2015 £'000
Investments listed on a recognised stock exchange	160,080	145,730
Opening book cost	99,753	83,362
Opening investment holding gains	45,977	13,925
Opening valuation	145,730	97,287
Movement in the year:		
Purchases at cost	44,166	52,703
Sales - proceeds	(49,643)	(38,048)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(1,789)	1,408
Net movement in investment holding gains[1]	21,616	32,380
	160,080	145,730
Closing book cost	102,973	99,753
Closing investment holding gains	57,107	45,977
	160,080	**145,730**

[1] During the year, prior year revaluation losses amounting to £10,486,000 have been transferred to realised losses as disclosed in note 15.

Transaction costs on purchases during the year amounted to £28,000 (2015: £39,000) and on sales during the year amounted to £27,000 (2015: £28,000). These costs comprise mainly brokerage commission.

11. Current assets

Debtors

	2016 £'000	2015 £'000
Securities sold awaiting settlement	68	–
Dividends and interest receivable	881	639
Other debtors	56	51
	1,005	**690**

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

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loan	18,571	–
Securities purchased awaiting settlement	139	406
Other creditors	304	183
	19,014	**589**

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

The Company has a Yen 3.0 billion unsecured three year term loan with ING Bank N.V. at an interest rate of 1.529% per annum plus a yen fixed funding rate of 0.279%, which will expire in November 2016.

13. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank loan	**–**	**16,851**

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

14. Called up share capital

	2016 £'000	2015 £'000
Issued and fully paid share capital:		
Ordinary shares of 10p each		
Opening balance of 46,282,582 (2015: 39,494,749) Ordinary shares excluding shares held in Treasury	4,629	3,949
Issue of nil (2015: 6,784,547) Ordinary shares on conversion of Subscription shares[1]	–	679
Issue of 634,004 (2015: 3,286) Ordinary shares on conversion of Subscription shares[2]	63	–
Subtotal of 46,916,586 (2015: 46,282,582) Ordinary shares excluding shares held in Treasury	4,692	4,628
409,500 (2015: 409,500) Ordinary shares held in Treasury	41	41
Closing balance of 47,326,086 (2015: 46,692,082) Ordinary shares including shares held in Treasury	**4,733**	**4,699**
Subscription shares		
Opening balance of 9,252,478 (2015: 6,784,547) Subscription shares of 0.1p (2015: 1p) each	9	68
Exercise of nil (2015: 6,784,547) Subscription shares into Ordinary shares	–	(68)
Issue of nil (2015: 9,255,764) Subscription shares of 0.1p each	–	9
Exercise of 634,004 (2015: 3,286) Subscription shares into Ordinary shares	(1)	–
Closing balance of 8,618,474 (2015: 9,252,478) Subscription shares	8	9
Total called up share capital	**4,741**	**4,678**

[1] The old Subscription shares issued on 5th March 2009 which had a final exercise date of 31st March 2014.

[2] The new Subscription shares issued on 16th December 2014.

Further details of transactions in the Company's shares are given in the Business Review on page 17.

Further details on the Subscription shares are given on page 67.

15. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve[1] £'000	Capital reserves: Gains and losses on sales of investments £'000	Capital reserves: Investment holding gains and losses £'000	Other revaluation reserve £'000	Revenue reserve[2] £'000	Total £'000
Opening balance	4,678	12,414	1,836	314,775	(236,346)	45,977	2,122	(13,224)	132,232
Net currency gains on cash and cash equivalents	–	–	–	–	976	–	–	–	976
Unrealised foreign currency losses on loan	–	–	–	–	–	–	(1,720)	–	(1,720)
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	(1,789)	–	–	–	(1,789)
Unrealised gains on investments	–	–	–	–	–	21,616	–	–	21,616
Transfer on disposal of investments	–	–	–	–	10,486	(10,486)	–	–	–
Exercise of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	64	1,474							1,538
Other capital charges	–	–	–	–	(5)	–	–	–	(5)
Net loss for the year	–	–	–	–	–	–	–	(134)	(134)
Closing balance	**4,741**	**13,889**	**1,836**	**314,775**	**(226,678)**	**57,107**	**402**	**(13,358)**	**152,714**

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

[2] This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

16. Net asset value per Ordinary share

	2016	2015
Undiluted		
Ordinary shareholders' funds (£'000)	152,714	132,232
Number of Ordinary shares in issue	46,916,586	46,282,582
Net asset value per Ordinary share	325.5p	285.7p
Diluted		
Ordinary shareholders' funds assuming exercise of dilutive Subscription shares and reissuance of any dilutive Treasury shares (£'000)	173,657	154,715
Number of potential Ordinary shares in issue	55,535,060	55,535,060
Net asset value per Ordinary share	312.7p	278.6p

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. The Company policy on the reissuance of Treasury shares is that Treasury shares will only be reissued at a premium to net asset value per share. Hence, the shares held in Treasury at 31st March 2016 had no dilutive effect (2015: none).

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

17. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	2016 £'000	2015 £'000
Net return on ordinary activities before finance costs and taxation	19,429	34,386
Less capital return before finance costs and taxation	(19,078)	(34,393)
Increase in accrued income and other debtors	(247)	(88)
Increase in accrued expenses	113	11
Overseas withholding tax	(224)	(164)
Dividends received	(1,793)	(1,389)
Realised gain/(loss) on foreign exchange transactions	768	(116)
Net cash outflow from operations before dividends and interest	**(1,032)**	**(1,753)**

18. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2015: none).

19. Related party transactions

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable for the year was £1,510,000 (2015: £1,233,000) of which £117,000 (2015: £nil) was outstanding at the year end.

During the year £26,000 (2015: £31,000) was payable to the Manager for the marketing and administration of savings scheme products, of which £nil (2015: £nil) was outstanding at the year end.

Included in other administration expenses in note 6 on page 48 are safe custody fees payable to JPMorgan Chase group subsidiaries amounting to £10,000 (2015: £14,000) of which £4,000 (2015: £4,000) was outstanding at the year end.

The Manager may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities Limited for the year was £4,000 (2015: £3,000) of which £nil (2015: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £5,000 (2015: £4,000) were payable to JPMorgan Chase during the year of which £1,000 (2015: £nil) was outstanding at the year end.

At the year end, total cash of £10,643,000 (2015: £3,252,000) was held with JPMorgan Chase. A net amount of interest of £55 (2015: £91) was receivable by the Company during the year from JPMorgan Chase of which £nil (2015: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on pages 33 and 34 and in note 6 on page 48.

20. Disclosures regarding financial instruments measured at fair value

The fair value hierarchy disclosures required by FRS 102 are given below.

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio.

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

(1) **The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.**

(2) **Inputs other than quoted prices included within Level 1 that are observable (i.e.: developed using market data) for the asset or liability, either directly or indirectly.**

(3) **Inputs are unobservable (ie: for which market data is unavailable) for the asset or liability.**

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(c) on page 45.

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31st March.

	2016		2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	160,080	–	145,730	–
Total	**160,080**	**–**	**145,730**	**–**

There have been no transfers between Levels 1, 2 or 3 during the year (2015: nil).

21. 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 co-operation with the Board and the Manager, co-ordinates 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 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 are sterling. As a result, movements in the sterling/yen exchange rate will affect the sterling value of those items.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

21. Financial instruments' exposure to risk and risk management policies *continued*

(a) Market risk *continued*

(i) Currency risk *continued*

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.

Yen exposure	2016 £'000	2015 £'000
Securities sold awaiting settlement, dividends and interest receivable	949	639
Cash and short term deposits	8,930	1,715
Bank loan	(18,571)	(16,851)
Securities purchased awaiting settlement	(139)	(406)
Foreign currency exposure on net monetary items	(8,831)	(14,903)
Investments held at fair value through profit or loss	160,080	145,730
Total net foreign currency exposure	**151,249**	**130,827**

In the opinion of the Directors, 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 table illustrates the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2015: 10%) appreciation or depreciation in sterling against the yen, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

	2016		2015	
	If sterling strengthened by 10% £'000	If sterling weakened by 10% £'000	If sterling strengthened by 10% £'000	If sterling weakened by 10% £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(226)	226	(164)	164
Capital return	883	(883)	1,490	(1,490)
Total return after taxation	657	(657)	1,326	(1,326)
Net assets	**657**	**(657)**	**1,326**	**(1,326)**

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

(ii) Interest rate risk

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

Management of interest rate risk

The Company does not normally hold significant cash balances. There is an overdraft facility available from JPMorgan Chase, if required, bearing interest at a market rate on the terms on which JPMorgan Chase makes similar overdrafts available.

The Company has a Yen 3.0 billion unsecured three year loan with ING Bank N.V. at a fixed interest rate of 1.529% per annum plus a yen fixed funding rate of 0.279%, which will expire in November 2016.

Interest rate exposure

The Company has a loan carrying a fixed rate of interest and the exposure is therefore already quantifiable. The exposure of financial assets and liabilities to floating interest rates using the year end figures, giving cash flow interest rate risk when rates are reset, is shown below.

	2016 £'000	2015 £'000
Amounts exposed to floating interest rates:		
Cash and short term deposits	10,643	3,252
Total exposure	**10,643**	**3,252**

Interest receivable on cash balances or paid on overdrafts is at a margin below or above LIBOR, respectively (2015: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue after taxation for the year and net assets to a 1% (2015: 1%) increase or decrease in interest rates with regard 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 monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2016		2015	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	106	(106)	33	(33)
Net assets	**106**	**(106)**	**33**	**(33)**

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.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

21. Financial instruments' exposure to risk and risk management policies *continued*

(a) Market risk *continued*

(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 other price risk

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

Other price risk exposure

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

	2016 £'000	2015 £'000
Equity investments held at fair value through profit or loss	160,080	145,730

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

Other 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% (2015: 10%) in the market value of equity investments. 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, adjusting for changes in the management fee but with all other variables held constant.

	2016		2015	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Statement of comprehensive income – return after taxation:				
Revenue loss	(160)	160	(146)	146
Capital return	16,008	(16,008)	14,573	(14,573)
Total return after taxation	15,848	(15,848)	14,427	(14,427)
Net assets	**15,848**	**(15,848)**	**14,427**	**(14,427)**

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 5 to 10. 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.

(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 57.

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:

	2016			
	Three months or fewer £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Securities purchased awaiting settlement	139	–	–	139
Other creditors and accruals	188	–	–	188
Bank loan including interest	185	18,671	–	18,856
	512	**18,671**	**–**	**19,183**

	2015			
	Three months or fewer £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors:				
Securities purchased awaiting settlement	406	–	–	406
Other creditors and accruals	74	–	–	74
Bank loan including interest	173	194	16,996	17,363
	653	**194**	**16,996**	**17,843**

The liabilities shown above represent future contractual payments and therefore may differ from the amounts shown in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

21. 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 Delivery Versus Payment (DVP) 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 and short term deposits

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager.

Exposure to JPMorgan Chase

JPMorgan Chase Bank, N.A. is the custodian of the Company's assets. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading.

The Depositary, BNY Mellon Trust and Depositary (UK) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

Credit risk exposure

The amounts shown in the Statement of Financial Position 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 value of financial assets and financial liabilities

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

22. Capital management policies and procedures

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

	2016 £'000	2015 £'000
Debt:		
Bank loan	18,571	16,851
Equity:		
Called up share capital	4,741	4,678
Reserves	147,973	127,554
	152,714	132,232
Total debt and equity	**171,285**	**149,083**

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing within the range of 5% net cash to 15% geared in normal market conditions.

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	160,080	145,730
Current assets excluding cash and short term deposits	1,005	690
Current liabilities excluding bank loans	(443)	(589)
Total assets	160,642	145,831
Net assets	**152,714**	**132,232**
Gearing	**5.2%**	**10.3%**

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 reissues from Treasury.

23. Subsequent events

The Directors have evaluated the period since the year end and have not identified any subsequent events.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixteenth Annual General Meeting of JPMorgan Japan Smaller Companies Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Friday, 15th July 2016 at 2.30 p.m. for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2016.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st March 2016.
4. To reappoint Alan Clifton as a Director of the Company.
5. To reappoint Yuuichiro Nakajima as a Director of the Company.
6. To reappoint Alexa Henderson as a Director of the Company.
7. To reappoint Grant Thornton UK LLP as the Auditor of 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

8. 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 £474,803 or, if different, the aggregate nominal amount 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 2017 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 or Rights to be granted after such expiry and so that the Directors of the Company may allot equity securities and grant Rights 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 relevant securities – Special Resolution

9. THAT subject to the passing of Resolution 8, 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 8 or by way of a sale of Treasury shares 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 £474,803 or, if different, the aggregate nominal amount 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 8, 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

10. 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 7,055,913 and 1,268,791 respectively or, if fewer, 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 0.1 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 contracted to be 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 15th January 2018 unless the authority is renewed at the Company's Annual General Meeting in 2017 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 which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

By order of the Board
Rhys Williams, for and on behalf of
JPMorgan Funds Limited,
Secretary

10th June 2016

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 Annual General Meeting (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.

3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 2.30 p.m. two business days prior to the Meeting (i.e. excluding weekends and bank holidays).

4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last 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 6.30 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 6.30 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(s) 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 financial statements (including the Auditor's report and the conduct of the audit) that are to be laid before the Meeting; or (b) any circumstances connected with the Auditor of the Company ceasing to hold office since the previous Annual General Meeting, 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 Auditor no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting 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 Meeting any question relating to the business being dealt with at the Meeting 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 of Meeting 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 cannot 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 Meeting, the total voting rights members are entitled to exercise at the Meeting 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.jpmjapansmallercompanies.co.uk.

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). They will also be available for inspection at the 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 hard copy Form of Proxy/Voting Instruction 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 Instruction 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 9th June 2016 (being the latest business day prior to the publication of this Notice), the Company's issued share capital (excluding Treasury shares) consists of 47,070,804 Ordinary shares, carrying one vote each and 8,464,256 Subscription shares carrying no votes. Therefore the total voting rights in the Company are 47,070,804.

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.

GLOSSARY OF TERMS AND DEFINITIONS

Return to Shareholders

Total return to the investor on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the 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 NAV per Ordinary share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, 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 NAV per Ordinary share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, 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, without transaction costs, 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.

Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/(liabilities)) less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding interest payments, expressed as a percentage of the average of the daily net assets during the year.

Share Price Discount to Diluted 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.

Return/(Loss) Per Ordinary Share – Diluted

The diluted return/(loss) per Ordinary share represents the return/(loss) 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'.

Return/(Loss) Per Ordinary Share – Undiluted

The undiluted return/(loss) per Ordinary share represents the return/(loss) 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:

- **Stock Selection/Sector Allocation**
  Measures the effect of investing in securities/sectors 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.

GLOSSARY OF TERMS AND DEFINITIONS *CONTINUED*

Leverage

For the purposes of the Alternative Investment Fund Managers Directive ('AIFMD'), leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated on a gross method and a commitment method, in accordance with AIFMD. Under the gross method, exposure represents the sum of the Company's positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

Alternative Investment Fund Managers – Leverage

The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD, as at 31st March 2016, which gives the following figures:

Leverage Exposure	Gross £	Commitment £
Maximum limit	200%	200%
Actual	111%	112%

JPMF Remuneration

JPMF is the authorised manager of the Company and is part of the J.P. Morgan Chase & Co. group of companies. In this disclosure, the terms 'J.P. Morgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.

This disclosure has been prepared in accordance with the AIFMD, the European Commission Delegated Regulation supplementing the AIFMD, the 'Guidelines on Sound Remuneration Policies' under the AIFMD issued by the European Securities and Markets Authority and the Financial Conduct Authority Handbook (SYSC 19B: The AIFM Remuneration Code and FUND 3.3).

JPMF Remuneration Policy

The current remuneration policy for the EMEA Global Investment business of J.P. Morgan can be found at https://am.jpmorgan.com/gb/en/asset-management/gim/adv/emea-remuneration-policy. This policy includes details of the alignment with risk management, the financial and non-financial criteria used to evaluate performance and the measures adopted to avoid or manage conflicts of interest.

JPMF Quantitative Disclosures

The table below provides an overview of the aggregate 2015 total remuneration paid to J.P. Morgan staff that can be reasonably attributed to the Company. These figures include the remuneration of all staff of JPMorgan Asset Management (UK) Limited (the relevant employing entity) and the number of beneficiaries, both apportioned to the Company on an assets under management ('AUM') weighted basis.

It is not possible to provide a further breakdown of remuneration attributable to the Company in a relevant or reliable way. However, for context, JPMF manages 34 alternative investment funds ('AIFs') (with 40 sub-funds) and 2 UCITS funds (with 41 sub-funds), with a combined AUM as at 31st December 2015 of £9,293 million and £10,645 million respectively.

	Fixed	Variable	Number of beneficiaries
All staff (USD'000s)	17,269	11,734	135

The 'Identified Staff' of JPMF are those employees whose actions have a material impact on the risk profile of JPMF or the AIFs it manages, including the Company. The aggregate 2015 total remuneration paid to this group was USD27,884,080. Given the size of JPMF, in particular the number of senior management and other Identified Staff, compensation information for these two groups has been aggregated.

For the purposes of the above disclosures, where portfolio management activities have been formally delegated, remuneration for the relevant employees has been excluded.

DETAILS OF SUBSCRIPTION SHARES

On 16th December 2014 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 30th January 2015 to 30th November 2016, 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 16th December 2014 the middle market prices of the Company's Ordinary shares and Subscription shares were as follows:

Ordinary shares:	200.50p
Subscription shares:	15.50p

Accordingly an individual investor who on 16th December 2014 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 have apportioned 98.48% of the base cost of such holding to the five Ordinary shares and 1.52% to the Subscription shares.

The remaining Subscription shares in issue may be exercised at any time up to and including 30th November 2016 at a price of 243 pence per share. Notice of the exercise of the Subscription share rights may be given at any time up to 30th November 2016 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.jpmjapansmallercompanies.co.uk or contact the Company Secretary on 020 7742 4000.

WHERE TO BUY J.P. MORGAN INVESTMENT TRUSTS

Savings Plan

The Company participates in the J.P. Morgan Investment Trusts Savings Plan, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Savings Plan should call J.P. Morgan Asset Management free on 0800 20 40 20 or visit its website at am.jpmorgan.co.uk.

Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within J.P. Morgan's Stocks & Shares ISA. For the 2016/17 tax year, from 6th April 2016 and ending 5th April 2017, the total ISA allowance is £15,240. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at am.jpmorgan.co.uk

There are a number of ways that you can buy shares in investment trust companies; you can invest through J.P. Morgan Online or on the following Fund supermarkets:

AJ Bell	James Brearley
Alliance Trust Savings	James Hay
Barclays Stockbrokers	Stocktrade
Charles Stanley Direct	TD Direct
Halifax Share Dealing Service	The Share Centre
Hargreaves Lansdown	Tilney Bestinvest
Interactive Investor	Transact

Alternatively you can invest through an Investment Professional (e.g. a Financial Adviser) on the following third party platforms:

Ascentric	Nucleus
Avalon	Praemium
Axa Elevate	Transact
Novia	

Please note that these websites are third-party websites and J.P. Morgan Asset Management does not endorse or recommend any of them. This list is not exhaustive and is subject to change. Please observe each site's privacy and cookie policies as well as their platform charges structure.

You can also buy investment trusts through stockbrokers, wealth managers and banks.

To familiarise yourself with the Financial Conduct Authority ('FCA') adviser charging and commission rules, visit www.fca.org.uk.

Financial Conduct Authority

Beware of share fraud

In association with: icsa Registrars Group

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. **Remember:** if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000

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
Annual General Meeting	15th July 2016

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 on the new Company began on the London Stock Exchange on 11th April 2000. The Company changed its name to JPMorgan Japan Smaller Companies Trust plc in July 2010.

Directors

Alan Clifton (Chairman)
Deborah Guthrie
Alexa Henderson
Yuuichiro Nakajima
Chris Russell
Robert White

Company Numbers

Company registration number: 3916716

Ordinary Shares

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

Market Information

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

Website

www.jpmjapansmallercompanies.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 and J.P. Morgan ISA. These products are all available on the online service, at www.jpmorgan.co.uk/online.

aic
The Association of Investment Companies
A member of the AIC

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

60 Victoria Embankment
London EC4Y 0JP
Telephone number: 020 7742 4000

For company secretarial matters, please contact Rhys Williams.

Depositary

BNY Mellon Trust and Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

The Depositary has appointed JPMorgan Chase Bank, N.A. as the Company's custodian.

Registrars

Equiniti Limited
Reference 2093
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2539

Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225.

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

Grant Thorton UK LLP
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London EC2P 2YU

Brokers

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

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Asset Management