



**JPMorgan Fleming Japanese Smaller
Companies Investment Trust plc**

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006

Interim Performance

TOTAL RETURNS for the six months ended 30th September 2006

-29.4%	Return to shareholders¹
-25.9%	Return on net assets²
-19.4%	Benchmark total return^{3,4}

	30th SEPT 2006	31st MARCH 2006	% CHANGE
FINANCIAL DATA			
Total assets less current liabilities (£000)	118,545	159,952	-25.9
Number of shares in issue	39,409,423	39,409,423	—
Net asset value per ordinary share	300.8p	405.9p	-25.9
Ordinary share price	273.5p	387.5p	-29.4
Revenue loss per share	(1.36)p	(1.61)p	
Capital (loss)/return per share	(103.71)p	158.96p	
Discount of share price to net asset value per share	9.1%	4.5%	

¹Change in share price. (Source: Standard & Poor's – www.funds-sp.com).

²Change in net asset (bid) value (debt at par) per share. The Company does not pay a dividend. (Source: Fundamental Data Ltd).

³Change in value with net dividends (if any) reinvested. (Source: Standard & Poor's – www.funds-sp.com).

⁴The Company's benchmark is the Citigroup Equity Index Japan Extended Market in sterling terms. This is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or 'track' this benchmark and, consequently, there may be some divergence between its performance and that of the Company.

Chairman's Statement

The Japanese smaller company market experienced an extremely difficult period over the last six months and it is disappointing to report that the return on net assets is -25.9%. The benchmark return was a dispiriting -19.4% for the same period. The shares of our Company had fallen by 29.4% at the half year stage, reflecting a widening in the discount to net assets at which the shares trade from 4.5% as at 31st March 2006 to 9.1% as at 30th September 2006.

There have been extremes of performance over the past twelve months, with the Japanese smaller cap market rising strongly in the period from September 2005 to March 2006, and then falling sharply, as noted, in the latest six months. This volatility, coupled with substantial mood swings by investors in this sector, has posed significant challenges for our investment managers.

As you will see from the report of the Investment Manager (on pages 3 and 4), the strategy followed by our Company has been consistent throughout this difficult recent period. Your Board remains satisfied that the emphasis on identifying companies with strong earnings momentum and attractive valuations is correct, notwithstanding that, at times, companies with more overtly defensive characteristics may perform better.

In our first half year, your Company has maintained its bias towards long term, secularly growing stocks and is overweight in the real estate, retailing and financial and commercial service sectors.

To conclude, and despite the most disappointing performance so far this year, the Board is confident that your Company is well positioned, in terms of its investment holdings, for long term growth. There is also a strong belief that the Japanese smaller cap market will respond more enthusiastically in due course to the better earnings statements emanating from the sector. The combination of good profits growth and undemanding valuations is an attractive investment proposition which should lead to better overall returns for our Company.

Alan Clifton

Chairman

18th December 2006

Investment Manager's Report


The six month period under review was a very tough period for smaller companies in the Japanese market, as the Citigroup Equity Index Japan Extended Market slumped by 19.4% and our Company's net asset value fell further, giving up by 25.9% after rising sharply during the previous period. The stockmarket fall was primarily due to a correction in the valuation of stocks rather than worries over the health of the economy and corporate Japan.

The fall behind the benchmark was due to two reasons; first, our continued preference for growing businesses rather than those that were simply defensive. Secondly, we remained geared throughout this period – typically around 10% which exacerbated the decline.

With the very tough market conditions it is easy to overlook the fact that companies are performing very solidly in general, and what we have experienced is mostly to do with a reduction in multiples and ratings rather than a deterioration in business fundamentals. When we meet companies which are steadily increasing their business scale by 15-20% a year, and where their valuations have retreated to a level far below market multiples (and their own historical averages) we find them attractive and seek to buy more of them. Consequently, we are actively trying to use this period of weak performance by smaller companies to increase the underlying growth rate of the portfolio, whilst also reducing the valuation that we are paying for those earnings. We have been

extremely active in making company visits to update ourselves on our holdings and to identify new opportunities. In addition, we have been conducting research into smaller market drivers, as well as establishing a quantitative framework for trying to gauge smaller cap market cycles and appropriate gearing levels. This research has produced a number of useful tools to aid the investment process and these are now being implemented.

Our basic outlook is that we are positive as valuations are attractive and we can find many good businesses trading at far below where they should trade. Several very good companies have been sold off aggressively as some holders have drastically reduced their positions and switched back to the apparent safety of the large cap benchmark, investing in a reversal of last year's rush to pick up smaller and medium sized companies. In addition, there are some funds which have faced heavy redemptions and have become forced sellers, which has also depressed stock prices – often of very strong companies. We believe that as companies report their quarterly and half year numbers, and as investors become reassured that business is on track, they will be forced to re-evaluate these stocks. Within the portfolio our bias is very strongly towards longer run secularly growing stocks where we feel that they have structural tailwinds helping their growth. In terms of sectoral weighting our major overweights are in property, retailing and the



financial sector. Our increasing weight in the beaten down services, automobile parts and real estate sectors has been funded through reducing our technology weighting and eliminating our materials weighting, together with a modest increase in gearing.

We have invested into several stocks in the medical equipment area such as Nihon Kohden, Shimadzu, and Miraca. These companies have strong reputations for quality products and we have been able to acquire positions at attractive prices. Another sector whose weighting has steadily risen is automotive parts, where we have used one off weaknesses caused by sentiment, or in some cases rising raw material costs, to pick up strongly growing and profitable companies. Some examples include Nippon Seiki, Bosch and Daido Metal. Within real estate we purchased the recently listed firm Atrium, which specialises in real estate backed loan guarantees and real estate asset management. We were able to purchase this strongly growing company for a mid teens price/earnings ratio, and despite a strong rally since purchase it still trades below 20x p/e despite having a predicted 50% operating profit growth.

When taken as a whole, the portfolio trades on a cheaper earnings multiple compared to the benchmark, but shows much stronger growth and considerably higher levels of profitability using consensus analyst estimates. The kinds of businesses that we are able to acquire at cheap multiples in the current small cap malaise suggest

that performance will improve, if only because the earnings produced by companies within the portfolio are growing strongly and valuations are very reasonable. In the worst case we expect share prices to move up in line roughly with earnings per share growth – more than 20% per annum for the portfolio over the next few years. We are invested in solid and sensible businesses with strong market positions in everyday activities, for example, shoes, furniture, logistics, autoparts, real estate and medical devices – that are growing nicely and trade at a cheap valuations. We are looking forwards to the results season as the growth will become apparent, and the valuations obviously too cheap.

It has been a extremely painful period for investors in Japanese smaller companies, but the companies are delivering, and are set to keep doing so, with attractive valuations which should provide a sound backdrop for stronger performance going forward as fundamentals and share prices get back in harmony once again.

David Mitchinson

Investment Manager

18th December 2006

Portfolio Analysis

Ten Largest Investments at 30th September 2006

Company	Code	Sector	Market Value	
			£'000	% ¹
Asics	9814	Consumer Durables & Apparels	3,480	2.5
Shoei	3003	Real Estate	3,423	2.5
Honeys	2792	Retailing	3,056	2.2
Itoki	7972	Commercial Services & Supplies	2,929	2.1
Bosch	6041	Real Estate	2,826	2.1
Miraca	4544	Pharmaceuticals	2,678	2.1
Sumitomo Corporation	8592	Diversified Financials	2,608	1.9
Diamond City	8853	Real Estate	2,603	1.9
Zensho	7550	Consumer Services	2,527	1.8
Nidec Sankyo	7756	Technology Hardware & Equipment	2,394	1.8
Total			28,524	20.9

¹Based on total assets less current liabilities of £136.7m, other than loan balances falling due within 1 year. As at 31st March 2006, the value of the ten largest investments amounted to £38,540,000, representing 20.9% of total assets less current liabilities.

Sector Analysis

	at 30th September 2006		at 31st March 2006	
	Portfolio	Benchmark	Portfolio	Benchmark
	%	%	%	%
Real Estate	17.9	6.6	9.1	6.0
Retailing	11.8	6.2	16.9	6.4
Materials	8.7	12.9	9.0	13.7
Banks	7.9	7.8	8.3	7.6
Diversified Financials	7.3	3.4	10.5	4.6
Commercial Services & Supplies	7.1	3.0	0.4	2.8
Automobiles & Components	5.7	4.2	1.8	4.1
Capital Goods	5.5	16.8	5.8	16.9
Food & Staples Retailing	5.0	2.1	4.9	2.2
Health Care Equipment & Services	4.9	2.1	—	1.9
Software & Services	4.6	3.4	2.9	3.2
Consumer Durables & Apparel	3.5	6.4	5.0	6.4
Technology Hardware & Equipment	3.1	6.6	10.2	6.3
Consumer Services	2.7	2.4	3.4	2.4
Transportation	1.2	3.3	—	3.3
Semiconductors & Semiconductor Equipment	0.7	1.6	—	1.6
Household & Personal Products	0.5	0.9	—	0.8
Food, Beverages & Tobacco	0.2	5.4	1.9	4.9
Media	—	1.3	5.0	1.4
Pharmaceuticals & Biotechnology	—	2.1	4.2	2.1
Insurance	—	0.3	1.2	0.4
Utilities	—	0.6	—	0.5
Energy	—	0.5	—	0.4
Telecommunication Services	—	0.1	—	0.1
Net current assets/(liabilities)	1.7	—	(0.5)	—
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £136.7m, other than loan balances falling due within 1 year (31st March 2006: £184.4m). Source: JPMAM and Standard & Poor's – www.funds-sp.com

Income Statement

for the six months ended 30th September 2006

	(Unaudited) Six months ended 30th September 2006			(Unaudited) Six months ended 30th September 2005			(Audited) Year ended 31st March 2006		
	Revenue Return £'000	Capital Return £'000	Total Return £'000	Revenue Return £'000	Capital Return £'000	Total Return £'000	Revenue Return £'000	Capital Return £'000	Total Return £'000
(Losses)/gains from investments									
held at fair value through									
profit or loss	—	(40,873)	(40,873)	—	13,068	13,068	—	62,646	62,646
Income from investments	518	—	518	318	—	318	1,043	—	1,043
Other interest receivable and similar income	150	—	150	108	—	108	223	—	223
Gross revenue and capital									
gains/(losses)	668	(40,873)	(40,205)	426	13,068	13,494	1,266	62,646	63,912
Management fee	(925)	—	(925)	(665)	—	(665)	(1,619)	—	(1,619)
Other administrative expenses	(171)	—	(171)	(129)	—	(129)	(270)	—	(270)
Net (loss)/return before									
finance costs and taxation	(428)	(40,873)	(41,301)	(368)	13,068	12,700	(623)	62,646	62,023
Finance costs	(70)	—	(70)	(50)	—	(50)	62	—	62
Net (loss)/return before taxation	(498)	(40,873)	(41,371)	(418)	13,068	12,650	(561)	62,646	62,085
Taxation	(36)	—	(36)	(22)	—	(22)	(73)	—	(73)
Net (loss)/return after taxation	(534)	(40,873)	(41,407)	(440)	13,068	12,628	(634)	62,646	62,012
(Loss)/return per share (note 2)									
(basic and diluted)	(1.36)p	(103.71)p	(105.07)p	(1.12)p	33.16p	32.04p	(1.61)p	158.96p	157.35p

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

The total column of this statement is the profit and loss account of the Company and the revenue and capital columns represent supplementary information. The total column represents all the information that is required to be disclosed in a 'Statement of Total Recognised Gains and Losses' ('STRGL'). For this reason a STRGL has not been presented.

Reconciliation of Movements in Shareholders' Funds

for the six months ended 30th September 2006 (Unaudited)

	Called up share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st March 2005	3,940	1,784	315,620	(214,140)	(8,730)	98,474
Adjustment to opening shareholders' funds at 1st April 2005 to reflect the adoption of bid prices	—	—	—	(534)	—	(534)
Total return/(loss) from ordinary activities	—	—	—	62,646	(634)	62,012
At 31st March 2006	3,940	1,784	315,620	(152,028)	(9,364)	159,952
Total loss from ordinary activities	—	—	—	(40,873)	(534)	(41,407)
At 30th September 2006	3,940	1,784	315,620	(192,901)	(9,898)	118,545

Balance Sheet

	(Unaudited) 30th September 2006 £'000	(Unaudited) 30th September 2005 £'000	(Audited) 31st March 2006 £'000
Non current assets			
Investments at fair value through profit or loss	134,380	119,635	185,358
Net current (liabilities)/assets	(15,835)	1,442	(25,406)
Total assets less current liabilities	118,545	121,077	159,952
Creditors:			
amounts falling due after more than one year	—	(9,975)	—
Total net assets	118,545	111,102	159,952
Capital and reserves			
Called up share capital	3,940	3,940	3,940
Capital redemption reserve	1,784	1,784	1,784
Other reserve	315,620	315,620	315,620
Capital reserve	(192,901)	(201,072)	(152,028)
Revenue reserve	(9,898)	(9,170)	(9,364)
Ordinary shareholders' funds	118,545	111,102	159,952
Net asset value per share (note 3)	300.8p	281.9p	405.9p

Cash Flow Statement

for the six months ended 30th September 2006

	(Unaudited) Six months ended 30th September 2006 £'000	(Unaudited) Six months ended 30th September 2005 £'000	(Audited) Year ended 31st March 2006 £'000
Net cash outflow from operating activities	(253)	(257)	(878)
Net cash outflow from returns on investments and servicing of finance	(59)	(624)	(1,278)
Net cash inflow/(outflow) from capital expenditure and financial investment	9,165	(6,839)	(24,106)
Net cash (outflow)/inflow from financing	(6,028)	5,084	21,151
Increase/(decrease) in cash for the period	2,825	(2,636)	(5,111)

Notes to the Accounts

1. Accounting Policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' dated 31st December 2005.

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

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31st March 2006.

2. (Loss)/return per share

	(Unaudited) Six months ended 30th September 2006 £'000	(Unaudited) Six months ended 30th September 2005 £'000	(Audited) Year ended 31st March 2006 £'000
(Loss)/return per share is based on the following:			
Revenue loss	(534)	(440)	(634)
Capital (loss)/return	(40,873)	13,068	62,646
Total (loss)/return	(41,407)	12,628	62,012
Weighted average number of shares in issue			
	39,409,423	39,409,423	39,409,423
Revenue loss per share	(1.36)p	(1.12)p	(1.61)p
Capital (loss)/return per share	(103.71)p	33.16p	158.96p
Total (loss)/return per share	(105.07)p	32.04p	157.35p

3. Net asset value per share

Net asset value per ordinary share is calculated by dividing equity shareholders' funds by the number of shares in issue at 30th September 2006 of 39,409,423 (30th September 2005 and 31st March 2006: 39,409,423).

4. Accounts for the year ended 31st March 2006

The figures and financial information for the year ended 31st March 2006 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 237(2) or 237(3) of the Companies Act 1985.

Information about the Company

Financial Calendar

Financial year end	31st March
Interim results announced	December
Final results announced	June
Annual General Meeting	July/August

History

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

Directors

Alan Clifton (Chairman)
John Gibbon (Audit Committee Chairman)
Bernard Grigsby
George Long
Christopher Russell

Company Numbers

Company registration number: 3916716
London Stock Exchange sedol number: 0316581
Bloomberg code: JPS LN
Reuters code: JPS.L

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange. The Company's shares are listed daily on the London Stock Exchange. The market price is shown daily in the Financial Times, The Daily Telegraph, The Independent, The Guardian, The Herald, The Scotsman, BBC Ceefax and on the JPMorgan internet site at www.jpmmfjapanesesmallercorporations.com, where the share price is updated every fifteen minutes during trading hours.

Share Transactions

The shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the Investment Trust Share Plan, Individual Savings Account ('ISA'), and the Personal Equity Plan ('PEP').

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

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For company secretarial and administrative matters, please contact Hilary Lowe FCIS.

Registrars

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

Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Savings Product Administrators

For queries on the JPMorgan ISA, PEP, Share Plan or Pension Account, see contact details on back cover.

Independent Auditors

Deloitte & Touche LLP,
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