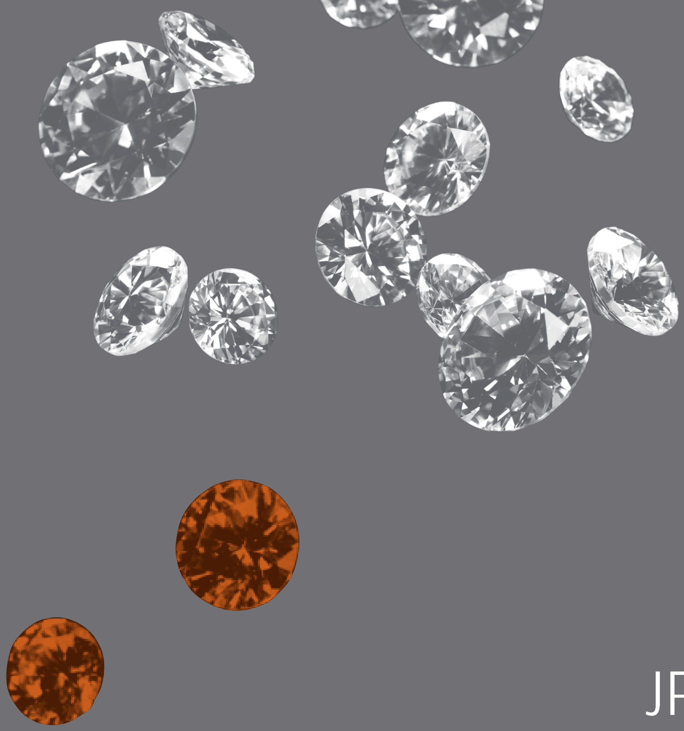


Annual Report 09

JPMorgan Smaller Companies Investment Trust plc

Annual Report & Accounts for the year ended 31st July 2009

J.P.Morgan Asset Management

Features

Contents

Objective

Capital and income growth from UK investments.

Investment Policies

- To provide capital appreciation for shareholders from a diversified portfolio of UK listed small companies, emphasising capital rather than income growth.
- To invest no more than 15% of its gross assets in other listed investment companies (including investment trusts).
- Liquidity and borrowings are managed with the aim of increasing returns to shareholders.
- Further details on investment policy and risk management are contained in the Director's Report on page 17.

Benchmark

The FTSE Small Cap Index (excluding investment trusts).

Capital Structure

The Company has an authorised share capital of 56,000,000 ordinary shares of 25p each, of which 19,612,222 were in issue at the year end.

Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

Financial Results

Total Returns (capital plus income)

-23.2%
Return to shareholders[1]
(2008: -29.7%)

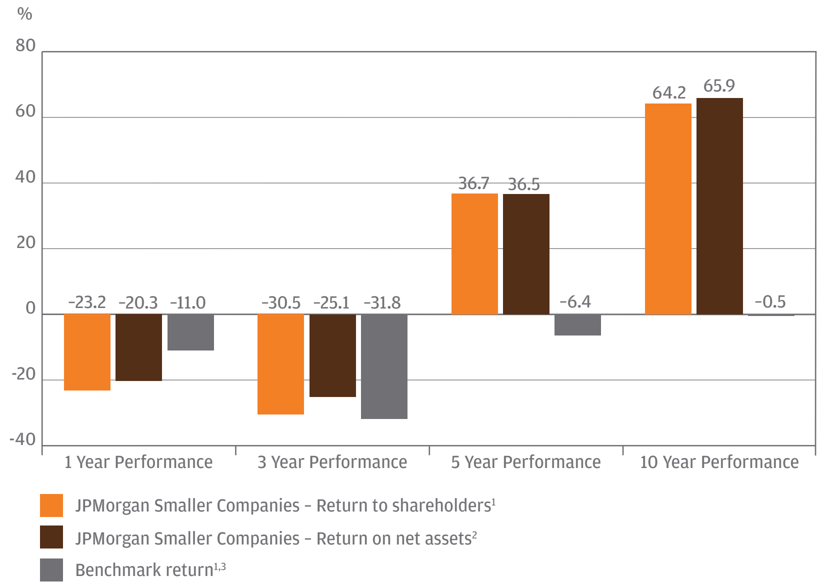
-20.3%
Return on net assets[2]
(2008: -29.1%)

-11.0%
Benchmark return[1,3]
(2008: -35.5%)

8.0p ordinary
3.0p special dividend
(2008: 7.0p ordinary)

Long Term Performance

for periods ended 31st July 2009



A glossary of terms and definitions is provided on page 60.

[1]Source: Morningstar.
[2]Source: J.P. Morgan.
[3]Source: Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

Chairman's Statement

Investment Performance

During the year ended 31st July 2009, equity markets witnessed extreme levels of volatility as the turmoil in the financial markets continued to dominate the scene. Stock markets fell severely in the first eight months of the reporting period before recovering sharply, as a result of a number of factors including unprecedented government intervention in March. Despite this rebound in the latter part of the year, overall performance was not good for smaller companies. Over the year to 31st July 2009, the Company recorded a total return on net assets of –20.3%, which compares unfavourably with the total return of the benchmark, the FTSE Small Cap Index (excluding investment trusts) of –11.0%. The total return to shareholders was –23.2%.

Although it is regrettable to report that the Company has significantly underperformed its benchmark index for the first time in its last ten years, it is very pleasing and extremely reassuring to note that markets have continued to rise in recent months and the Company's performance since the year-end has been very strong. As at 5th October 2009 the net asset value per share was 461.3p, the share price 379.0p and the discount 17.8%.

A detailed commentary is provided in the Investment Manager's report on the investment strategy, challenges faced during the year and how the portfolio has been rebalanced. The Board remains very supportive of the high conviction approach that is adopted to manage the Company's assets. A high quality portfolio has been maintained for long term growth, although the risk profile has been increased slightly.

Revenue and Dividends

Net revenue after taxation for the year was £2,261,000 (2008: £1,785,000) and revenue return per share, calculated on the average number of shares in issue, was 11.43p (2008: 8.67p).

The Directors are recommending an increased final dividend this year of 8.0p per share (2008: 7.0p), costing £1,569,000 (2008: £1,402,000). This will give a total of 11.0p per share for the year including the special interim dividend of 3.0p per share paid on 31st January 2009. If approved, the dividend will be paid on 11th December 2009 to shareholders on the register on 13th November 2009.

Each year the level of income received varies according to the Company's gearing, its investment stance and market conditions and, whilst it is the Company's policy to distribute substantially all the available income each year, shareholders should note that the Company's dividends will vary accordingly.

Investment Manager

The Company's objective is to provide shareholders with capital growth from a portfolio of investments in UK smaller companies. The Board carried out a further formal review of the capabilities and services of the Manager during the year. This covered the investment management, company secretarial, administrative and marketing services provided to the Company by JPMorgan Asset Management (UK) Limited ('JPMAM') and also included their investment performance record, management processes, investment style and resources. We have concluded that JPMorgan Asset Management (UK) Limited remains the most appropriate manager of the Company's assets and that the ongoing appointment of the existing Investment Manager is in the best interests of shareholders.

Share Buy backs

At last year's Annual General Meeting, shareholders granted the Directors authority to repurchase the Company's shares for cancellation, such authority to expire at the earlier of 27th May 2010 or the conclusion of the Annual General Meeting in 2009. During the financial year the Company repurchased a total of 413,100 ordinary shares for cancellation for a total consideration of £1,014,000, representing 2.1% of the issued share capital at the beginning of the year.

The Board's objective remains to use the share repurchase authority to manage imbalances between the supply and demand of the Company's shares, thereby reducing the volatility of the discount. To date the Board believes this mechanism has been helpful and therefore proposes and recommends that powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Gearing

The Board and the Investment Manager regularly discuss gearing and the surrounding issues. A £8 million borrowing facility was put in place with ING Bank N.V. in April 2009 when the previous facility expired. This facility is flexible and can be used tactically as investment opportunities present themselves, with the aim of enhancing returns. As investment opportunities arose in rising markets towards the end of the period, the full £7 million had been drawn on the facility at the year end to enhance the potential gains. This represented a gearing level of 7% of net assets at 31st July 2009.

Board of Directors

At the Nomination Committee held earlier this year, the Board carried out an evaluation of the Directors, the Chairman, the Board itself and its Committees. The Board takes this review seriously and views it as an effective means of evaluating the continuing efficacy of the Board. In accordance with the Company's Articles of Association, Ivo Coulson will retire by rotation at this year's AGM and will offer himself for re-election. The Nomination Committee having considered his qualifications, performance and contribution to the Board and its committees, confirm that he continues to be effective and demonstrates commitment to his role and the Board recommends to the shareholders that he be re-elected. In accordance with the Company's Articles of Association, and having served as Directors for more than nine years, both Richard Fitzalan Howard and I offer ourselves for re-election on an annual basis. The Board does not believe that length of service in itself should disqualify a Director from seeking re-election and, in proposing our re-elections, it has taken into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. The Nomination Committee recommends to shareholders that we should therefore be re-elected.

Chairman's Statement continued

Corporate Governance

The Board believes that the Company operates in accordance with best practice in corporate governance. The Board has put in place procedures to monitor the Company's compliance with the Combined Code and the AIC Code on Corporate Governance.

Annual General Meeting

The Company's nineteenth Annual General Meeting will be held on Friday 27th November 2009 at 12.00 noon at The Armourers Hall, 81 Coleman Street, London EC2R 5BJ. In addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

The equity markets have staged a sharp recovery from the lows reached in March and there is now some new emerging evidence of the level of activity in some areas of the economy improving. Your Board remains concerned about the level of consumer and government indebtedness and rising unemployment both in the private and the public sectors all of which factors are likely to restrain the strength and sustainability of any recovery. Despite these issues, the Board and the Investment Manager remain confident that investment opportunities in the higher quality smaller company stocks remain interesting. The Board will continue to focus on good long term returns for your Company.

Strone Macpherson
Chairman 7th October 2009

Investment Managers' Report

Georgina Brittain

Kent Kwan

Market Background

The financial year has encompassed extraordinary gyrations for your company. This was the year that saw the financial crisis migrate into the everyday economy – from Wall Street to Main Street. As the Company's year started in summer 2008, many thought that the worst of the credit crisis was over, but the collapse of Lehman Brothers in September proved that false.

The so-called Lehman effect brought the financial world to a standstill. Banks refused to lend to each other for fear of counterparty risk, and because they feared for their own capital strength as conditions worsened in the credit markets. The effect of this on equity markets was threefold; first, as the reality of the tightening credit regime became manifest, exposure to any indebted companies was heavily reduced. Second, as investors panicked, they withdrew money arbitrarily, wherever they could, and the equity market was awash with sellers. Third, it became evident that the financial crisis was going to lead to recession, and equities and in particular cyclical equities were sold off on that basis.

The Bank of England took action during this period, reducing rates to 0.5%, part-nationalising a number of banks, and introducing quantitative easing, in an effort to re-introduce some sort of stability into the markets and some sort of liquidity into the economy.

In mid-March, with the UK economy still deep in recession, and equities on a rating of 8x price/earnings (and less than 6x for UK smaller companies), stockmarkets

Performance attribution

Contributions to Total Return	12 months to 31st July 2009 %	%	12 months to 31st July 2008 %	%	12 months to 31st July 2007 %	%
Benchmark total return		-11.0		-35.5		18.7
Asset allocation	-2.6		5.3		3.6	
Stock selection	-6.4		3.9		9.6	
Gearing/cash	0.1		-1.9		1.1	
Currency	–		–		-0.1	
Investment Manager contribution		-8.9		7.3		14.2
Portfolio total return		-19.9		-28.2		32.9
Management fees/other expenses	-1.1		-1.1		-1.6	
Repurchase of shares for cancellation	0.2		0.8		1.4	
VAT Recovery	0.5		–		–	
Residual*	–		-0.6		–	
Other effects		-0.4		-0.9		-0.2
Net asset value total return		-20.3		-29.1		32.7
Impact of increase in discount		-2.9		-0.6		-4.1
Share price total return		-23.2		-29.7		28.6

Source: Xamin/JPMAM/Morningstar. All figures are on a total return basis.

* The residual arises principally from timing differences in the treatment of income flows.

The Xamin attribution system accounts for income on a received (on the ex-dividend date) basis whereas Morningstar calculates the Company's NAV Total Return using the actual dividends(s) paid by the Company (on the ex-dividend date).

A glossary of terms and definitions is provided on page 60.

Investment Managers' Report continued

rebounded, and continued to rise through the summer. The causes of this were multiple; cheap valuations, visibility of the end of the financial crisis, the willingness of investors to recapitalise over-indebted companies, banks and lenders renegotiating companies' debt. The majority of investors were positioned too defensively going into the rally, and once the rally began they found themselves helping to stoke it by buying into the more cyclical stocks.

Portfolio Construction

Despite the very strong recent rally, last year was a poor one for smaller companies, and a worse one for your company, which significantly underperformed its benchmark. The key reason for this underperformance was the defensive nature of the portfolio as we entered the stockmarket rally. Prior to this rally, the primary focus of your fund managers was on protecting capital in a falling market. While we did begin to reduce the highly defensive nature of the portfolio at the start of 2009, buying into some more cyclical companies that had been desperately oversold, we made the decision to maintain a quality threshold and therefore largely continued to avoid extremely over-indebted companies. With hindsight, we failed to make this move into cyclicals quickly enough and underestimated investors' desire for very high risk companies and therefore were still too cautiously positioned at the beginning of April. When the turn came, the portfolio was still too risk-averse, and market liquidity was such that it took us too long to buy into the more cyclical stocks.

All of your Company's underperformance came in the single month of April. In that one month. The FTSE Small Cap Index rebounded from its low, rising by 32%. A large number of stocks which were perceived as defensive did not move at all in this rebound – and this caught us out sharply.

Unsurprisingly, given this market backdrop, a number of significant changes were made to the portfolio over the year. At the start of the year, the notable sector overweight positives were in sectors such as Support Services and Aerospace & Defense and a very large underweight in Real Estate. The defensive nature of the portfolio stood us in good stead in the first eight months of the year. By the year end, both of these overweight positions had been more than halved, and Real Estate had moved from a 10% underweight position at its peak to close to neutral. The effect of this can be seen on page 12, where the large Industrials position of a year ago has been significantly reduced.

The underweight and subsequent buying of Real Estate stocks produced the most positive sectoral benefit. The other key positive in terms of sector weights was in Software, while the overweight position in Support Services detracted from performance. More significant was stock selection. Notable gains were made from positive stock selection – Pace, Micro-Focus, Healthcare Locums and Intec in particular. In addition, your company benefited from bids for Axon, Concateno, Imperial Energy and Emerald Energy during the year. However, these positives were significantly outweighed by not owning Imagination Technologies, by the savage deratings of Senior and Hyder Consulting, and by the huge bounces in over-indebted stocks such as Punch and Yell, which fell into the Small Cap index at the market low in March. Stock selection was therefore the largest contributor to the underperformance of the portfolio.

As it became clear that the market perception had changed, we persevered in the rebalancing of the portfolio through the spring and summer, aiming to ensure that the requisite balance was introduced into the portfolio. We put more emphasis on valuation, selling out of some of the more expensive companies and buying into the riskier stocks, and through the summer we frequently participated in placings and rights issue to shore up these companies and ensure their balance sheets were repaired.

Market Outlook

There is a distinct lack of clarity on the outlook. Commentators and investors are deeply divided into the so-called bulls, who are focussing on the positive global macro-economic factors, and those who are negative, citing a number of fears – fear of a global dip back into recession, fear of inflation, fear of deflation, or, in the case of the UK, fear of the dire state of the economy and of the consumer.

On the positive side, it is clear that the USA and most economies in Western Europe are rapidly exiting recession. The recovery in the UK has been slower, but it seems likely that the country should be in positive growth territory by the end of 2009. Globally, the economic data has grown more positive over the summer and a number of surveys and indices are starting to indicate expansion, rather than a decline in the rate of contraction. Furthermore, the IMF global growth forecast for 2010 has been upgraded to 2.5%.

Turning to the UK, the negatives are readily apparent. These include a huge and growing budget deficit, high and rising unemployment, impending tax hikes and public sector spending cuts. So why has the UK stockmarket continued to rally? In part, the answer is due to economic factors. While unemployment is still rising, it is rising less than was anticipated. House prices appear to have plateaued, and consumer confidence is slowly improving, explaining the surprisingly resilient retail figures of recent months. In part, however, the rally is due to company-specific factors. The majority of companies have taken strong pre-emptive action on their costs, balance sheets have largely been restored, and the recent results season has demonstrated that company earnings have been better than expected, in the main. All of these factors remain in place post the summer rally, and these are the reasons for remaining positive on the outlook. One final positive factor remains the likely re-emergence of mergers and acquisitions. According to the Office for National Statistics, merger and acquisition spending fell to a forty year low in the second quarter of 2009, and it is our view that there will be a marked increase in corporate activity in the coming year.

In the interim report we discussed the compelling valuations of smaller companies. Since their extreme low point in March, they have rebounded by 50% to the year end. Clearly the radical undervaluation has corrected, but we are still able to buy good quality stocks which have single digit price/earnings multiples and are yielding upwards of 5%. The gearing effect of on-going ratings improvements, margin benefits as the cost cutting comes through, and the eventual revenue improvements should ensure that there is good value in the portfolio.

Georgina Brittain
Kent Kwan
Investment Managers — 7th October 2009

Summary of Results

	2009	2008	
Total Returns for the year ended 31st July			
Return to shareholders[1]	**-23.2%**	-29.7%	
Return on net assets[2]	**-20.3%**	-29.1%	
Benchmark return[3]	**-11.0%**	-35.5%	
Net Asset Value, Share Price and Discount at 31st July			% change
Shareholders' funds (£'000)	**73,016**	96,035	-24.0
Net asset value per share	**372.3p**	479.6p	-22.4
Share price	**289.0p**	391.3p	-26.1
Share price discount to net asset value	**22.4%**	18.4%	
Shares in issue	**19,612,222**	20,025,322	
Revenue for the year ended 31st July			
Net revenue available for ordinary shareholders (£'000)	**2,261**	1,785	+26.7
Return per share	**11.43p**	8.67p	+31.8
Ordinary dividend	**8.0p**	7.0p	+14.3
Special dividend	**3.0p**	–	
Actual Gearing Factor at 31st July	**107%**	106%	
Total Expense Ratio ('TER')[4]	**1.14%**	1.15%	

A glossary of terms and definitions is provided on page 60.

[1]Source: Morningstar.

[2]Source: J.P. Morgan.

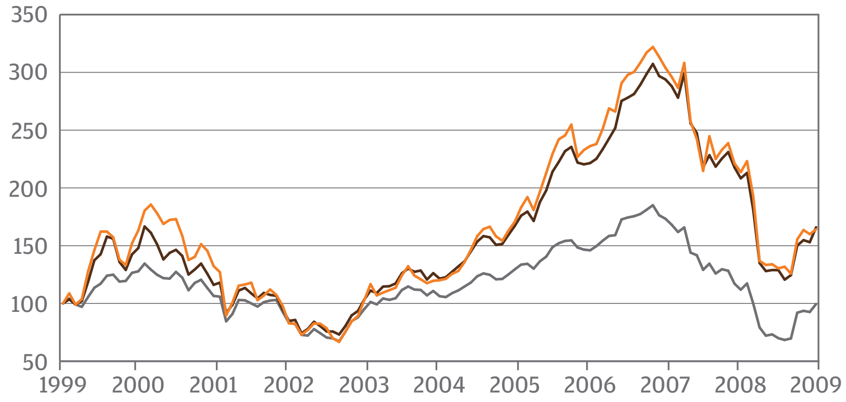
[3]Source: Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts).

[4]Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st July 1999

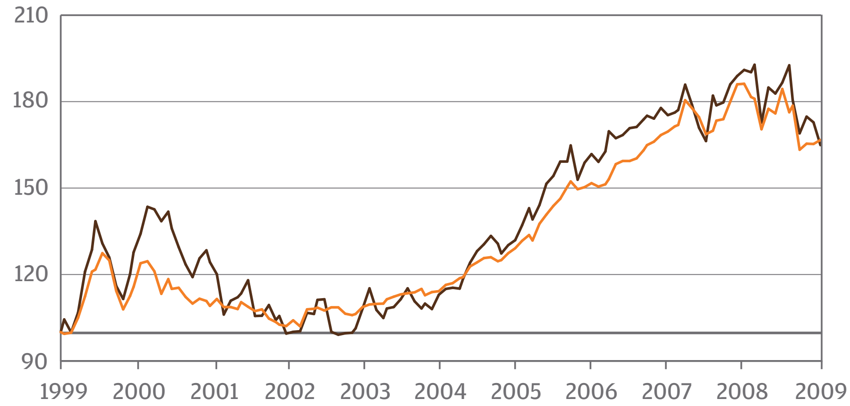


Source: Morningstar/Datastream

- JPMorgan Smaller Companies – Share price
- JPMorgan Smaller Companies – Net asset value
- Benchmark

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st July 1999



Source: Morningstar/Datastream

- JPMorgan Smaller Companies – Share price
- JPMorgan Smaller Companies – Net asset value
- Benchmark

Ten Year Financial Record

At 31st July	1999	2000	2001	2002	2003	2004[1]	2005[1]	2006	2007	2008	2009
Shareholders' funds (£'000)	66,805	97,609	76,162	55,204	62,954	74,217	94,753	118,326	143,657	96,035	**73,016**
Net asset value per share (p)	250.5	366.0	285.6	207.0	247.7	292.0	395.7	513.8	676.1	479.6	**372.3**
Share price (p)	204.5	329.0	265.0	164.0	199.5	230.0	322.0	440.5	562.0	391.3	**289.0**
Discount (%)	18.4	10.1	7.2	20.8	19.5	21.2	18.6	14.3	16.9	18.4	**22.4**
Actual gearing factor (%)	110	112	120	119	114	107	106	106	107	106	**107**
Year ended 31st July											
Gross revenue attributable to shareholders (£'000)	1,508	1,565	1,804	1,821	1,479	1,790	1,750	2,057	2,540	2,977	**2,579**
Revenue return per share (p)	3.28	2.35	2.35	3.10	2.85	3.80	3.62	4.37	5.22	8.67	**11.43**
Dividend per share (p)	3.00	2.30	2.30	3.00	2.85	3.75	3.75	4.25	5.00	7.00	**11.00**
Total expense ratio ('TER') (%)[2]	1.11	1.27	1.37	1.52	1.54	1.49	1.31	1.30	1.33	1.15	**1.14**
Rebased to 100 at 31st July 1999											
Return to shareholders[3]	100.0	163.2	132.3	82.8	102.8	120.1	170.8	236.2	303.9	213.7	**164.2**
Return on net assets[3]	100.0	147.9	116.1	84.9	103.3	121.5	167.2	221.5	293.9	208.2	**165.9**
Benchmark[4]	100.0	127.8	106.5	83.2	95.1	106.3	129.5	146.0	173.3	111.9	**99.5**

A glossary of terms and definitions is provided on page 60.

[1]The results for the year ended 31st July 2005 and 31st July 2004 have been restated in accordance with Financial Reporting Standard 21.

[2]Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

[3]Source: Morningstar.

[4]Source: Datastream.

Ten Largest Investments

Company	Sub-Sector	2009 Valuation £'000	2009 Valuation %[1]	2008 Valuation £'000	2008 Valuation %
Intec Intec supplies software solutions that provide interconnected billing and settlement services between telecoms operators.	Software & Computer Services	**2,513**	**3.4**	1,103	1.1
Spice Spice offers outsourced infrastructure support services primarily to utility companies.	Support Services	**1,839**	**2.5**	1,343	1.4
Delta[2] Delta is an engineering company that manufactures engineered steel products, provides galvanizing services and supplies manganese materials.	Industrial Engineering	**1,803**	**2.5**	–	–
Galiform[2] Galiform is a supplier of kitchens and joinery to trade customers in the UK.	Support Services	**1,795**	**2.5**	–	–
International Personal Finance[2] International Personal Finance offers small, unsecured cash loans to customers. The company operates in the developing markets of Central and Eastern Europe and Mexico.	General Financial	**1,783**	**2.4**	–	–
Emerald Energy[2] Emerald Energy explores for and produces hydrocarbons in South America and the Middle East.	Oil & Gas Producers	**1,647**	**2.3**	–	–
Pace Pace develops, and distributes digital set top boxes. The company's products are used by broadcasters, telecommunications companies, and retail markets.	Leisure Goods	**1,633**	**2.2**	1,783	1.9
Micro Focus Micro Focus International provides software that allow customers to modernise business critical enterprise applications.	Software & Computer	**1,522**	**2.1**	1,590	1.7
Pendragon[2] Pendragon sells new and used motor vehicles and provides contract hiring and after sales services.	General Retailers	**1,473**	**2.0**	–	–
Southern Cross Healthcare[2] Southern Cross Healthcare develops and operates nursing homes. The company provides a range of healthcare services, including senior living, rehabilitation services, specialist, and intermediate care services.	Healthcare Equipment & Services	**1,459**	**2.0**	–	–
Total		**17,467**	**23.9**		

[1]Based on total assets less current liabilities of £73.0m (2008: £96.0m).

[2]Not held in the portfolio at 31st July 2008.

As at 31st July 2008, the value of the ten largest investments amounted to £21.9m representing 22.8% of total assets less current liabilities.

Portfolio Analysis

Portfolio Analysis

Sector	31st July 2009 Portfolio %	31st July 2009 Benchmark %	31st July 2008 Portfolio %	31st July 2008 Benchmark %
Industrials	**38.2**	29.4	55.3	28.1
Financials	**18.3**	22.7	7.6	22.1
Consumer Services	**13.3**	15.1	10.2	12.5
Technology	**12.0**	10.1	9.4	11.5
Consumer Goods	**9.0**	4.3	6.5	6.5
Healthcare	**6.2**	8.1	3.5	10.5
Oil & Gas	**6.2**	2.6	7.7	1.4
Basic Materials	**2.5**	6.2	2.7	4.8
Utilities	**0.7**	–	0.4	–
Telecommunications	**0.6**	1.5	2.3	2.6
Liquidity fund	**1.8**	–	4.7	–
Net current liabilities	**(8.8)**	**–**	(10.3)	–
Total	**100.0**	**100.0**	100.0	100.0

Based on total assets less current liabilities of £73.0m (2008: £96.0m).

List of Investments

at 31st July 2009

Company	Valuation £'000
Industrials	
Support Services	
Spice	1,839
Galiform	1,795
Health Care Locums	1,447
Diploma	1,219
WSP	1,064
Hyder Consulting	883
Brammer	630
Tribal	596
Fiberweb	594
Lavendon	478
Harvey Nash	360
BSS	355
Hargreaves Services	330
Redhall Group	316
Babcock International	313
CVS	298
Connaught	278
Latchways	250
Industrial Engineering	
Delta	1,803
Hill & Smith	1,283
Senior	1,103
Fenner	960
Construction & Materials	
Costain	903
Keller	615
Morgan Sindall	615
Renew	191
ROK	174
Henry Boot	97
Electronics & Electrical Equipment	
Laird	1,263
Chloride	715
E2V Technologies	270
PV Crystalox Solar	165

Company	Valuation £'000
Aerospace & Defence	
Hampson Industries	893
Chemring	764
Aero Inventory	216
Industrial Transportation	
James Fisher	949
Braemer Shipping Services	574
General Industrials	
RPC	1,198
Norcros	126
Total Industrials	**27,922**
Financials	
Real Estate	
St. Modwen Properties	1,392
Unite	1,315
Grainger	1,302
Development Securities	1,035
Quintain Estates & Development	960
Big Yellow	664
CLS	590
Hansteen	206
London & Stamford Property	161
General Financial	
International Personal Finance	1,783
Brewin Dolphin	911
Paragon Group Of Companies	747
GlobeOp	590
City of London Investment	381
H&T	305
Advance AIM Value Realisation	24
Non Life Insurance	
Hardy Underwriting Bermuda	825
Novae	146
Total Financials	**13,337**

List of Investments continued

Company	Valuation £'000
Consumer Services	
General Retailers	
Pendragon	1,473
The John David Group	1,258
GAME	808
Topps Tiles	784
Lookers	684
Mothercare	443
Dunelm	267
ASOS	225
Media	
ITE	1,074
Trinity Mirror	859
Chime Communications	197
Travel & Leisure	
Goals Soccer Centres	456
Domino's Pizza	446
Restaurant	296
Hotel Corporation	247
All Leisure	167
Avis Europe	26
Total Consumer Services	**9,710**
Technology	
Software & Computer Services	
Intec	2,513
Micro Focus	1,522
Computacenter	888
NCC	872
AVEVA	854
SDL	701
RCG Holdings	189
Advanced Computer Software	164
Technology Hardware & Equipment	
BATM Advanced Communications	718
Filtronic	334
Total Technology	**8,755**

Company	Valuation £'000
Consumer Goods	
Food Producers	
Hilton Food	1,159
Devro	984
Cranswick	801
Booker	490
Premier Foods	457
PureCircle	408
MP Evans	362
Carr's Milling Industries	248
Leisure Goods	
Pace Micro	1,633
Total Consumer Goods	**6,542**
Healthcare	
Healthcare Equipment & Services	
Southern Cross Healthcare	1,459
Care UK	1,145
CareTech	455
Pharmaceuticals & Biotechnology	
Goldshield	870
Dechra Pharmaceuticals	356
Abcam	269
Total Healthcare	**4,554**
Oil & Gas	
Oil & Gas Producers	
Emerald Energy	1,647
Valiant Petroleum	668
Nighthawk Energy	527
Salamander Energy	389
Nautical Petroleum	208
Oil Equipment, Services & Distribution	
Wellstream	489
Kentz	351
Hunting	264
Total Oil & Gas	**4,543**

Company	Valuation £'000
Basic Materials	
Chemicals	
Yule Catto & Co	823
Elementis	321
Industrial Metals	
International Ferro Metals	515
Mining	
Gem Diamonds	177
Total Basic Materials	**1,836**
Utilities	
Electricity	
OPG Power Venture	480
Total Utilities	**480**
Telecommunications	
Fixed Line Telecommunications	
Alternative Networks	363
Telecom Plus	101
Total Telecommunications	**464**
Total Equities	**78,143**
Liquidity Funds	
JPMorgan Sterling Liquidity Fund	1,290
Total Liquidity Funds	**1,290**
Total Investments	**79,433**

Board of Directors

Strone Macpherson†‡
(Chairman of the Board and Nomination Committee)

Joined the Board and appointed Chairman in 1990.

He is chairman of Tribal Group plc, Close Brothers Group plc, and of British Empire Securities and General Trust plc. He was formerly deputy chairman of Misys plc, the international software and computer services group and a non-executive director of AXA UK plc.

Ivo Coulson*†‡

Joined the Board in 2005.

He is Investment Partner at Stanhope Capital LLP, a multi family office based in London. He was formerly an Executive Director of SG Warburg (1994-2000) and a Director of BZW Portfolio Management (1985-1994). He is a Fellow of the Securities Institute.

Richard Fitzalan Howard†‡

Joined the Board in 1997.

He is chief executive of FF&P Asset Management Limited. He was a director of Fleming Investment Management Limited (now JPMorgan Asset Management (UK) Limited – manager of the Company's assets) from 1986 to 2000.

Michael Quicke*†‡
(Chairman of the audit committee)

Joined the Board in 2005.

He is chief executive of CCLA Investment Management Limited, and was formerly chief executive of Leopold Joseph Holdings plc. He is also a Trustee of the National Trust and former chairman of its Investment Committee.

Andrew Robson*†‡

Joined the Board in 2007.

He is a chartered accountant and was a director of SG Hambros and Robert Fleming & Co. Limited. He was formerly financial director of eFinancial Group Limited and the National Gallery. He is a director of Shires Income plc, M&G Equity Investment Trust plc and British Empire Securities and General Trust plc. He was a director of Edinburgh UK Smaller Companies Tracker Trust plc.

* Member of the Audit Committee
† Member of the Nomination Committee
‡ Considered independent by the Board

Directors' Report

The Directors present their report for the year ended 31st July 2009.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st July 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 31st July 2008 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 7.

Objective

The Company's objective is to achieve capital growth from UK listed smaller companies by consistent out-performance of the Company's benchmark index, the FTSE Small Cap Index (excluding investment trusts) and a rising share price over the longer term by taking carefully controlled risks through an investment method that is clearly communicated to shareholders.

Investment Policies and Risk Management

In order to achieve this objective, the Company invests in a diversified portfolio of small companies, emphasising capital rather than income growth, with the likely result that the level of dividend will fluctuate.

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The number of investments in the portfolio will normally range between 70 and 150. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors. The maximum exposure to an investment will normally range between +/-2% relative to the benchmark index. The maximum exposure to a sector will normally range between +/-10% relative to the benchmark index.

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment policy should therefore be regarded as carrying greater than average risk.

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts).

Investment Restrictions and Guidelines

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

- No investment in the portfolio will be greater than 10% of the Company's gross assets
- The Company will not normally invest in unlisted securities
- The Company will not normally invest in derivative instruments
- The Company will utilise liquidity and borrowings in a range of 90% to 115% invested.

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

Performance

In the year ended 31st July 2009, the Company produced a total return to shareholders of –23.2% and a total return on net assets of –20.3%. This compares with the return on the Company's benchmark index of –11.0%. As at 31st July 2009, the value of the Company's investment portfolio was £79.4 million. The Investment Managers' Report on pages 5 to 7 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 loss for the year amounted to £19,722,000 (2008: £38,840,000 loss) and net total loss after deducting interest, administration expenses and taxation amounted to £20,014,000 (2008: £40,900,000 loss). Distributable income for the year amounted to £2,261,000 (2008: £1,785,000).

A special interim dividend of 3.0p (2008: Nil) per share was paid on 31st January 2009.

The Directors recommend a final dividend of 8.0p (2008: 7.0p) per share payable on 11th December 2009 to holders on the register at the close of business on 13th November 2009. This distribution will absorb £1,569,000. Following payment the revenue reserve after this transfer will amount to £857,000.

Gearing

The Board sets the overall gearing policy. A £8 million unsecured floating rate borrowing facility is currently in place with ING Bank NV. This facility is highly flexible and can be used tactically as investment opportunities present themselves, with the aim of enhancing returns. As at 31st July 2009, £7 million

Directors' Report continued

had been drawn on the facility. The facility is due to expire in April 2010 when the Board will consider its renewal. Further details about the loan facility are given in Note 12 to the Accounts on page 42.

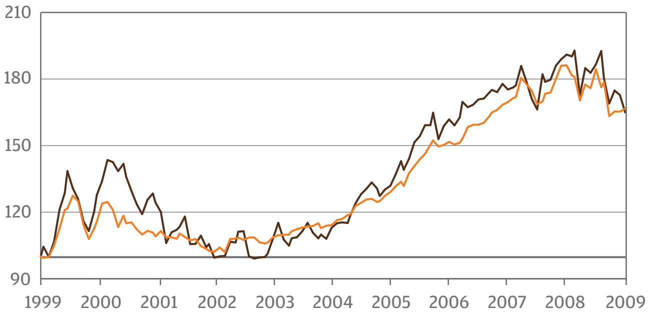
Key Performance Indicators ('KPIs')
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**
  This is the most important KPI by which performance is judged.

  Over the ten years to 31st July 2009, the Company recorded a total return of 64.2% which compares very favourably with the benchmark return of -0.5%.

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st July 1999



Source: Morningstar/Datastream.

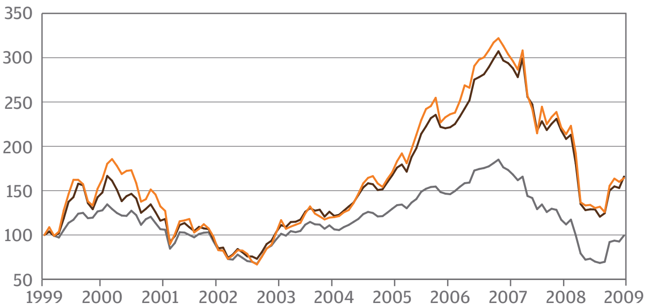
JPMorgan Smaller Companies – Share price

JPMorgan Smaller Companies – Net asset value

Benchmark

Ten Year Performance

Figures have been rebased to 100 at 31st July 1999



Source: Morningstar/Datastream

JPMorgan Smaller Companies – Share price

JPMorgan Smaller Companies – Net asset value

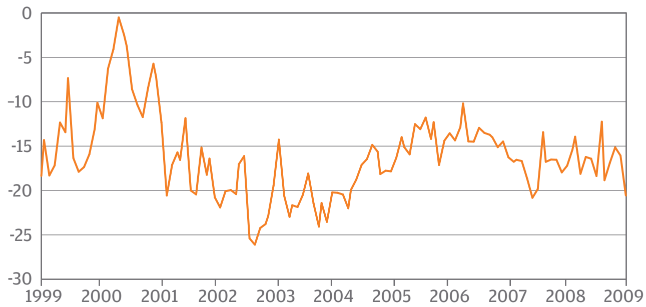
Benchmark

- **Performance against the Company's peers**
  The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds. Over ten years the Company ranked second out of nine in the peer group.

- **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 July 2009 are given in the Investment Managers' Report on page 5.

- **Discount to net asset value ('NAV')**
  The Board operates a share repurchase programme that seeks to address imbalances in supply and demand for the Company's shares within the market and thereby minimise the volatility and absolute level of the discount to NAV at which the Company's shares trade. In the year to 31st July 2009, the discount ranged between 12.2% and 22.4%.

Discount Performance



Source: Datastream

JPMorgan Smaller Companies – Discount

- **Total expense ratio ('TER')**
  The TER is an expression of the Company's management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the opening and closing net assets. The TER for the year ended 31st July 2009 was 1.14% (2008: 1.15%). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers.

Share Capital
The Company has authority both to repurchase shares in the market for cancellation and issue new shares for cash.

During the year the Company repurchased a total of 413,100 ordinary shares for cancellation for a total consideration of £1,014,000. This amount represented 2.1% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. Since the year end the Company has not repurchased any ordinary shares for cancellation.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any new shares during the year.

The Company does not currently hold any shares in Treasury and does not have authority to reissue shares from Treasury at a discount to NAV.

Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment and Strategy: An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting 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. JPMorgan Asset Management (UK) Limited (JPMAM) provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing tactically, within a strategic range set by the Board. The Board usually holds a separate meeting devoted to strategy each year.
- Discount: A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount policy and has set parameters for the Manager and the Company's broker to follow.
- Political: Changes in financial or tax legislation, including in the European Union, may adversely effect the Company. The Manager makes recommendations to the Board on accounting, dividend and tax policies, and seeks external advice where appropriate.
- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 23 to 26.
- Market: Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implication and results of the investment process with the Manager.
- Accounting, Legal and Regulatory: In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' above. Should the Company breach Section 842, it may lose its investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Acts and the UKLA Listing Rules.
- Operational: Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM

and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on page 25.

- Financial: The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to daily credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 20 on pages 45 to 49.

Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on page 7.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on three month's notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

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

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Investment Managers, noting consistent out-performance of the benchmark over the long term, and the support that the Company receives from JPMAM.

Management Fees

The management fee is paid by monthly installments based on the total assets less current liabilities at the beginning of each month and is charged at a rate of 0.8% per annum. Loans that are drawn down under a loan facility with an original maturity date of more than one year are not classified as current liabilities for the purpose of the management fee calculation. If the Company invests in funds managed or advised by JPMAM or any of its associated companies, the investments are excluded from the calculation and therefore attract no fee. The Company invests any surplus liquidity into a non-charging class of the JPMorgan Sterling Liquidity Fund and this Fund is therefore not excluded from the management fee calculation.

Going Concern

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

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st July 2009, the Company had no outstanding trade creditors (2008: same).

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's ordinary share capital, are given below:

Directors	30th July 2009	1st August 2008
Strone Macpherson	**24,860**	24,860
Ivo Coulson [1]	**5,000**	5,000
Richard Fitzalan Howard	**9,450**	9,450
Michael Quicke	**4,333**	4,333
Andrew Robson	**1,163**	1,163

[1] Since the year end, Ivo Coulson acquired a non-beneficial interest in 5,200 shares.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting will be Ivo Coulson, Richard Fitzalan Howard and Strone Macpherson. All three Directors being eligible, offer themselves for re-election. As Richard Fitzalan Howard and Strone Macpherson have been Directors for more than nine years, they stand for re-election annually.

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) of which the Company's auditors are unaware, and

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

The above confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

Section 992 Companies Act 2006

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

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

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 15 to the Notice of AGM on page 55.

Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
JPMorgan Asset management (UK) Ltd[1]	4,102,369	20.92
Chase Nominees Limited[2]	2,682,036	13.68
East Riding Yorkshire Council	1,400,000	7.14
Legal & General Investment Management	857,867	4.37
Royal London Asset Management	799,082	4.07
Rensbury Sheppards Investment Management Ltd.	596,529	3.04

[1]Includes JPMorgan Elect plc (Managed Growth shares) 1,367,000 6.97
[2]Held on behalf of JPMAM Share Plan and ISA participants.

Independent Auditors

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

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following item of special business will be proposed at the forthcoming Annual General Meeting:

(i) Authority to repurchase the Company's ordinary shares (resolution 8)
The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2008 Annual General Meeting, will expire on 4th May 2010. The repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority which will last until 26th May 2011 or until the whole of the 14.99 per cent has been acquired, whichever is the earlier.

The full text of the resolution is set out in the Notice of Meeting on page 55. 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 as and when market conditions are appropriate.

(ii) Authority to issue new shares for cash and disapply pre-emption rights (Resolutions 9 and 10)
The Directors will seek renewal of the authority at the AGM to issue up to 5% of the present issued share capital for cash. The full text of the resolutions is set out in the Notice of Meeting on pages 53 and 54.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies.

Directors' Report continued

(iii) Adoption of new Articles of Association (Resolution 11)

The Company proposes to adopt new articles of association

The Company proposes to adopt new articles of association. These incorporate amendments to the current articles of association to reflect the changes in company law brought about by the 2006 Companies Act (the 'Act') which came into effect on 1st October 2009 and changes made to the 2006 Act in August 2009 to implement the EU Shareholder Rights Directive in the UK, as well as some minor technical or clarifying changes.

The principal changes in the new articles of association proposed to be adopted at the 2009 Annual General Meeting relate to shareholder meetings and resolutions, the Company's constitution and share capital.

In August 2009, changes were made to the provisions in the 2006 Act on company meetings by The Companies (Shareholders' Rights) Regulations 2009 ("Shareholders' Rights Regulations") to implement the EU Shareholder Rights Directive in the UK. The new articles incorporate amendments in relation to meetings to ensure consistency with the 2006 Act (as amended by the Shareholders' Rights Regulations).

Under the 2006 Act all provisions of the Company's memorandum, but most significantly the objects clause, are deemed to form part of the Company's articles from 1st October 2009. It is possible for the objects clause to be removed or amended by amending the articles by special resolution. It is not necessary under the 2006 Act for a company to set out its objects. The 2006 Act provides that, unless the articles state otherwise, a company's objects will be unrestricted.

One of the other key provisions of the memorandum which is deemed to form part of the Company's articles from 1st October 2009 is the restriction created by the existing authorised share capital statement. The 2006 Act removes the requirement for a company to place limits on its authorised share capital.

By adopting the new Articles which do not contain the objects clause or the authorised share capital statement, the Company will remove these provisions, which would otherwise be deemed to form part of the Company's articles under section 28 of the 2006 Act, from its articles.

For a more detailed explanation of these and other amendments please refer to the Appendix to this document on pages 56 to 59.

A copy of the current Articles of Association and the proposed new Articles of Association will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ from the date of this report up until the close of the AGM. Copies will also be available at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ, being the place of the AGM, for 15 minutes prior to, and during, the meeting.

Recommendation

The Board considers that resolutions 8 to 11 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 44,806 shares representing approximately 0.2% of the voting rights of the Company.

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited, Secretary

7th October 2009

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 28, indicates how the Company has applied the principles of recommended governance of the 2008 Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, other than in respect of the provision relating to the appointment of a senior independent director and the term of office of the directors, and with the best practice provisions of the AIC Code throughout the year under review.

Role of the Board

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

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

The Board meets at least four times 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, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board Composition

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

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, as the Board comprises entirely of non-executive directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion 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 elected by shareholders. Thereafter, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for re-election at least every three years. Any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

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

As a result of the Board's evaluation process described below, it confirms that Richard Fitzalan Howard and Strone Macpherson, who retire by rotation at this year's AGM, continue to be effective Directors and demonstrate commitment to their role and therefore recommends their re-election at the forthcoming AGM.

Corporate Governance continued

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of Committees are shown with the Directors' profiles on page 16. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were five full Board meetings, including a private meeting of the Directors to evaluate the Manager. There were also two Audit Committee meetings and one meeting of the Nomination Committee during the year.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Strone Macpherson	5	2[1]	1
Ivo Coulson	5	2	1
Richard Fitzalan Howard	5	2[1]	1
Michael Quicke	5	2	1
Andrew Robson	5	2	1

[1]Mr Macpherson and Mr Fitzalan Howard attend the Audit Committee Meetings by invitation.

Training and Appraisal

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

The Board has agreed procedures for the formal evaluation of the Manager, its own performance and of that of its committees and individual Directors. Questionnaires, drawn up by the Board, are completed by each Director. The responses are collated and then discussed at a private meeting. The evaluation of individual Directors is led by the Chairman, and the Chairman of the Audit Committee leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of those committees.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Strone Macpherson, consists of all the independent 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. A variety of sources, including the use of external search consultants, may be used to ensure that a wide range of candidates are considered.

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

Audit Committee

The Audit Committee, chaired by Michael Quicke and whose membership is set out on page 16, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee and are satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Managers' Compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors; in the Directors' opinion, the auditors are independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. Representatives of the Company's auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of internal control is set out overleaf.

Terms of Reference

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

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly each year by way of the annual report and Accounts, the half year report and two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Managers are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 51.

The Company's Annual Report and Accounts are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 51.

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

Internal Control

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be 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 JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. The key elements designed to provide effective internal control are as follows:

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

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

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

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

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

- reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department;
- reviews reports on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and
- reviews every six months an independent report on the internal controls and the operations of JPMAM.

By the means of the procedures set out above, the Board confirms that it has reviewed, and is satisfied with, the effectiveness of the Company's system of internal control for the year ended 31st July 2009, and to the date of approval of this Annual Report and Accounts. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Corporate Governance continued

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from the internet as follows: go to www.jpmorganassetmanagement.co.uk/institutional and within the "Commentary & Analysis" tab you will find a section on Corporate Governance

"JPMAM is committed to delivering superior investment performance to its clients worldwide. We believe that one of the drivers of investment performance is an assessment of the corporate governance principles and practices of the companies in which we invest our clients' assets and we expect those companies to demonstrate high standards of governance in the management of their business.

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

In order to do this we have formulated detailed guidelines for each region, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition and independence, control structures, remuneration, as well as social and environmental issues (see below). These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMAM makes all of its voting decisions on a case by case basis, taking into account the individual circumstances of each vote."

Corporate Social Responsibility

The following is a summary of JPMAM's policy statement on corporate social responsibility which has been noted by the Board:

"We believe it is our primary duty to act in the best financial interests of our clients and to achieve good financial returns consistent with an acceptable level of risk. We recognise that non-financial issues, such as social and environmental issues, can have an economic impact and that any company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. Our investment managers take these factors into account as part of any investment decision."

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on pages 29 and 30.

Directors' Remuneration

Directors Name	2009 £	2008 £
Strone Macpherson (Chairman)	**24,000**	24,000
Ivo Coulson	**17,000**	17,000
Richard Fitzalan Howard	**17,000**	17,000
Michael Quicke	**19,000**	19,000
Andrew Robson	**17,000**	17,000
Total	**94,000**	94,000

Directors' fees were paid at a fixed rate of £24,000 per annum for the Chairman, £19,000 per annum for the Chairman of the Audit Committee and £17,000 per annum for each other Director from the beginning of the financial year.

The total Directors' fees of £94,000 (2008: £94,000) comprise £94,000 (2008: £94,000) in respect of aggregate emoluments paid to Directors and £nil (2008: £nil) paid to third parties for making available the services of Directors.

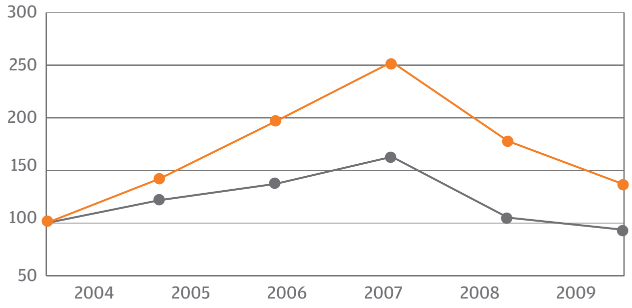
The Board's policy is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfiling those roles.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM 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 Directors' fees are not performance-related. The Company's Articles stipulate that aggregate fees must not exceed £150,000 per annum. Directors' fees are reviewed regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval. The Directors do not have service contracts with the Company.

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

A graph showing the Company's share price total return compared with its benchmark index total return, the FTSE Small Cap Index (excluding investment trusts), over the last five years is shown below.

Five Year Share Price and Benchmark Total Return to 31st July 2009



Source: Morningstar/Datastream

Share Price Total Return

Benchmark Total Return

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited, Secretary

7th October 2009

Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors have elected to prepare the accounts 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 accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these accounts, the Directors are required to:

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

The Directors are responsible for keeping adequate 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 enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement under the Disclosure & Transparency Rules 4.1.12

Responsibility statement

We confirm to the best of our knowledge:

(a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Strone Macpherson,
Chairman

7th October 2009

Independent Auditors' Report

Independent Auditors' Report to the members of JPMorgan Smaller Companies Investment Trust plc

We have audited the accounts of JPMorgan Smaller Companies Investment Trust plc for the year ended 31st July 2009 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the accounts.

Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs at 31st July 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts 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.

Independent Auditors' Report continued

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

Clive Bouch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors, London

7th October 2009

Income Statement

for the year ended 31st July 2009

	Notes	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Losses on investments held at fair value through profit or loss	2	–	(22,301)	(22,301)	–	(41,818)	(41,818)
Net foreign currency gains		–	–	–	–	1	1
Income from investments	3	2,403	–	2,403	2,943	–	2,943
Other interest receivable and similar income	3	176	–	176	34	–	34
Gross return/(loss)		2,579	(22,301)	(19,722)	2,977	(41,817)	(38,840)
Management fee	4	(299)	(299)	(598)	(533)	(533)	(1,066)
VAT recoverable	4	488	466	954	–	–	–
Other administrative expenses	5	(361)	–	(361)	(314)	–	(314)
Net return/(loss) on ordinary activities before finance costs and taxation		2,407	(22,134)	(19,727)	2,130	(42,350)	(40,220)
Finance costs	6	(141)	(141)	(282)	(335)	(335)	(670)
Net return/(loss) on ordinary activities before taxation		2,266	(22,275)	(20,009)	1,795	(42,685)	(40,890)
Taxation	7	(5)	–	(5)	(10)	–	(10)
Net return/(loss) on ordinary activities after taxation		2,261	(22,275)	(20,014)	1,785	(42,685)	(40,900)
Return/(loss) per share	9	11.43p	(112.61)p	(101.18)p	8.67p	(207.22)p	(198.55)p

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

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

The notes on pages 35 to 50 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st July 2009

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st July 2007	5,312	18,360	1,354	117,213	1,418	**143,657**
Repurchase and cancellation of the Company's own shares	(306)	–	306	(5,675)	–	**(5,675)**
Net (loss)/return on ordinary activities	–	–	–	(42,685)	1,785	**(40,900)**
Dividends appropriated in the year	–	–	–	–	(1,047)	**(1,047)**
At 31st July 2008	5,006	18,360	1,660	68,853	2,156	**96,035**
Repurchase and cancellation of the Company's own shares	(103)	–	103	(1,014)	–	**(1,014)**
Net (loss)/return on ordinary activities	–	–	–	(22,275)	2,261	**(20,014)**
Dividends appropriated in the year	–	–	–	–	(1,991)	**(1,991)**
At 31st July 2009	4,903	18,360	1,763	45,564	2,426	**73,016**

The notes on pages 35 to 50 form an integral part of these accounts.

Balance Sheet

at 31st July 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Investments held at fair value through profit or loss		**78,143**	101,394
Investment in liquidity fund held at fair value through profit or loss		**1,290**	4,535
Total investments	10	**79,433**	105,929
Current assets	11		
Debtors		**1,536**	237
Cash and short term deposits		**100**	99
		1,636	336
Creditors: amounts falling due within one year	12	**(8,053)**	(10,230)
Net current liabilities		**(6,417)**	(9,894)
Total assets less current liabilities		**73,016**	96,035
Total net assets		**73,016**	96,035
Capital and reserves			
Share capital	13	**4,903**	5,006
Share premium	14	**18,360**	18,360
Capital redemption reserve	14	**1,763**	1,660
Capital reserves	14	**45,564**	68,853
Revenue reserve	14	**2,426**	2,156
Shareholders' funds		**73,016**	96,035
Net asset value per share	15	**372.3p**	479.6p

The accounts on pages 31 to 50 were approved and authorised for issue by the Directors on 7th October 2009 and were signed on their behalf by:

Strone Macpherson
Chairman

The accompanying notes on pages 35 to 50 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31st July 2009

	Notes	2009 £'000	2008 £'000
Net cash inflow from operating activities	16	**2,569**	1,443
Returns on investments and servicing of finance			
Interest paid		**(303)**	(788)
Net cash outflow from returns on investments and servicing of finance		**(303)**	(788)
Capital expenditure and financial investment			
Purchases of investments		**(76,939)**	(101,301)
Sales of investments		**80,741**	108,539
Other capital charges		**(21)**	(13)
Net cash inflow from capital expenditure and financial investment		**3,781**	7,225
Dividends paid		**(1,991)**	(1,047)
Net cash inflow before financing		**4,056**	6,833
Financing			
Net repayment of loans		**(3,000)**	(1,000)
Repurchase of the Company's own shares		**(1,055)**	(5,578)
Net cash outflow from financing		**(4,055)**	(6,578)
Increase in cash and cash equivalents	17	**1**	255

The accompanying notes on pages 35 to 50 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st July 2009

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') issued by the AIC in January 2009.

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

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value. The disclosures on going concern in the Directors' Report on page 20 form part of these accounts.

The Company has a dormant and wholly owned subsidiary, Fleming Smaller Companies Securities Limited. Consolidated accounts have not been prepared as exemption under Section 405 of the Companies Act 2006 has been exercised due to the immateriality of the subsidiary.

(b) Valuation of investments

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

Gains and losses on sales of investments, transaction costs, management fee and finance costs charged to capital, repurchases of the Company's own shares and other capital receipts and payments, are 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 are accounted for in capital reserves within 'Holding gains and losses on investments'.

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

(c) Income

Dividends receivable from equity shares are included in the revenue column of the income statement 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 the capital column.

UK dividends are accounted for net of any tax credits.

Interest receivable is taken to revenue on an accruals basis.

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 the revenue column. Any excess in the value of the shares received over the amount of cash dividend is recognised in the capital column.

Underwriting commission is recognised in the revenue column where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to the revenue column.

Notes to the Accounts continued

1. Accounting policies continued

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- management fees are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commissions.

(e) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method in accordance with the provisions of FRS25 'Financial Instruments: Presentation' and FRS26 'Financial Instruments: Measurement'.

Finance costs are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital returns from the Company's investment portfolio.

(f) Financial instruments

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

Other receivables and payables do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method.

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

(g) Taxation

Deferred tax is accounted for in accordance with FRS19: 'Deferred Tax'.

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 probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to capital on the marginal basis. On this basis, if taxable income is capable of being offset entirely by revenue expenses, then no tax relief is transferred to capital.

(h) Dividends

In accordance with FRS 21: 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are paid.

(i) VAT

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 4 on page 38.

	2009 £'000	2008 £'000
2. Losses on investments held at fair value through profit or loss		
(Losses)/gains on investments held at fair value through profit or loss based on historical cost	**(18,130)**	8,713
Amounts recognised in investment holding gains in the previous year in respect of investments sold during the year	**(1,126)**	(27,173)
Losses on sales of investments based on fair value at previous balance sheet date	**(19,256)**	(18,460)
Net movement in investment holding gains	**(3,029)**	(23,336)
Other capital charges	**(16)**	(22)
Total capital losses on investments held at fair value through profit or loss	**(22,301)**	(41,818)

	2009 £'000	2008 £'000
3. Income		
Income from investments		
UK dividend income	**2,174**	2,599
Scrip dividends	**37**	–
Overseas dividends	**101**	149
Income from liquidity fund	**91**	195
	2,403	2,943
Other income		
Deposit interest	**6**	14
Interest on VAT recovered	**139**	–
Underwriting commission	**31**	20
	176	34
Total income	**2,579**	2,977

Notes to the Accounts continued

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
4. Management fee						
Management fee[1]	**299**	**299**	**598**	515	515	1,030
VAT thereon	**–**	**–**	**–**	18	18	36
	299	**299**	**598**	533	533	1,066
VAT recoverable[2]	**(488)**	**(466)**	**(954)**	–	–	–
	(189)	**(167)**	**(356)**	533	533	1,066

[1] Details of the management fee are given in the Directors' Report on page 20.

[2] No VAT has been charged on management fees since November 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since recovered VAT amounting to £954,000 in respect of VAT paid in the past. This amount has been allocated between revenue and capital in the same proportions as it was originally expensed to revenue and capital. Interest amounting to £139,000 has also been received and allocated wholly to revenue in this year and is included within 'other interest receivable and similar income' in note 3 above.

	2009 £'000	2008 £'000
5. Other administrative expenses		
Other management expenses	**183**	134
Directors' fees[1]	**94**	94
Savings product[2]	**61**	62
Auditors' remuneration for audit services[3]	**23**	23
Auditors' remuneration for all other services	**–**	1
	361	314

[1] Full disclosure is given in the Directors' Remuneration Report on page 27.

[2] Paid to JPMAM for the administration 'wrapper' products.

[3] Includes £2,000 (2008: £3,000) irrecoverable VAT.

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	**141**	**141**	**282**	335	335	670

7. Taxation

(a) Analysis of tax charge in the year

	2009 £'000	2008 £'000
UK corporation tax at 28% (2008: 29.33%)	–	–
Overseas tax	5	10
Current tax charge for the year	5	10

(b) Factors affecting current tax charge for the year

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Net return/(loss) on ordinary activities before taxation	2,266	(22,275)	(20,009)	1,795	(42,685)	(40,890)
Corporation tax at 28% (2008: 29.33%)	634	(6,237)	(5,603)	526	(12,519)	(11,993)
Effects of:						
Non taxable capital losses	–	6,244	6,244	–	12,265	12,265
Capitalised expenses	7	(7)	–	(254)	254	–
Non taxable UK dividends	(609)	–	(609)	(762)	–	(762)
Non taxable scrip dividends	(10)	–	(10)	–	–	–
Brought forward expenses utilised	(22)	–	(22)	–	–	–
Unrelieved expenses	–	–	–	490	–	490
Overseas income	5	–	5	10	–	10
Current tax charge for the year	5	–	5	10	–	10

The Company has an unrecognised deferred tax asset of £4,775,000 (2008: £4,793,000). This has arisen due to deductible expenses exceeding taxable income. Given the composition of the Company's portfolio it is not likely that this asset will be utilised in the foreseeable future.

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 for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts continued

8. Dividends

(a) Dividends paid and proposed

	2009 £'000	2008 £'000
2008 final dividend of 7.0p (2007: 5.0p)	**1,400**	1,047
Special interim dividend in respect of the year ended 31st July 2009 of 3.0p (2008: nil)	**591**	–
Total dividends paid in the year	**1,991**	1,047
Final dividend proposed of 8.0p (2008: 7.0p)	**1,569**	1,402

For the year ended 31st July 2008, the Company declared a dividend of £1,402,000 but the dividend paid amounted to £1,400,000 as a result of share buybacks after the balance sheet date but prior to the record date.

The final dividend has been proposed in respect of the year ended 31st July 2009 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ended 31st July 2010.

(b) Dividends for the purposes of Section 842 of the Income and Corporation Taxes Act 1988

The requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered on the basis of dividends declared in respect of the financial year as follows:

	2009 £'000	2008 £'000
Special interim dividend of 3.0p (2008: nil)	**591**	–
Final dividend of 8.0p (2008: 7.0p)	**1,569**	1,402
Total dividends for Section 842 purposes	**2,160**	1,402

The revenue available for distribution by way of dividend for the year is £2,261,000 (2008: £1,785,000).

9. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £2,261,000 (2008; £1,785,000) and on the weighted average number of shares in issue during the year of 19,780,588 (2008: 20,598,483).

The capital loss per share is based on the capital loss attributable to the ordinary shares of £22,275,000 (2008: loss of £42,685,000) and on the weighted average number of shares in issue during the year of 19,780,588 (2008: 20,598,483).

Total loss per share is based on the total loss attributable to the ordinary shares of £20,014,000 (2008: loss of £40,900,000) and on the weighted average number of shares in issue during the year of 19,780,588 (2008: 20,598,483).

	2009 £'000	2008 £'000
10. Investments		
Investments listed in the UK[1]	**79,433**	105,929
Opening book cost	**99,384**	97,116
Opening investment holding gains	**6,545**	57,054
Opening valuation	**105,929**	154,170
Movements in the year:		
Purchases at cost	**77,851**	101,236
Sales – proceeds	**(82,062)**	(107,681)
Losses on sales based on fair value at the previous balance sheet date	**(19,256)**	(18,460)
Net movement in investment holding gains	**(3,029)**	(23,336)
	79,433	105,929
Closing book cost	**77,043**	99,384
Closing investment holding gains	**2,390**	6,545
Total investments held at fair value	**79,433**	105,929

[1] Includes the investment in the JPMorgan Sterling Liquidity Fund.

Transaction costs on purchases during the year amounted to £320,000 (2008: £349,000) and on sales during the year amounted to £72,000 (2008: £107,000). These costs include stamp duty and broker commission.

During the year £1,126,000 of prior year investment holding gains have been transferred to gains and losses on sales of investments as disclosed in note 14 on page 43.

Subsidiary Company

The Company has a wholly-owned subsidiary called Fleming Smaller Companies Securities Limited which was incorporated as a dealing company and registered in England. During the year to 31st July 2009 the subsidiary did not trade and had negligible assets and liabilities at 31st July 2008 and 2009. Therefore, consolidated accounts have not been prepared.

Notes to the Accounts continued

	2009 £'000	2008 £'000
11. Current assets		
Debtors – loans and receivables		
Securities sold for future settlement	**1,329**	8
Dividends and interest receivable	**193**	212
Other debtors	**14**	17
	1,536	237

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

Cash and short term deposits

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

	2009 £'000	2008 £'000
12. Creditors – amounts falling due within one year		
Bank loan	**7,000**	10,000
Securities purchased for future settlement	**887**	12
Repurchases of the Company's own shares for future settlement	**56**	97
Other creditors and accruals	**110**	121
	8,053	10,230

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

The loan is unsecured and is drawn down on the Company's floating rate loan facility with ING Bank. Further details are given in note 20 on page 46.

	2009 £'000	2008 £'000
13. Share capital		
Authorised:		
56,000,000 (2008: 56,000,000) ordinary shares of 25p each – equity	**14,000**	14,000
50,000 (2008: 50,000) redeemable preference shares of £1 each – non equity	**50**	50
	14,050	14,050
Issued share capital:		
Ordinary shares of 25p each		
Opening balance of 20,025,322 (2008: 21,248,983) ordinary shares	**5,006**	5,312
Repurchase of 413,100 (2008: 1,223,661) ordinary shares	**(103)**	(306)
Closing balance of 19,612,222 (2008: 20,025,322) ordinary shares	**4,903**	5,006

During the year, the Company repurchased 413,100 ordinary shares, nominal value £103,000, for cancellation, representing 2.1% of the shares outstanding at the beginning of the year. The aggregate consideration paid for these shares was £1,014,000 and the reason for the purchases was to reduce discount volatility.

	2009		Capital reserves		
	Share premium £'000	Capital redemption reserve £'000	Holding gains and losses on investments £'000	Gains and losses on sales of investments £'000	Revenue reserve £'000
14. Reserves					
Beginning of year	**18,360**	**1,660**	**6,545**	**62,308**	**2,156**
Losses on sales of investments based on fair value at the previous balance sheet date	**–**	**–**	**–**	**(19,256)**	**–**
Transfer on disposal of investments	**–**	**–**	**(1,126)**	**1,126**	**–**
Net movement in investment holding gains	**–**	**–**	**(3,029)**	**–**	**–**
Repurchase and cancellation of the Company's own shares	**–**	**103**	**–**	**(1,014)**	**–**
Management fee and finance costs charged to capital	**–**	**–**	**–**	**(440)**	**–**
VAT recoverable credited to capital	**–**	**–**	**–**	**466**	**–**
Other capital charges	**–**	**–**	**–**	**(16)**	**–**
Dividends appropriated in the year	**–**	**–**	**–**	**–**	**(1,991)**
Net revenue for the year	**–**	**–**	**–**	**–**	**2,261**
Closing balance	**18,360**	**1,763**	**2,390**	**43,174**	**2,426**

Notes to the Accounts continued

15. Net asset value per share

Net asset value per share is based on the funds attributable to ordinary shareholders and on 19,612,222 (2008: 20,025,322) ordinary shares in issue at the year end.

	2009 £'000	2008 £'000
16. Reconciliation of loss on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total loss on ordinary activities before finance costs and taxation	**(19,727)**	(40,220)
Add back capital loss before finance costs and taxation	**22,134**	42,350
Scrip dividends received as income	**(37)**	–
Decrease/(increase) in accrued income	**19**	(98)
Decrease/(increase) in other debtors	**3**	(13)
Increase/(decrease) in accrued expenses	**15**	(33)
Tax on unfranked investment income	**(5)**	(10)
Expenses credited/(charged) to capital	**167**	(533)
Net cash inflow from operating activities	**2,569**	1,443

	At 31st July 2008 £'000	Cash flow £'000	At 31st July 2009 £'000
17. Reconciliation of movement in net debt			
Cash and short term deposits	99	1	**100**
Bank loans falling due within one year	(10,000)	3,000	**(7,000)**
Net debt	(9,901)	3,001	**(6,900)**

18. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2008: nil).

19. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 20. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan Asset Management ('JPMAM') earns a separate management fee. The fee payable to JPMAM for the year was £598,000 (2008: £1,030,000 excluding VAT) of which £nil (2008: £nil) was outstanding at the year end.

Expenses amounting to £53,000 (2008: £52,000) excluding VAT were payable to JPMAM for the marketing of its savings products of which £nil (2008: £nil) was outstanding at the year end.

Included in other management expenses in note 5 on page 38 are safe custody fees payable to JPMorgan Chase amounting to £nil (2008: £5,000) of which £nil (2008: £3,000) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arms' length. The commission payable to JPMorgan Securities for the year was £7,000 (2008: £13,000) of which £nil (2008: £nil) was outstanding at the year end.

Handling charges incurred on dealing transactions amounting to £16,000 (2008: £22,000) excluding VAT were payable to the JPMorgan Group of which £5,000 (2008: £11,000) was outstanding at the year end.

During the current and prior year, the Company made purchases and sales of units in the JPMorgan Sterling Liquidity Fund which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £1,290,000 (2008: £4,535,000) and represented 1.6% (2008: 4.3%) of the Company's investment portfolio. Income amounting to £92,000 (2008: £195,000) was receivable from this investment for the year.

At the year end, a bank balance of £100,000 (2008: £99,000) was held with JPMorgan Chase. Interest amounting to £6,000 (2008: £14,000) was receivable by the Company from JPMorgan Chase for the year.

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

As an investment trust, the Company invests in equities and other securities for the long term to secure its investment objective stated on the 'Features' page of this report. 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 or a reduction in the profits available for dividends. These risks include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management. The Company has no material exposure to foreign currencies. 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 may comprise the following:

- investments in equity shares of UK companies and a sterling liquidity fund. These are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a sterling bank loan, the purpose of which is to raise finance for the Company's operations and provide leveraged returns for the Company's shareholders.

(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 two elements – interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks, which 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.

Notes to the Accounts continued

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and investments in liquidity funds and the interest payable on the Company's variable rate cash borrowings when rates are re-set.

Management of interest rate risk

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

The Company may finance part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

Interest rate exposure

The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below.

	2009 £'000	2008 £'000
Exposure to floating interest rates:		
JPMorgan Sterling Liquidity Fund	**1,290**	4,535
Cash and short term deposits	**100**	99
Creditors: amounts falling due within one year:		
Bank loan	**(7,000)**	(10,000)
	(5,610)	(5,366)

The target interest earned on the JPMorgan Sterling Liquidity Fund is the 7 day sterling London Interbank Bid Rate.

Interest receivable on cash balances is at a margin below LIBOR.

The Company has a £8.0 million loan facility with ING Bank which expires in April 2010. Under the terms of this agreement the Company may draw down up to £8.0 million, or the equivalent in euros, at an interest rate of LIBOR as offered in the market for the currency and the period, plus a margin of 1.60% per annum plus the Mandatory Cost, which is the lender's cost of complying with certain regulatory requirements of the Bank of England, FSA, or the European Central Bank. At 31st July 2009, the Company had drawn down two tranches of £5.0 million and £2.0 million at interest rates of 2.67% and 2.50%, repayable on 9th October and 30th October 2009 respectively.

At 31st July 2008, the Company had drawn down £10.0 million on a £23.5 million facility with the Bank of Ireland at an interest rate of 5.90% per annum. This facility expired in April 2009.

The exposure to floating interest rates, comprising net loan balances, has fluctuated during the year as follows:

	2009 £'000	2008 £'000
Maximum debit interest rate exposure to floating rates – net loan balances	**(6,471)**	(11,157)
Maximum credit interest rate expense to floating rates – net cash balances (2008: minimum debit interest rate exposure to floating rates – net loan balances)	**147**	(2,986)

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue after taxation for the year and net assets to a 1% (2008: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2009		2008	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement – return after taxation				
Revenue return	**(21)**	**21**	(4)	4
Capital return	**(35)**	**35**	(50)	50
Total return after taxation for the year	**(56)**	**56**	(54)	54
Net assets	**(56)**	**56**	(54)	54

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure has changed due to fluctuations in the investment in the JPMorgan Sterling Liquidity Fund and amounts drawn down on the loan facility. The maximum and minimum exposure to floating interest rates, comprising net loan balances, is shown above. During the year investment in the Liquidity Fund has fluctuated between £0.4 and £4.9 million (2008: £nil and £8.1 million). During the year, the amount drawn down on the loan facility fluctuated between £5.0 million and £10.0 million (2008: £7.0 million and £11.0 million) and the interest rate on the drawings fluctuated between 1.8% and 6.5% (2008: 5.9% and 7.1%).

(ii) 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 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.

Notes to the Accounts continued

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

(a) Market risk continued

Other price risk exposure

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

	2009 £'000	2008 £'000
Equity investments held at fair value through profit or loss	**78,143**	101,394

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

Concentration of exposure to other price risk

An analysis of the Company's investments by industry sector is given on pages 13 to 15. All of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not be wholly exposed to the economic conditions in its country of domicile.

Other price risk sensitivity

The following table illustrates the sensitivity of profit after taxation for the year and net assets to an increase or decrease of 10% (2008: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2009		2008	
	Increase 10% in fair value £'000	Decrease 10% in fair value £'000	Increase 10% in fair value £'000	Decrease 10% in fair value £'000
Income statement – return after taxation				
Revenue return	**(31)**	**31**	(41)	41
Capital return	**7,783**	**(7,783)**	10,099	(10,099)
Total return after taxation for the year	**7,752**	**(7,752)**	10,058	(10,058)
Net assets	**7,752**	**(7,752)**	10,058	(10,058)

(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 other financial assets.

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) (i) to this note on page 46.

Liquidity risk exposure

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

	2009 Three months or less £'000	2009 Total £'000	2008 Three months or less £'000	2008 Total £'000
Creditors: amounts falling due within one year				
Bank loan	**7,000**	**7,000**	10,000	10,000
Securities purchased for future settlement	**887**	**887**	12	12
Repurchases of the Company's own shares for future settlement	**56**	**56**	97	97
Other creditors and accruals	**110**	**110**	121	121
	8,053	**8,053**	10,230	10,230

(c) Credit risk

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in a loss to the Company.

Management of credit risk

Portfolio dealing

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

Cash

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

Exposure to JPMorgan Chase

The Company's assets are clearly ring-fenced in client designated accounts. Therefore, in the event that JPMorgan Chase were to cease trading, these assets would be protected.

Credit risk exposure

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

Cash and short term deposits comprises balances held at banks that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

(d) Fair values of financial assets and financial liabilities

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

Notes to the Accounts continued

21. Capital management policies and procedures

The Company's capital comprises the following:

	2009 £'000	2008 £'000
Debt		
Short term loan	**7,000**	10,000
	7,000	10,000
Equity		
Share capital	**4,903**	5,006
Reserves	**68,113**	91,029
	73,016	96,035
Total debt and equity	**80,016**	106,035

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise 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 90% to 115%. Gearing for this purpose is defined as investments, excluding liquidity fund holdings, expressed as a percentage of total net assets.

	2009 £'000	2008 £'000
Investments excluding liquidity fund holding	**78,143**	101,394
Net assets	**73,016**	96,035
Gearing	**107.0%**	105.6%

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 need for issues of new shares, including issues from Treasury.

Information about the Company

Financial Calendar

Financial year end	31st July
Final results announced	October
Half year end	31st January
Half year results announced	March
Interim Management Statements announced	May/November
Dividend on ordinary shares paid	December
Annual General Meeting	November/December

History

The Company was formed in June 1990 as River & Mercantile Smaller Companies Trust plc and raised £25 million by a public offer of shares. Its original policy was to invest in a diversified portfolio of investments in UK and foreign smaller companies. Its name was changed to The Fleming Smaller Companies Investment Trust plc in April 1996, and again in November 2002 to JPMorgan Fleming Smaller Companies Investment Trust plc. The Company adopted its present name in 2006.

Directors

Strone Macpherson (Chairman)
Ivo Coulson
Richard Fitzalan Howard
Michael Quicke
Andrew Robson

Company Numbers

Company registration number: 2515996

London Stock Exchange code: 0741600
Bloomberg code: JMI LN
Reuters code: JMI.L

Market Information

The Company's shares are listed on the London Stock Exchange The market price is shown daily in the Financial Times, The Times, the Daily Telegraph, The Scotsman, The Independent and on the JPMorgan website at www.jpmsmallercompanies.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website

www.jpmsmallercompanies.co.uk

Share Transactions

The shares may be dealt in directly through a stockbroker or through a 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).

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone: 020 7742 6000

For company secretarial and administrative matters please contact Divya Amin.

Registrars

Equiniti
Reference 1139
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number: 0871 384 2341

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting reference 1139. Registered shareholders can obtain further details on individual holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

Deloitte LLP
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Brokers

Winterflood Securities
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Savings Product Administrators

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

aic
The Association of Investment Companies

A member of the AIC

Shareholder Analysis

at 30th June 2009

	Number of shares	% Holding
Unit Trusts	3,179,258	16.2
Pension Funds	2,704,334	13.8
Investment Trusts[1]	2,743,500	14.0
Other Institutions	1,104,597	5.6
Insurance Companies	107,985	0.5
Total Institutions	**9,839,674**	**50.1**
Private Client Brokers	3,731,258	19.0
Retail investors holding shares directly or through nominee accounts[2]	2,876,373	14.6
Individuals in the Investment Trust Individual Savings Account[3]	1,611,881	8.2
Individuals in the Investment Trust Shareplan[3]	1,143,379	5.8
Individuals in the Investment Trust Pension Account[3]	452,657	2.3
Total Retail Holdings	**9,815,548**	**49.9**
Total Shares in Issue	**19,655,222**	**100.0**

[1] Includes 1,367,000 shares held by JPMorgan Elect plc

[2] Includes shares below threshold of 10,000 shares

[3] Savings products managed by JPMorgan

Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the nineteenth Annual General Meeting of JPMorgan Smaller Companies Investment Trust plc will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ at 12.00 noon on Friday 27th November 2009 for the following purposes.

1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st July 2009.

2 To approve the Directors' Remuneration Report for the year ended 31st July 2009.

3 To approve a final dividend of 8p per ordinary share.

4 To re-elect Mr Richard Fitzalan Howard a Director of the Company.

5 To re-elect Mr Ivo Coulson a Director of the Company.

6 To re-elect Mr Strone Macpherson a Director of the Company

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

Special Business

To consider the following resolutions:

Authority to repurchase the Company's shares

8 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued Shares of 25p each in the capital of the Company.

PROVIDED ALWAYS THAT

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 2,939,872 or, if less, that number of shares which is equal to 14.99% of the Company's ordinary issued share capital as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for an ordinary share shall be 25p;

(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 an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; 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 net asset value per ordinary share (as determined by the Directors);

(v) the authority hereby conferred shall expire on 27th May 2011 unless the authority is renewed at the Company's Annual General Meeting in 2010 or at any other general meeting prior to such time; and

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

Authority to allot new shares – Ordinary Resolution

9 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 for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £245,152, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 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 relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

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

10 THAT subject to the passing of Resolution 9 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570, of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of Section 560(i) of the Act) pursuant to the authority conferred by Resolution 9 as if Section 561(1) of the Act did not apply to any such allotment, provided that

Notice of Meeting continued

this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £245,152, representing approximately 5% of the total ordinary share capital 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 at the conclusion of the Annual General Meeting of the Company to be held in 2010 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers, agreements or arrangements as if the power conferred hereby had not expired.

11 THAT

(i) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(ii) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association

By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
7th October 2009

Notes

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

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

provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.

8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmsmallercompanies.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). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.

15 As at 6th October 2009 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 19,612,222 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 19,612,222.

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.

Appendix - Explanatory notes of principal changes to Articles

The Companies Act 2006 ('the 2006 Act'), which is replacing the Companies Act 1985 ('the 1985 Act') has been implemented in stages but is fully in force from 1st October 2009. In addition, the Shareholders' Rights Regulations which amend certain provisions of the 2006 Act relating to meetings of the Company came into force in August 2009. Under Resolution 11, the Company is adopting new Articles of Association ('the Articles') which will reflect the changes in company law brought about by the Shareholders' Rights Regulations and by the provisions of the 2006 Act which came into effect on or before 1st October 2009. The Articles also include some other modernising and clarificatory amendments, including, where appropriate, tracking the wording of the new model form articles for public companies contained in Schedule 3 to the Companies (Model Articles) Regulations 2008 ('the model form articles'), which are replacing the Table A articles under the 1985 Act on which many of the Company's current articles are based. Set out below is a summary of the principal changes.

1. The Company's objects

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The provisions governing the operations of the Company are currently set out in both its memorandum of association and its articles of association. Under the 2006 Act, the memorandum no longer contains an objects clause and simply records the names of the subscribers and the number of shares which each subscriber agreed to take in the Company. Under Section 28 of the 2006 Act, the objects clause and all other provisions in the memorandum are treated as part of the articles with effect from 1st October 2009 but the Company can remove these provisions by special resolution. Unless the articles provide otherwise, the Company's objects will be unrestricted. The Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's articles of association as of 1st October 2009. Resolution 11 confirms the removal of these provisions and adopts the new Articles.

2. Limited liability (Article 3)

Under the 2006 Act, the memorandum of association also no longer contains a clause stating that the liability of the members of a company is limited. For existing companies, this statement is automatically treated as having moved into the articles on 1st October 2009. As noted in paragraph 1 above, Resolution 3 confirms the removal, from the Company's articles of association, of the provisions of the Company's memorandum of association which are treated as forming part of the Company's articles of association by virtue of Section 28 of the 2006 Act, which includes the statement of limited liability. An explicit statement of the members' limited liability is therefore included in the new Articles.

3. Authorised share capital and unissued shares

The 2006 Act abolishes the concept of authorised share capital and under the 2006 Act, the memorandum of association no longer contains a statement of the Company's authorised share capital. For existing companies, this statement is deemed to be a provision of the Company's articles of association setting out the maximum amount of shares that may be allotted by the Company. The adoption of the new Articles by the Company will have the effect of removing this provision relating to the maximum amount. Directors will still need to obtain the usual shareholders' authorisation in order to allot shares, except in respect of employee share schemes.

References to authorised share capital and to unissued shares have therefore been removed from the new Articles.

4. Redeemable shares (Article 5)

Under the 2006 Act, the articles of association need not include the terms on which redeemable shares may be redeemed. The directors may determine the terms, conditions and manner of redemption of redeemable shares provided they are authorised to do so by the articles. The new Articles contain such authorisation.

5. Share certificates (Article 12)

The new Articles contain new provisions for the issue of consolidated share certificates, in line with the model form articles.

6. Transfer of shares (Articles 29and 30)

The provision which gave the ability to suspend the registration of transfers of shares for periods not exceeding 30 days in any one year has been removed from the new Articles as there is no ability under the 2006 Act to close the register.

7. Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Article 40)

Under the 1985 Act, a company required specific authorisations in its articles of association to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital. Under the 2006 Act, public companies do not require specific authorisations in their articles of association to undertake these actions; but shareholder authority is still required. Amendments have been made to the new Articles to reflect these changes. However, the existing requirement that the Company may only purchase its shares with the consent in writing (or the passing of a special resolution at a separate meeting) of the holders of not less than three-fourths of any class of shares convertible into other shares of any other class has been retained and continues to apply in the new Articles.

8. Participation in meetings at different places and by electronic means (Articles 52 and 53)

Amendments made to the 2006 Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The new Articles include amendments to provide greater scope for members to participate in meetings of the Company even if they are not present in person at the principal place where the meeting is being held. The amendments allow for members to participate not only by attendance at satellite meeting locations, but also by any other electronic means of participation.

9. Adjournments (Article 54)

The Shareholders' Rights Regulations add a provision to the 2006 Act which requires that, when a general meeting is adjourned due to lack of quorum, at least ten days' notice must be given to reconvene the meeting. The new Articles include amendments to the provisions dealing with notice of adjourned meetings to make them consistent with this new requirement.

10. Removal of chairman's casting vote

Pursuant to changes brought about by the Shareholders' Rights Regulations, a traded company is no longer permitted to allow the chairman to have a casting vote in the event of an equality of votes. Accordingly, this provision has been removed in the new Articles.

11. Voting rights (Article 63)

The Shareholders' Rights Regulations clarify the various powers of proxies and representatives of corporate members in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands unless he has been appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been appointed by more than one member to vote for the resolution and by more than one member to vote against the resolution. Where a corporate member appoints representatives to attend meetings on its behalf, each representative duly appointed by a corporate member has one vote on a show of hands. The new Articles contain provisions which clarify these rights and also clarify how the provisions giving a proxy a second vote on a show of hands should apply to discretionary powers.

12. Voting record date (Article 64)

The new Articles include a new provision which was not previously in the Company's articles of association, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how many votes each person may cast. Under this new provision, when convening a meeting the Company may specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This new provision is in line with a requirement for listed companies introduced by the Shareholders' Rights Regulations.

13. Validity of votes (Article 68)

Following the implementation of the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. The new Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with his instructions.

14. Termination of proxy authority (Article 74)

Article 76 provides that the termination of a proxy's authority should be in writing as this is required by the Shareholders' Rights Regulations.

15. Corporate representatives (Article 76)

The new Articles provide that the Company can require a corporate representative to produce a certified copy of the resolution appointing him before permitting him to exercise his powers.

16. Retirement of directors by rotation (Articles 82 and 83)

The new Articles have been redrafted in order to make this provision clearer and to ensure (as far as possible) a regular number of retiring directors each year, with the number to retire being the number nearest to one-third of the board, excluding those directors who are retiring and seeking re-election for other reasons. Article 81 continues to comply with Combined Code provision A.7.1 which recommends that

Appendix continued

all directors should be subject to re-election at intervals of no more than three years. New Article 82 requires any non-executive director (other than the chairman) who has held office for nine years or more to put himself up for re-election at each annual general meeting. This is in line with Combined Code provision A.7.2.

17. Alternate directors (Articles 89, 91 and 93)

Article 91 now clarifies that an alternative director is entitled to be paid expenses (but not directors' fees). Article 93 is a new provision which effectively applies the provisions of Article 89, regarding removal of directors, to alternate directors. Article 95(c) makes it clear that an alternate director is subject to the same restrictions as the director who appointed him.

18. Borrowing powers (Article 95)

A number of presentational and descriptive amendments have been made to the borrowing powers provision:

(i) Article 97(1)(a) – a reference has been added to amounts 'credited as paid up' on share capital to clarify that these should be included as well as amounts actually paid up.

(ii) Article 97(1)(b) – this has been amended to refer to total of 'any credit balance on the distributable and undistributable reserves of the Group', to clarify that all reserves of the Group will be relevant for the calculation and to reflect the language used by those preparing the accounts. The reference to 'including share premium account, capital redemption reserve and credit balance on the profit and loss account reserve' has therefore been deleted.

(iii) Article 97(1) – the last paragraph has been amended to allow the company also to adjust for variations in its capital redemption reserve since the balance sheet date as the directors may reasonably consider to be appropriate.

(iv) Articles 97(1)(a) and 97(4)(e) – additional wording has been included to clarify how any preference shares that might be issued should be treated for the purposes of the borrowing powers. Under IFRS and UK GAAP preference shares are now treated as a debt on a company's balance sheet, rather than equity. The additional wording included in Articles 97(1)(a) and 97(4)(e) reflects this accounting treatment. The effect of this wording is to *exclude* the amount of any preference share capital from the calculation of the Company's share capital and reserves and to include such amount in the calculation of the Company's borrowings.

19. Delegation to persons or committees (Article 96)

Article 98 follows the new, simplified approach to delegation adopted in the model form articles, allowing the directors to delegate as they decide appropriate.

20. Directors' appointments, interests and conflicts of interest (Article 101)

Article 103, which is the provision for dealing with conflicts in our current articles, allowing directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the company is interested provided that he has disclosed his interest in accordance with the articles and the provisions of the Acts, has been amended so that it contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict falls within the situations covered by Article 103.

21. Procedures regarding board meetings & resolution in writing (Articles 103 and 106)

The provisions of Article 105 have been amended to make it clear that notice of a board meeting may be given personally, by telephone, in hard copy or in electronic form. The requirements for giving notice to directors who are not in the United Kingdom have also been clarified. In order to clarify the procedure for written resolutions of directors, Article 108 has been amended so that, rather than referring to a resolution in writing by all directors, a resolution in writing will be valid and effectual as if it had been passed at a meeting if executed by all the directors entitled to receive notice of the meeting and who would have been entitled to vote (and whose vote would have been counted) on a resolution at a meeting.

22. Quorum (Article 107)

The proposed amendment to Article 109, which deals with the quorum requirement for board meetings, clarifies that a director cannot count in the quorum for a matter or resolution on which he is not entitled to vote (or when his vote cannot be counted) but he may count in the quorum for the other matters or resolutions to be considered or voted on at the meeting.

23. Permitted interests and voting (article 108)

Article 110 has been amended to allow a director to vote on a resolution which relates to giving him an indemnity or funding for expenditure incurred in defending proceedings provided all the other directors have been given or are to be given arrangements on substantially the same terms. This exception has become a common exception for listed companies to include.

24. Notice when post not available (Article 127)
Article 130 is the article covering service of notice in the event of a postal strike. It has been amended to allow the Company in such circumstances to serve notices only on those members who receive notices via electronic means, provided that, as before, the Company also puts an advert in two national newspapers and sends a confirmatory hard copy notice if the postal service is available again within seven days of the meeting.

25. The seal (Articles 136 and 137)
Article 139 provides that instruments (other than share certificates) to which the seal is affixed shall be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors.

26. Change of name (Article 139)
Under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company is able to change its name by other means provided for by its articles. To take advantage of this provision, the new Articles enable the directors to pass a resolution to change the Company's name.

Glossary of Terms

Return to Shareholders
Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested in the shares of the Company at the time the shares were quoted ex-dividend. Transaction costs of reinvestment are not taken into account.

Return on Net Assets
Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV when calculating the total return on net assets.

Benchmark Return
Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested in the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Actual Gearing Factor
Investments excluding the holding in the liquidity fund, expressed as a percentage of shareholders' funds. This shows the effect of gearing on the NAV if the market value of the portfolio were to increase by 100%.

Total Expense Ratio ('TER')
Management fees and all other operating expenses excluding interest and VAT recoverable, expressed as a percentage of the average of the opening and closing net assets.

Share Price Discount/Premium to Net Asset Value ('NAV')
If the share price of an investment company 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. The opposite of a discount is a premium. It is more common for an investment company's shares to trade at a discount than at a premium.

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

Performance Attribution Definitions:

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

Stock Selection
Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities outside the benchmark.

Gearing/Cash
Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

Management Fees/Other Expenses
The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

Repurchase of Shares for Cancellation
Measures the impact of the NAV enhancement created by repurchase and cancellation of the Company's shares at a discount to their NAV.

VAT Recovery
In 2007, HM Revenue and Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since been able to recover VAT on management fees paid in the past.

Residual
Arises when there is a divergence between total return as calculated by Morninstar and total return from JPMAM attribution systems which is a result of methodologies and timing differences.

JPMorgan Helpline
Freephone 0800 40 30 30 or 020 7742 9999
8.30 am to 6.00 pm Monday to Friday

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

Your telephone call may be recorded for your security

www.jpmsmallercompanies.co.uk