

Annual Report **2011**  
JPMorgan Chinese  
Investment Trust plc

Annual Report & Accounts for the year ended 30th September 2011

# Features

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### Objective

To provide long term capital growth by investment in 'Greater China' companies.

### Investment Policies

- To invest in companies which are quoted on the stock exchanges of Hong Kong, China and Taiwan or which derive a substantial part of their revenues or profits from these territories.

- To use gearing up to a maximum level of 15% of shareholders' funds to increase potential returns to shareholders.

- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

Further details on investment policies and risk management are given in the Directors' Report on page 18.

### Benchmark

MSCI Golden Dragon Index total return, with net dividends reinvested, in sterling terms.

### Risk

Investors should note that there can be significant economic and political risks inherent in investing in emerging economies. As such, the Greater China markets can exhibit more volatility than developed markets and this should be taken into consideration when evaluating the suitability of the Company as a potential investment.

### Capital Structure

At 30th September 2011, the Company's issued share capital comprised 77,864,621 Ordinary shares of 25p each and 12,733,787 Subscription shares of 1p each.

### Continuation Vote

In accordance with the Company's Articles of Association, the Directors are required to propose a resolution that the Company continue as an investment trust at the Annual General Meeting in 2013 and every fifth year thereafter.

### Management Company

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

# Financial Results

Total returns (includes dividends reinvested)

**-20.4%**

Return to Ordinary  
shareholders<sup>1</sup>  
(2010: +12.9%)

**-18.2%**

Return on net assets<sup>2</sup>  
(2010: +17.2%)

**-16.7%**

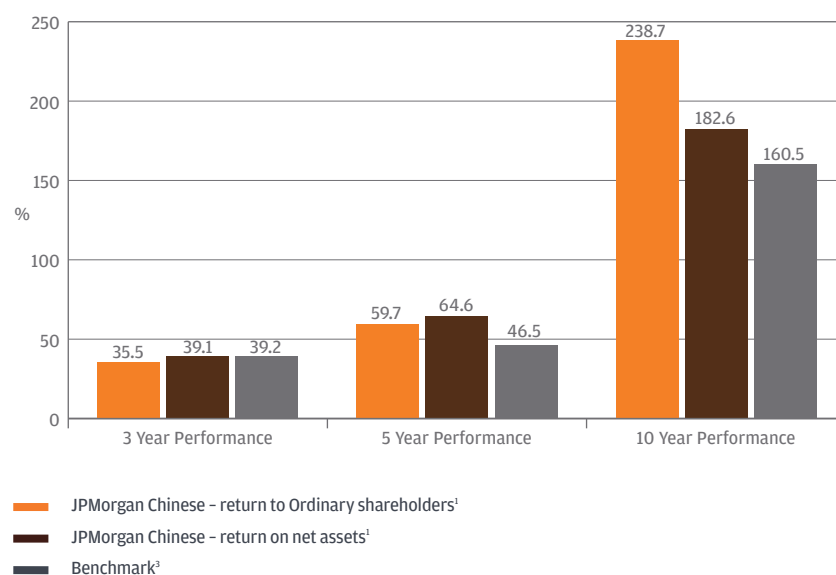
Benchmark return<sup>3</sup>  
(2010: +16.5%)

**1.3p**

Dividend  
(2010: 1.5p)

## Long Term Performance

for periods ended 30th September 2011



A glossary of terms and definitions is provided on pages 59 and 60.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Source: Datastream. The benchmark is the MSCI Golden Dragon Index total return with net dividends reinvested, in sterling terms.

# Chairman's Statement



## Performance

During the period, the Company's total return on net assets, which comprises the change in net asset value ('NAV') with the dividend reinvested, decreased by 18.2%, underperforming the Company's benchmark, the MSCI Golden Dragon Index, with net dividends reinvested (in sterling terms), which decreased by 16.7%. Over the same period, the Company's Ordinary share price declined by 20.4%, which, when compared against the total return on net assets (-18.2%), reflects a widening of the Company's discount from 5.1% to 7.6%. The disappointing performance resulted mostly from the sharp fall in the Greater China markets in September but also from an even greater decline in the Company's portfolio in that month. The Investment Managers explain the performance of the Company in more detail in their report further on in this Annual Report.

## Board of Directors

During the year, the Board, through its Nomination Committee, carried out an evaluation of the Directors, the Chairman, the Board itself and its committees. This is an important process and an effective means of evaluating the continuing efficacy of the Board.

The Nomination Committee discussed the matter of annual re-election of Directors as best practice under the UK Corporate Governance Code. However, given the Company's size, the Board agreed that it was not appropriate for the Directors to be subject to annual re-election. In accordance with the Company's Articles of Association, Sir Andrew Burns and William Knight will retire by rotation at the forthcoming Annual General Meeting and stand for re-election.

As I explained in last year's Annual Report, I will be retiring from the Board as both Chairman and Director of the Company after this year's Annual General Meeting. The Board resolved last year that, upon my departure, William Knight will assume the role of Chairman of the Company. Kathryn Matthews will take over from William Knight as Chairman of the Audit Committee.

I am grateful to shareholders for their support over the years whilst I have been Chairman of the Company.

## Revenue and Dividends

The revenue for the year, after taxation, was £1,073,000 (2010:£1,181,000). The revenue return per share, calculated on the average number of shares in issue, was 1.38 pence (2010: 1.55 pence).

The Board is recommending a dividend of 1.30 pence (2010: 1.50 pence) per share in respect of the financial year ended 30th September 2011 given the Company's return on its Revenue Account. Subject to shareholders' approval at the Annual General Meeting, this dividend will be paid on 23rd December 2011 to shareholders on the register at close of business on 2nd December 2011.

As previously stated, shareholders should note that the Company's objective remains that of long term capital growth and dividends will vary from year to year accordingly.

### **Gearing**

During the course of the year the Company replaced the £8 million revolving credit facility with Lloyds Bank with a similar but larger £20 million facility with Scotiabank. During the year the Company's gearing ranged from 104% to 107% and, at the time of writing, was 103%. The facility matures in January 2012 with an option to extend for another year. This gearing facility gives the Investment Managers the flexibility to tactically manage gearing within a range of 90% to 115% invested.

### **Subscription Shares**

The Company issued Subscription shares to qualified shareholders on the basis of one Subscription share for every five Ordinary shares held on 16th April 2008. As a result of Class and General Meetings of Subscription shareholders and Ordinary shareholders held in June 2010 respectively, Subscription shareholders can choose to exercise their Subscription shares at a price of 168 pence per share at any time up to and including 15th May 2013, whereupon the rights under the Subscription shares will lapse. Since the Subscription shares were issued and up to the date of this report, 1,402,681 Subscription shares have been exercised into Ordinary shares raising proceeds of £3,728,871. Further details on the Subscription shares, including the apportionments for capital gains tax purposes and how they may be exercised, can be found on page 58 of this report and on the Company's website at [www.jpmchinese.co.uk](http://www.jpmchinese.co.uk)

### **Share Issues and Repurchases**

The Directors consider it to be in the interests of shareholders that the Company's share price reflects, as closely as possible, the NAV per share. The Directors have authority to issue new Ordinary shares for cash and to repurchase shares in the market for cancellation or to hold in Treasury.

During the year and up to the date of this report, the Company has issued 500,000 new Ordinary shares for a total consideration of £885,000 at a weighted average premium to NAV of 2.38%. During the same period, the Company has issued 56,740 new Ordinary shares following the exercise of Subscription shares for a total consideration of £95,323.

The Company did not repurchase any shares during the year. As previously stated, repurchases will only be made in the market at prices below the prevailing net asset value per share and the Board's policy is to hold any repurchased shares in Treasury. The Company will re-issue shares held in Treasury only at a premium to NAV.

The Board believes that its policy of share issuance and repurchases has helped to reduce discount volatility and recommends that the authorities be kept in place. Accordingly, it is seeking approval from shareholders to renew the share issue and repurchase authorities at the forthcoming Annual General Meeting. Details of the resolutions can be found on pages 23 and 24 of this report and the full text of the resolutions can be found on pages 55 and 56.

# Chairman's Statement continued

## **Review of services provided by the Manager**

During the year the Board carried out a thorough review of the investment management, secretarial and marketing services provided to the Company by the Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). Following this review, the Board has concluded that the continued appointment of the Manager on the terms agreed is in the interests of the shareholders as a whole.

The fees payable to the Manager comprise a fixed basic annual management fee of 1% of total assets per annum and a performance related fee of 15% of any outperformance of the NAV total return over the benchmark. The amount of the latter fee actually payable to the Manager is capped at 1% of the net asset value in any one year, with any excess being carried forward and either paid out (subject to the 1% cap) or absorbed by any underperformance in subsequent years.

The Company underperformed its benchmark in the financial year ended 30th September 2011 and this gave rise to a write back of performance fees accrued but not paid of £346,000. This amount, when offset against the £487,000 provision brought forward, resulted in the balance of £141,000, which is immediately payable.

The Company's Total Expense Ratio for the financial year, as a percentage of the average of the opening and closing net assets, was 1.40% before accounting for the performance fee and 1.51% after doing so. These ratios compare favourably with those of similar funds.

## **Annual General Meeting**

This year's Annual General Meeting will be held at the Saddlers' Hall, 40 Gutter Lane, London, EC2V 6BR on Friday 16th December 2011 at 11.00 a.m. In addition to the formal proceedings, there will be a presentation by a representative of the investment management team, who will also be available to respond to questions on the Company's portfolio and investment strategy. I look forward to seeing as many of you as possible at the meeting. If you have any detailed questions, you may wish to raise these in advance with the Company Secretary, whose contact details are shown on page 61 of this report. Shareholders who are unable to attend the Annual General Meeting in person are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are able to lodge their proxy votes electronically. Further details are provided in the notes to the Notice of Meeting on pages 56 and 57.

## **Outlook**

Although global markets remain nervous, the dramatic sell-off in the Greater China markets in September has priced in a great deal of bad news. Assuming an acceptable European sovereign debt solution, we expect Chinese equities to have bottomed in the near-term. China's short-term priority is to control inflation and property prices; the measures taken to achieve these ends are reducing domestic demand and growth. However, we expect these policies to be relaxed during 2012, which the market may anticipate. As a result, in the absence of a further deterioration in the developed economies, domestic and international investors can be expected to resume buying Chinese equities.

**Nigel Melville**  
Chairman

17th November 2011

# Investment Managers' Report



Howard Wang



Emerson Yip



Shumin Huang



William Tong

In the year to 30th September 2011, the MSCI Dragon Index fell by 16.7% and the Company's total return on net assets fell by 18.2%, underperforming its benchmark by 1.5%. This underperformance resulted from a significant reversal in sentiment in the last three months of the Company's financial year and was in sharp contrast to the first nine months of the year when the Index rose by 3.6% and the return on net assets for the Company rose by 7.0%.

The underperformance was mainly caused by our overweight position in China and our stock selection in that market. The portfolio's holdings in property (Agile Property, China Vanke), materials (China National Building Material, Hidili Industry, Aluminium Corporation of China) and banks (Agricultural Bank of China) were the major detractors to performance, particularly in the last three months of the Company's financial year. Being underweight in Chinese telecommunication stocks, such as China Mobile and not owning China Unicom also hurt relative performance. Good stock selection in Taiwan and, to a lesser extent, Hong Kong did help however to offset some of these losses. During the review period we switched our holding of the JF China Pioneer A-Share Fund into the JF China New Generation Fund. JF China New Generation Fund provides the portfolio with greater exposure to mainland China's domestic consumption-driven companies and also exposure to fixed income instruments denominated in Renminbi.

Given the unexpected and dramatic falls in world markets as we approached the end of the Company's financial year, our decision to remain geared had a -1.2% impact on performance. The falls in markets took some stock valuations to levels not seen since the crisis in 2008. Price to book multiples in China even fell through their previous lows. In spite of this, corporate fundamentals remain solid in much of Greater China and we continue to believe that, as global financial concerns abate, investors will find substantial value in equities in the region. Accordingly, in China, we remain overweight in the property sector and have begun to increase our exposure once again to financials and certain materials stocks. We retain our structural position towards Chinese consumption-driven companies. We have also increased positions in Taiwanese semiconductors as inventories decline and reduced Taiwanese financials to fund these moves.

## China review

Although positive macroeconomic indicators suggested China's economy was gaining momentum as it entered the last quarter of 2010, higher than expected Consumer Price Inflation (CPI) and the government's response to a 0.5% rise in the Reserve Requirement Ratio (RRR) and a 0.25% rise in interest rates led Chinese stock markets lower.

Over the first quarter in 2011, Chinese equities outperformed both Hong Kong and Taiwan as investors looked through the devastating consequences of the Tohoku earthquake and continuing uncertainty in the Middle East and North Africa. Nevertheless, despite showing a small positive return over the period, the threat of inflation meant that China underperformed other major markets.

In the second quarter, Chinese equities fell as a number of concerns including the extent of the slowdown in the domestic economy, the size of the local government debt problem and the continuous rise of inflation, dominated. The CPI reading continued to rise, hitting +5.5% in May, and the last month of that quarter was affected negatively by rumours of accounting irregularities and allegations of fraud in overseas listed Chinese companies, particularly in North America.

# Investment Managers' Report continued

## Performance attribution for the year ended 30th September 2011

	%	%
<b>Contributions to total returns</b>		
<b>Benchmark return</b>		<b>-16.7</b>
Asset allocation	-1.4	
Stock selection	1.9	
Currency effect	0.2	
Gearing/cash	-1.0	
<b>Investment Manager contribution</b>		<b>-0.3</b>
<b>Portfolio return</b>		<b>-17.0</b>
Management fees/ other expenses	-1.4	
Performance fee writeback	0.2	
<b>Total fees and other expenses</b>		<b>-1.2</b>
<b>Return on net assets</b>		<b>-18.2</b>
Effect of movement in discount over the year		-2.2
<b>Return to Ordinary shareholders</b>		<b>-20.4</b>

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

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

A glossary of terms and definitions is provided on pages 59 and 60.

Chinese equities continued to fall in the third quarter with the MSCI China Index losing more than a quarter of its value as concerns rose that the government's measures to slow inflation would result in a significant slowdown in economic growth. Government measures to tighten liquidity triggered worries about the need for banks to raise capital. This combined with the external uncertainties of slowing US growth and European sovereign debt problems weighed heavily on investor sentiment.

### China Outlook

Although the Purchasing Managers Index (PMI) is likely to remain weak in the short term, increased fiscal spending should alleviate the impact of the credit crunch and lead to a gradual recovery in economic activity. We believe that China's economy will avoid a hard landing. The combination of falling inflation and weakening manufacturing activities suggest that the government's policies are working and therefore there should be an increasing likelihood of some targeted easing in policy before the end of the year. The dramatic sell-off in shares seen in September has priced in much of the risks and we believe that as CPI pressures alleviate, investors will re-focus their attention on the growth prospects offered by Chinese equities.

### Hong Kong Review

In spite of the government's attempt to cool the property market over the fourth quarter of 2010, property shares still continued to lead the market higher, driven by the loose monetary conditions and a strong pick-up in economic activity.

However, this optimism did not last and Hong Kong equities underperformed both China and other regional markets over the first quarter of 2011. The liquidity of Chinese shares listed in Hong Kong meant that the Hong Kong market was more heavily impacted by global investors' urgent desire to reduce the risk in their portfolios.

Hong Kong equities continued their slide into the second quarter, weighed down by both global and China related concerns. On the global front, concerns over policy tightening in China, weaker global growth forecasts and the Euro fiscal debt crisis continued to dominate markets. Liquidity in Hong Kong also continued to tighten as the conversion to offshore Renminbi deposits, which account for 9% of total system deposits, saw rapid growth. In a bid to slow the increase in property prices, the Hong Kong government introduced a series of measures, including lowering the amount that could be borrowed for mid-sized properties. Inflation also continued to accelerate with the headline rate reaching 5.2% in May, the highest level for three years.

In the third quarter, Hong Kong equities fell by almost 20% as investors became increasingly concerned about the slowdown of growth in China. Despite the deteriorating outlook in China, inflation in Hong Kong remained persistent and the government maintained its tightening policies, keeping pressure on property developers and other segments of the economy. However, in spite of this, exports and unemployment figures in Hong Kong continued to show a positive trend.

### Hong Kong Outlook

Global and China economic issues are likely to continue to weigh on the Hong Kong market in the near term. Nevertheless, the mid-October policy address by the Chief Executive did provide some clarity on the government's stance on the property market, including the launch of a subsidised home ownership scheme and continued

revisions to land supply policy. Financial market weakness is likely to place office rentals under some stress while retail rentals remain robust, supported by a strong growth in visitors from mainland China.

While the policy stance in China has remained tight for longer than originally expected, it is reasonable to expect that there will be some form of stimulus either monetary or fiscal to prevent a significant slowdown actually occurring.

#### **Taiwan Review**

The Taiwan stock market responded positively to the mayoral election in the fourth quarter of 2010. Investors had been initially apprehensive but the election outcome turned out to reinforce the status quo with both the KMT and the DPP retaining their respective seats. The market gained further ground in December as investors focused on the benefits associated with the Economic Cooperation Framework Agreement (ECFA), a free trade agreement with China combined with an increasingly improving demand outlook and an acceleration in foreign investment.

Despite concerns that the appreciation of the New Taiwanese dollar could negatively impact the margins of technology companies, the Taiwan market had a good start to 2011 driven by strong foreign buying from the previous quarter. That trend reversed in mid-February as the optimism over the global outlook for technology and the positive spill-over effect from the ECFA faded and the strong inflows reversed as liquidity retreated from emerging markets.

In the second quarter of 2011, the Taiwan market rebounded strongly as supply disruptions following the Tohoku earthquake were resolved earlier than had been initially expected. However, rising risk in Europe and weak sentiment over demand for technology stocks dragged the Taiwan stock market down in June.

During the third quarter the Taiwan market fell sharply along with all other world markets on fears of a slowdown in global growth. However, it outperformed both MSCI Hong Kong and MSCI China as concerns over Chinese inflation and tight monetary conditions continued to overhang those markets. In line with other Asian currencies the New Taiwanese dollar had its sharpest fall for 10 years on concerns that slowing global growth would reduce demand for exports. Against this backdrop and with a benign inflation outlook, the Taiwan Central Bank decided to keep its discount rate unchanged at 1.875%.

#### **Taiwan outlook**

We continue to be positive about the Taiwan stock market because of the anticipated long term benefits that the ECFA will bring and an expected recovery in consumer spending in Taiwan. In the near term however external factors may continue to weigh on the market. Any sign that the Chinese government is beginning to loosen its domestic policies will add further impetus to a market where stock valuations have fallen to increasingly attractive levels.

**Howard Wang**  
**Emerson Yip**  
**Shumin Huang**  
**William Tong**

Investment Managers

17th November 2011

# Summary of Results

	2011	2010	
<b>Total returns</b> for the year ended 30th September			
Return to Ordinary shareholders <sup>1</sup>	-20.4%	+12.9%	
Return on net assets <sup>2</sup>	-18.2%	+17.2%	
Benchmark <sup>3</sup>	-16.7%	+16.5%	
<b>Net asset value, share price and discount</b> at 30th September			
			<b>% change</b>
Shareholders' funds (£'000)	101,070	123,769	-18.3
Net asset value per share	129.8p	160.1p	-18.9
Ordinary share price	119.9p	152.0p	-21.1
Ordinary share price discount to net asset value per share	7.6%	5.1%	
Ordinary shares in issue	77,864,621	77,307,881	+0.7
Subscription share price	7.3p	18.0p	-59.4
Subscription shares in issue	12,733,787	12,790,527	-0.4
<b>Revenue</b> for the year ended 30th September			
Gross revenue attributable to Ordinary shareholders (£'000)	3,547	3,224	+10.0
Net revenue attributable to Ordinary shareholders (£'000)	1,073	1,181	-9.1
Revenue return per Ordinary share	1.38p	1.55p	-11.0
Dividend per Ordinary share	1.30p	1.50p	-13.3
<b>Actual gearing factor</b> at 30th September	<b>103.3%</b>	105.7%	
<b>Total expense ratio</b> <sup>4</sup>	<b>1.40%</b>	1.41%	

A glossary of terms and definitions is provided on pages 59 and 60.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

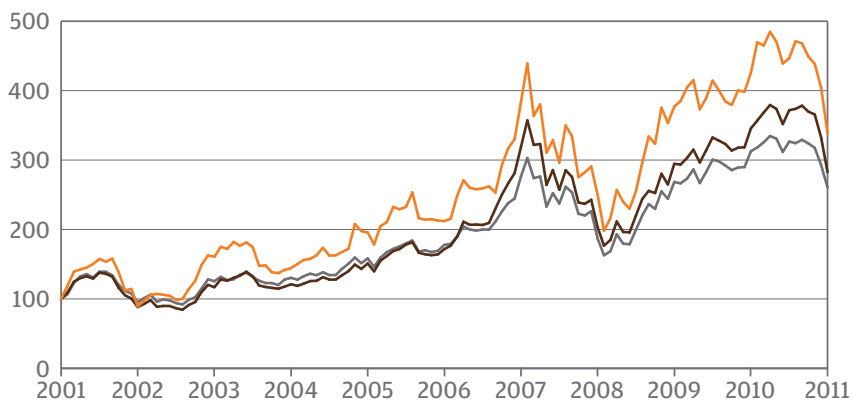
<sup>3</sup>Source: Datastream. The benchmark is the MSCI Golden Dragon Index total return with net dividends reinvested, in sterling terms.

<sup>4</sup>Management fee and all other operating expenses, excluding interest and performance fee payable, expressed as a percentage of the average of the month end net assets during the year. The total expense ratio is calculated in accordance with guidance issued by the Association of Investment Companies. The total expense ratio including any performance fee payable is 1.51% (2010: 2.46%).

# Performance

## Ten Year Performance

Figures have been rebased to 100 at 30th September 2001

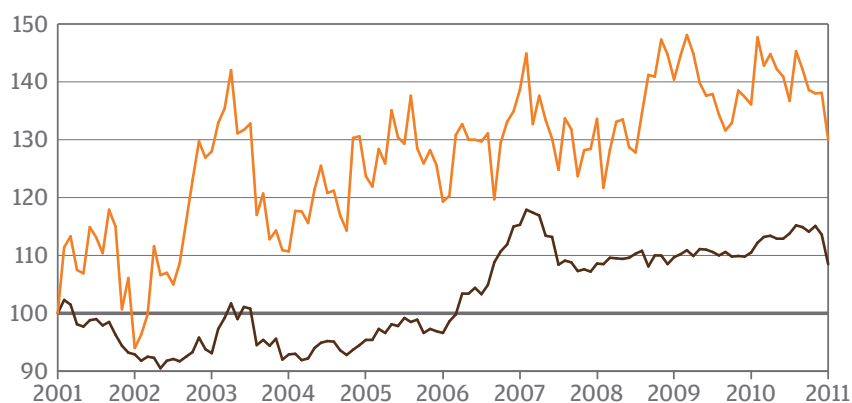


Source: Morningstar/Datastream.

- JPMorgan Chinese - Ordinary share price total return.
- JPMorgan Chinese - net asset value total return.
- Benchmark.

## Performance Relative to Benchmark

Figures have been rebased to 100 at 30th September 2001



Source: Morningstar/Datastream.

- JPMorgan Chinese - Ordinary share price total return.
- JPMorgan Chinese - net asset value total return.
- Benchmark (represented by the horizontal line).

# Ten Year Financial Record

At 30th September	2001	2002	2003	2004	2005 <sup>1</sup>	2006	2007	2008	2009	2010	2011
Shareholders' funds (£'m)	28.6	25.3	33.9	39.0	50.2	60.5	107.0	67.4	100.4	123.8	<b>101.1</b>
Net asset value per Ordinary share (p)	49.2	43.5	57.5	59.0	73.3	81.8	149.9	95.4	138.2	160.1	<b>129.8</b>
Ordinary share price (p)	38.3	34.3	61.5	54.8	73.0	78.0	139.8	90.8	136.0	152.0	<b>119.9</b>
(Discount)/premium of Ordinary shares to net asset value per share (%)	(22.2)	(21.1)	7.0	(7.1)	(0.4)	(4.6)	(6.7)	(4.8)	(1.6)	(5.1)	<b>(7.6)</b>
Subscription share price (p)	–	–	–	–	–	–	–	7.5	21.8	18.0	<b>7.3</b>
Actual gearing factor (%)	98.2	87.0	94.7	93.6	98.2	102.7	106.6	99.6	103.8	105.7	<b>103.3</b>
<b>Year ended 30th September</b>											
Net revenue attributable to shareholders (£'000)	(140)	171	399	664	641	535	386	364	1,094	1,181	<b>1,073</b>
Revenue per share (p)	(0.24)	0.30	0.69	1.03	0.96	0.74	0.52	0.51	1.53	1.55	<b>1.38</b>
Dividend per Ordinary share (p)	nil	0.25	0.60	1.00	0.90	0.70	0.50	0.50	1.50	1.50	<b>1.30</b>
Total expense ratio % (excluding performance fee) <sup>2</sup>	2.02	2.42	2.05	1.80	1.60	1.55	1.34	1.59	1.50	1.41	<b>1.40</b>
Total expense ratio % (including performance fee payable) <sup>3</sup>	2.02	2.42	2.05	1.80	2.07	1.66	2.39	2.74	2.59	2.46	<b>1.51</b>
<b>Rebased to 100 at 30th September 2001</b>											
Ordinary share price total return <sup>4</sup>	100.0	89.5	160.7	144.4	195.8	212.1	383.5	250.0	376.9	425.6	<b>338.7</b>
Net asset value total return <sup>4</sup>	100.0	88.4	116.9	121.1	151.0	171.7	318.8	203.2	294.5	345.6	<b>282.6</b>
Benchmark <sup>5</sup>	100.0	95.2	125.5	130.4	158.3	177.8	276.4	187.1	268.4	312.7	<b>260.5</b>

A glossary of terms and definitions is provided on pages 59 and 60.

<sup>1</sup>Figures have been restated to reflect changes in accounting policy regarding dividends payable. Such dividends are now included in the accounts in the year in which they are approved by shareholders.

<sup>2</sup>Management fee and all other operating expenses, excluding interest and any performance fee payable, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

<sup>3</sup>Management fee, all other operating expenses and any performance fee payable, but excluding interest, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

<sup>4</sup>Source: Morningstar.

<sup>5</sup>Source: Datastream. The benchmark is the MSCI Golden Dragon Index total return with net dividends reinvested, in sterling terms.

# Ten Largest Investments

at 30th September

Company	Country of Listing/ Classification*	2011 Valuation		2010 Valuation	
		£'000	% <sup>1</sup>	£'000	% <sup>1</sup>
<p><b>Taiwan Semiconductor Manufacturing</b></p> <p>Taiwan Semiconductor Manufacturing manufactures and markets integrated circuits. The company provides the following services: wafer manufacturing, wafer probing, assembly and testing, mask production and design services. The company's integrated circuits are used in computers, communication, consumer electronics, automotive and industrial equipment industries.</p>	Taiwan	6,428	6.4	3,783	3.0
<p><b>JF China New Generation Fund<sup>2</sup></b></p> <p>JF China New Generation Fund is an open-end unit trust incorporated in Hong Kong. The fund's objective is to achieve long term capital growth by investing primarily in Chinese securities, including but not limited to A-Shares of companies whose business will benefit from growth of the domestic consumption sector. The fund may also invest in fixed income instruments.</p>	China A-Shares (Indirect)	6,192	6.1	–	–
<p><b>China Mobile</b></p> <p>China Mobile provides cellular telecommunications and related services in the People's Republic of China and Hong Kong.</p>	Hong Kong Red Chips	5,689	5.6	4,332	3.5
<p><b>China Construction Bank</b></p> <p>China Construction Bank provides a complete range of banking services and other financial services to individual and corporate customers. The bank's services include retail banking, international settlement, project finance and credit card services.</p>	Hong Kong H-Shares	4,287	4.2	5,076	4.1
<p><b>China Petroleum &amp; Chemical<sup>3</sup></b></p> <p>China Petroleum and Chemical refines, produces and trades petroleum and petrochemical products such as gasoline, diesel, jet fuel, kerosene, ethylene, synthetic fibres, synthetic rubber, synthetic resins, and chemical fertilizers. Also, the company explores for and produces crude oil and natural gas in China.</p>	Hong Kong H-Shares	3,534	3.5	2,148	1.7
<p><b>AIA<sup>2</sup></b></p> <p>AIA offers insurance and financial services. The company writes life insurance for individuals and business, accident and health insurance, retirement planning, and wealth management services.</p>	Hong Kong	3,403	3.4	–	–
<p><b>CNOOC</b></p> <p>CNOOC explores for, develops, produces and sells crude oil and natural gas.</p>	Hong Kong Red Chips	3,201	3.2	5,605	4.5
<p><b>Cheung Kong</b></p> <p>Cheung Kong develops and invests in real estate. The company also provides real estate agency and management services, operates hotels, and invests in securities.</p>	Hong Kong	3,062	3.0	4,053	3.3
<p><b>Industrial and Commercial Bank of China<sup>3</sup></b></p> <p>Industrial and Commercial Bank of China provides a broad range of personal and corporate commercial banking services all over China. The bank's businesses include deposit, loan, credit card, fund underwriting and trust, and foreign currency settlement and trading.</p>	Hong Kong H-Shares	2,768	2.7	2,874	2.3
<p><b>Tencent</b></p> <p>Tencent provides internet, mobile, and telecommunication value-added services in China. The company has an instant messaging community in China. Tencent also provides online advertising services.</p>	Hong Kong P Chips	2,621	2.6	3,425	2.8
<b>Total<sup>4</sup></b>		<b>41,185</b>	<b>40.7</b>		

\*A glossary of terms and definitions is provided on pages 59 and 60.

<sup>1</sup>Based on total assets less current liabilities of £101.1m (2010: £124.3m).

<sup>2</sup>Not held in the portfolio at 30th September 2010.

<sup>3</sup>Not included in the ten largest investments at 30th September 2010.

<sup>4</sup>At 30th September 2010, the value of the ten largest investments amounted to £45.0m representing 36.2% of total assets less current liabilities.

# Portfolio Analyses

## Geographical

	30th September 2011		30th September 2010	
	Portfolio %	Benchmark %	Portfolio %	Benchmark % <sup>1</sup>
Hong Kong H-Shares	24.1	24.4	28.3	26.9
Hong Kong Red Chips	11.9	13.1	12.9	13.5
Hong Kong P Chips (2010: Hong Kong Others)	9.7	8.2	14.8	12.8
China A-Shares (Indirect)	6.1	–	6.4	–
China B-Shares	1.7	0.5	1.7	0.7
China Total	53.5	46.2	64.1	53.9
Taiwan	29.5	31.6	26.0	29.1
Hong Kong	20.3	22.2	15.2	17.0
Net current liabilities	(3.3)	–	(5.3)	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

Based on total assets less current liabilities of £101.1m (2010: £124.3m).

## Sector

	30th September 2011		30th September 2010	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials (including property)	44.4	32.6	41.8	35.6
Information Technology	18.1	20.2	20.3	19.8
Energy	8.5	9.4	8.8	8.6
Materials	8.4	7.2	10.0	6.5
Telecommunication Services	7.3	9.1	3.5	7.5
Consumer Discretionary	6.1	6.6	6.4	6.6
Consumer Staples	4.1	3.4	4.6	3.7
Industrials	3.3	6.3	6.8	7.4
Utilities	3.1	4.7	1.5	3.8
Health Care	–	0.5	1.6	0.5
Net current liabilities	(3.3)	–	(5.3)	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

Based on total assets less current liabilities of £101.1m (2010: £124.3m).

# Investment Activity

during the year ended 30th September 2011

	Value at 30th September 2010		Purchases £'000	Sales £'000	Change in classifi- cation <sup>1</sup> £'000	Changes in value £'000	Value at 30th September 2011	
	£'000	% of portfolio					£'000	% of portfolio
Hong Kong H-Shares	35,120	26.8	30,509	32,250	–	(9,042)	<b>24,337</b>	<b>23.3</b>
Hong Kong Red Chips	16,030	12.3	10,721	12,204	–	(2,592)	<b>11,955</b>	<b>11.5</b>
Hong Kong P Chips	–	–	14,497	15,345	18,439	(7,782)	<b>9,809</b>	<b>9.4</b>
China A-Shares (indirect)	7,992	6.1	7,826	8,468	–	(1,158)	<b>6,192</b>	<b>5.9</b>
China B-Shares	2,083	1.6	1,711	1,221	–	(824)	<b>1,749</b>	<b>1.7</b>
Hong Kong Others	18,439	14.1	–	–	(18,439)	–	–	–
China Total	79,664	60.9	65,264	69,488	–	(21,398)	<b>54,042</b>	<b>51.8</b>
Taiwan	32,318	24.7	50,998	53,424	–	(7)	<b>29,885</b>	<b>28.6</b>
Hong Kong	18,898	14.4	22,480	18,587	–	(2,304)	<b>20,487</b>	<b>19.6</b>
<b>Total Portfolio</b>	<b>130,880</b>	<b>100.0</b>	<b>138,742</b>	<b>141,499</b>	<b>–</b>	<b>(23,709)</b>	<b>104,414</b>	<b>100.0</b>

<sup>1</sup>Being the reclassification in the year of Hong Kong Others to Hong Kong P Chips.

# List of Investments

at 30th September 2011

Company	Valuation £'000	Company	Valuation £'000
<b>China</b>		<b>Hong Kong P Chips:</b>	
<b>Hong Kong H-Shares:</b>		Tencent	2,621
China Construction Bank	4,287	Want Want China	1,443
China Petroleum & Chemical	3,534	Intime Department Store	1,217
Industrial & Commercial Bank of China	2,768	Parkson Retail	965
Agricultural Bank of China	1,906	Tingyi	909
China Telecom	1,698	Springland International	752
China National Building Material	1,588	Agile Property	636
Yanzhou Coal Mining	1,269	China Zhengtong Auto Services	409
Ping An Insurance	1,259	Hidili Industry	325
China Pacific Insurance	1,251	Maoye International <sup>1</sup>	260
PICC Property & Casualty	1,064	Hengdeli	247
China Citic Bank	879	Greatview Aseptic Packaging	25
Aluminium Corporation of China	722		
China Oilfield Services	567		<b>9,809</b>
Anhui Conch Cement	521	<b>China A-Shares (Indirect):</b>	
Lianhua Supermarket	433	JF China New Generation Fund	6,192
Beijing Lingkelong	314		<b>6,192</b>
China Shipping Development	277	<b>China B-Shares:</b>	
	<b>24,337</b>	China Vanke	1,749
<b>Hong Kong Red Chips:</b>			<b>1,749</b>
China Mobile	5,689		
CNOOC	3,201		
China Overseas Land & Investments	1,366		
China Resources Gas	1,124		
China Resources Land	575		
	<b>11,955</b>		

Company	Valuation £'000	Company	Valuation £'000
<b>Taiwan</b>		<b>Hong Kong</b>	
Taiwan Semiconductor Manufacturing	6,428	AIA	3,403
Formosa Plastic	1,850	Cheung Kong	3,062
Advanced Semiconductor Engineering	1,752	Hong Kong Electric	2,047
HTC	1,478	Wharf	1,839
Fubon Financial	1,472	Sands China	1,712
Asustek Computer	1,335	Jardine Matheson	1,637
Mega Financial	1,317	Hang Lung Properties	1,593
Formosa Chemical & Fibre	1,239	Sun Hung Kai Properties	1,208
E Sun Financial	1,219	BOC Hong Kong	1,036
Catcher Technology	1,139	Hutchison Whampoa	935
President Chain Store	1,101	SJM	855
China Life Insurance	1,074	Wing Hang Bank	621
TPK <sup>1</sup>	1,029	Orient Overseas International	539
Largan Precision	967		
Kinsus Interconne	958	<b>Total Hong Kong</b>	<b>20,487</b>
First Financial	936		
MediaTek	880	<b>Total Portfolio</b>	<b>104,414</b>
Taiwan Cement	836		
Prince Housing Development	787		
Foxconn Technology	740		
China Petrochemical	699		
Oriental Union Chemical	649		
<b>Total Taiwan</b>	<b>29,885</b>		

<sup>1</sup>Includes investments in warrants.

The portfolio comprises entirely equity shares and warrants. There are no fixed interest holdings in the portfolio.

A glossary of terms and definitions is provided on pages 59 and 60.

# Board of Directors



## **Nigel Melville (Chairman of the Board and Nomination Committee)**

A Director since February 1997.

Last reappointed to the Board: 2010.

Remuneration: £24,000.

Chairman of Matrix Income & Growth 2 VCT plc, and a Director of a number of public and private companies. Between 1972 and 1995, he was an investment banker, latterly the Director of Barings responsible for international corporate finance. In 1995 he established Melville Partners to provide strategic consultancy to international companies. He has been involved in business in the Greater China region for over twenty five years.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 60,000 Ordinary shares.



## **William Knight (Chairman of the Audit Committee)**

A Director since April 2004.

Last reappointed to the Board: 2008.

Remuneration: £21,000.

Founder partner of Emerisque Capital, an 'East-West' private equity management buy-in investment company. He has been involved with the Greater China Region for more than 25 years initially as a specialist in financing major capital projects at Lazard Brothers and later in various capacities for Lloyds Bank International, where he was responsible for its merchant banking activities throughout Asia, based in Hong Kong, and later as Managing Director of Lloyds Bank Fund Management. He is on the Board of the Greater China Corporation, a New York based public company that structures direct investment into China. He is also a Non-Executive Director of Fidelity Asian Values plc and Ceylon Guardian Investment Trust plc.

Connections with Manager: None.

Shared directorships with other Directors: Fidelity Asian Values plc.

Shareholding in Company: 4,400 Ordinary shares.



## **Sir Andrew Burns, KCMG**

A Director since December 2003.

Last reappointed to the Board: 2008.

Remuneration: £18,000.

British Consul-General to Hong Kong and Macau from 1997 to 2000. A career British diplomat since 1965, he had extensive experience of Asia, including the Indian sub-continent and South-East Asia as well as Greater China, and was Assistant Under Secretary of State (Asia), FCO from 1990 to 1992 and Deputy Under Secretary of State (non-Europe, trade and investment) from 1995 to 1997. He was British Ambassador to Israel from 1992 to 1995 and British High Commissioner to Canada from 2000 to 2003. He is Chairman of the Council of Royal Holloway, University of London, is currently UK Envoy for Post-Holocaust Issues and a Director of Aberdeen All Asia Investment Trust plc.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 4,682 Ordinary shares  
936 Subscription shares.



**Irving Koo, OBE**

A Director since February 2005.

Last reappointed to the Board: 2010.

Remuneration: £18,000.

Managing Director of Trion Pacific Limited, a Hong Kong-based consultancy specialising in marketing and communication solutions. He was formerly a Director of Jardine Pacific Limited and more recently Group Marketing & Corporate Relations Director of CLP Holdings. He was also Chairman of the British Chamber of Commerce in Hong Kong from 1998 to 2000 and is currently an executive committee member of the Hong Kong Management Association.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: Nil.



**Kathryn Matthews**

A Director since July 2010.

Last reappointed to the Board: 2010.

Remuneration: £18,000.

Formerly Chief Investment Officer, Asia Pacific (ex Japan), for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a Non-Executive Director of Hermes Fund Managers Limited, Rathbone Brothers Public Limited Company, Fidelity Asian Values plc, Montanaro UK Smaller Companies Investment Trust plc, Religare Enterprises Limited, Conversus Capital L.P. and Aperam.

Connections with Manager: None.

Shared directorships with other Directors: Fidelity Asian Values plc.

Shareholding in Company: 3,000 Ordinary shares.



**Madam Yujiang Zhao**

A Director since February 2005.

Last reappointed to the Board: 2010.

Remuneration: £18,000.

Director and Senior Adviser of Mahon China, a foreign private equity management firm in China. She has been active in China's capital markets for over twenty years. She spent six years as an economist at the State Commission for Restructuring the Economic Systems in the 1980s, and also acted as Managing Director of a foreign investment bank responsible for operations in China for nine years.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: Nil.

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

# Directors' Report

The Directors present their report and audited financial statements for the year ended 30th September 2011.

## Business Review

### Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158') for the year ended 30th September 2010. 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 1158 each year.

Approval for the year ended 30th September 2010 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 provide long term capital growth by investment in 'Greater China' (China, Hong Kong and Taiwan) companies. It aims to outperform the MSCI Golden Dragon Index total return, with net dividends reinvested, in sterling terms.

### Investment Policies and Risk Management

In order to achieve the investment objective, the Company invests in a diversified portfolio and employs a Manager with a strong focus on research and company visits that enables it to identify what it believes to be the most attractive stocks in the region.

Investment risks are managed by diversifying investment over a number of 'Greater China' companies. The number of investments in the Company will normally range between 40 and 90. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to the various countries, sectors and stocks covered by the benchmark index and, in some cases, to specific stocks. The maximum permitted active exposure to each of the countries is 25% above or below the benchmark index weighting.

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), nor does it invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in UK listed investment companies.

### Investment Restrictions and Guidelines

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

- At the time of purchase, the maximum permitted exposure to each individual company is 10.0% of the Company's total assets, and 12.5% for China Mobile and JF China Pioneer 'A' Share Fund.
- As a result of market growth, the maximum permitted exposure to each individual company is 12.5% of the Company's total assets, with the exception of China Mobile and JF China Pioneer 'A' Share Fund which is 15.0%.
- The maximum permitted exposure to group or related companies is 15% of the Company's total assets.
- The maximum permitted exposure to mid-cap stocks (a stock with a market capitalisation of below US\$500 million) is 45% (including market movement) without Board permission.
- The Company will not normally invest in derivative instruments, although it can undertake derivative actions against existing holdings in the portfolio up to a value of 5%.
- The Company does not normally invest in unquoted investments and no more than 10% of the Company's total assets can be invested in unquoted investments.
- The Company's actual gearing is not to exceed 115% without Board permission.

These limits and restrictions may be varied by the Board at any time at its discretion.

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

### Performance

In the year to 30th September 2011, the Company produced a total return to Ordinary shareholders of -20.4% and a total

return on net assets of -18.2%. This compares with the return on the Company's benchmark index of -16.7%. As at 30th September 2011, the value of the Company's investment portfolio was £104.4 million. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year.

### Total Return, Revenue and Dividends

The gross loss for the year amounted to £20,386,000 (2010: £19,918,000 return) and the net total loss after deducting the management fee, other administration expenses, finance costs and taxation and adding back the performance fee writeback, amounted to £22,514,000 (2010: £17,765,000 return).

The Directors recommend a final dividend of 1.3 pence (2010: 1.5 pence) per share payable on 23rd December 2011 to holders on the register at the close of business on 2nd December 2011. This distribution will amount to £1,012,000 (2010: £1,160,000). No other dividends were paid in respect of the year. The revenue reserve after transfer of the dividend will amount to £498,000 (2010: £443,000).

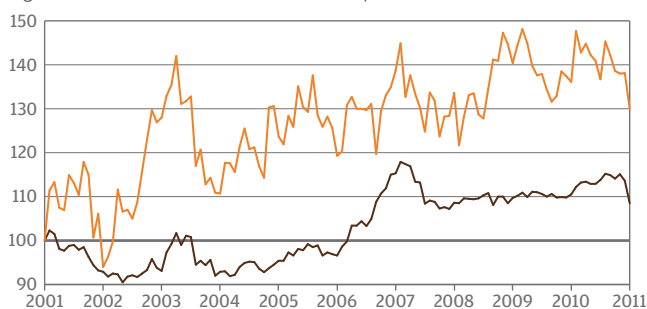
### Key Performance Indicators ('KPIs')

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**  
This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report.

## Performance Relative to Benchmark Index

Figures have been rebased to 100 at 30th September 2001

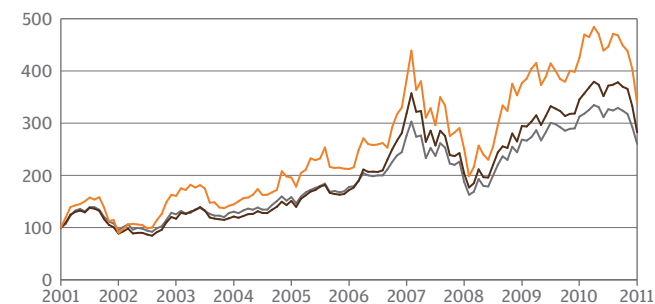


Source: Morningstar/Datastream.

- JPMorgan Chinese - Ordinary share price.
- JPMorgan Chinese - net asset value.
- Benchmark (represented by the horizontal line).

## Ten Year Performance

Figures have been rebased to 100 at 30th September 2001



Source: Morningstar/Datastream.

- JPMorgan Chinese - Ordinary share price.
- JPMorgan Chinese - net asset value.
- Benchmark.

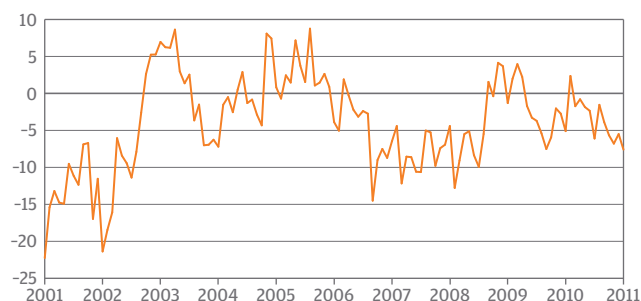
- **Performance against the Company's peers**  
The Company's principal objective is to achieve capital growth and outperformance relative to its benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance attribution**  
The purpose of performance 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 30th September 2011 are given in the Investment Managers' Report on page 6.

- **(Discount)/premium to net asset value ('NAV')**  
The Board operates a share issuance and share repurchase programme which seeks to address imbalances in the supply of and demand for the Company's shares within the market and thereby reduce the volatility and absolute level of the discount/premium to NAV per share at which the Company's Ordinary shares trade. In the year to 30th September 2011, the Company's Ordinary shares traded between a discount of 10.2% and a premium of 4.8% and averaged a discount of 3.3%.

The Board also has the ability to purchase Ordinary shares into Treasury and to re-issue them at a later date at a premium to NAV per share. Further details of the Company's share capital can be found in this Directors' Report on page 20.

# Directors' Report continued

## Discount Performance



Source: Datastream (month end data).

— JPMorgan Chinese - discount.

### • Total expense ratio ('TER')

The TER is an expression of the Company's management fee and all other operating expenses, excluding interest and any performance fee payable, expressed as a percentage of the average of the month end net assets during the year. The TER for the year ended 30th September 2011 was 1.40% (2010: 1.41%). 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. The TER including the performance fee payable for 2011 was 1.51% (2010: 2.46%).

### Share Capital

The Directors have authority to issue new Ordinary shares for cash and to repurchase shares in the market for cancellation. In addition, the Directors have authority to repurchase shares into Treasury. The Directors will re-issue shares held in Treasury only at a premium to NAV per share.

During the year, the Company issued 500,000 Ordinary shares to the market for a total consideration of £885,000 at a weighted average premium of 2.38%. The Company held no Ordinary shares in Treasury during the year. During the year, the Company issued 56,740 Ordinary shares following the exercise of Subscription shares for a total consideration of £95,323. Further details of the Company's Subscription shares are set out below and on page 58.

The Company did not repurchase any Ordinary or Subscription shares for cancellation during the year.

### Subscription Shares

On 16th April 2008 the Company issued Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Following a Class Meeting of Subscription shareholders and a General Meeting of Ordinary shareholders on 28th June 2010,

at which shareholders approved a variation of Subscription Share Rights, Subscription shareholders can choose to exercise their Subscription shares at a price of 168 pence per share at any time up to and including 15th May 2013, whereupon the rights under the Subscription shares will lapse.

Further details on the Subscription shares, including the apportionments for capital gains tax purposes and how they may be exercised, can be found on page 58 of this report and on the Company's website at [www.jpmchinese.co.uk](http://www.jpmchinese.co.uk)

### 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 Underperformance:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance 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 by the Manager. JPMorgan Asset Management (UK) Limited ('JPMAM') provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, transaction 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 review data which show statistical measures of the Company's risk profile. The investment managers employ the Company's gearing within a strategic range set by the Board. The Board holds a separate Board meeting devoted to strategy each year.
- **Loss of Investment Team:** A sudden departure of several members of the investment management team could result in a short-term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team-based approach.
- **Discount:** A disproportionate widening of the discount relative to the Company's peers could result in a loss of value for Shareholders. In order to manage the Company's discount, which can be volatile, the Company operates a share repurchase programme.
- **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 implementation and results of the investment process with the Manager.

- **Political and Economic:** Changes in financial or tax legislation, including in the European Union, may adversely affect the Company. The Manager makes recommendations to the Board on accounting, dividend and tax policies and the Board seeks external advice where appropriate. In addition, the Company is subject to administrative risks, such as the imposition of restrictions on the free movement of capital. These risks are discussed by the Board on a regular basis.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under "Business of the Company" on page 18. Were the Company to breach Section 1158, it may lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, since 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 could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act 2006 and the UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 24 to 28.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could 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 with the Internal Control section of the Corporate Governance report on page 27.

- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 22 on pages 47 to 53.

#### **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 pages 5 to 7.

#### **Management of the Company**

The Manager and Secretary, JPMorgan Asset Management (UK) Limited ('JPMAM') is employed under a contract which can be terminated on one year'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 Manager, noting performance against the benchmark over the long term and the quality of the support that the Company receives from JPMAM.

#### **Management and Performance Fees**

The fixed basic annual management fee is 1% per annum, but adding back any loans, of the Company's total assets less current liabilities. Investments in J.P. Morgan managed funds are excluded from the assets used for the purpose of this calculation. However, J.P. Morgan earns a management fee of 1.75% per annum from the JF China New Generation Fund.

In addition to the basic annual management fee, there is a performance related fee calculated at 15% of outperformance of the Company's net asset value total return over the benchmark. The maximum total fee payable in any one year in respect of the fixed management fee and any performance fee is capped at 2% of the Company's average total assets less

# Directors' Report continued

current liabilities. In effect, this caps the potential performance fee paid in any one year to 1%. Any performance fee earned in any one year in excess of the 1% cap will be carried forward until paid in full or absorbed by any underperformance in a subsequent year. The performance fee is calculated annually on 30th September, based on average total assets less current liabilities, and paid within three months of that date. An estimate is accrued monthly and reflected in the Company's published net asset value per share. The period of the performance fee calculation commenced on 1st October 2003.

The Company underperformed its benchmark in the year ended 30th September 2011 and this gave rise to a negative performance fee earned of £346,000. This amount, when offset against the £487,000 provision brought forward, results in a balance of £141,000, which is payable at the end of the current year.

## Going Concern

The Directors believe that having considered the Company's investment objective (see page 18), risk management policies (see pages 47 to 53), capital management policies and procedures (see page 54), the nature of the portfolio and expenditure projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the 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 30th September 2011 and at the date of signing the financial statements, the Company had no outstanding trade creditors (2010: none).

## Directors

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

Directors	30th September 2011		1st October 2010	
	Ordinary Shares	Subscription Shares	Ordinary Shares	Subscription Shares
Sir Andrew Burns	4,682	936	4,682	936
William Knight	4,400	–	4,300	860
Irving Koo	–	–	–	–
Kathryn Matthews <sup>1</sup>	3,000	–	–	–
Nigel Melville	60,000	–	60,000	–
Madam Yujiang Zhao	–	–	–	–

<sup>1</sup>Appointed as a Director on 1st July 2010.

No changes in the above holdings have been recorded as at the date of this report.

The Nomination Committee discussed the matter of annual re-election of Directors as best practice under the UK Corporate Governance Code. However, given the Company's size, the Board agreed that it was not appropriate for the Directors to be subject to annual re-election. In accordance with the Company's Articles of Association, the Directors retiring at the Annual General Meeting are Sir Andrew Burns and William Knight who, being eligible, offer themselves for re-election by shareholders. Nigel Melville will retire at the conclusion of the AGM as both Chairman and Director of the Company and will not stand for re-election. The Nomination Committee, having considered their qualifications, performance and contribution and contribution to the Board and committees, confirms that both Directors continue to be effective and demonstrates commitment to the role, and the Board recommends to shareholders that they be re-elected.

## Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The indemnities were executed on 5th November 2010 and are currently in force.

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

## Disclosure of information to Auditors

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

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

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

### Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors and a resolution proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

### Annual General Meeting

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

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

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

The Directors will seek renewal of the authority at the AGM to issue up to 7,786,468 new Ordinary shares for cash up to an aggregate nominal amount of £1,946,617 such amount being equivalent to 10% of the present issued Ordinary share capital as at the last practicable date before the publication of this document. This authority will expire at the conclusion of the Company's AGM in 2012 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares (or to re-issue Treasury shares) to participants purchasing shares through the J.P. Morgan savings products

and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value (the 'NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee (and any performance fee) which is charged on the value of the Company's assets, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

The full text of the resolutions is set out in the Notice of Meeting on pages 55 and 56.

#### (ii) Authority to repurchase the Company's shares for cancellation (resolution 9)

The authority to repurchase up to 14.99% of the Company's issued Ordinary shares and Subscription shares, granted by shareholders at the 2010 AGM, will expire at the forthcoming AGM unless renewed at this meeting. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as, in the case of the Ordinary shares, the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining Ordinary shares. The repurchase of Subscription shares reduces the potential dilutive impact.

Resolution 9 gives the Company authority to repurchase its own issued Ordinary shares and Subscription shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of: (i) 11,671,915 Ordinary shares; and (ii) 1,908,785 Subscription shares, representing approximately 14.99% of the Company's issued Ordinary shares and issued Subscription shares respectively, as at 16th November 2011 (being the latest practicable date prior to the publication of this document). The authority also sets minimum and maximum prices and will expire at the conclusion of the Company's AGM in 2012 unless renewed at a prior general meeting.

If resolution 8 is passed at the AGM the Company will only re-issue shares held in Treasury at a premium to NAV.

As at 16th November 2011 (being the latest practicable date prior to the publication of this document), there were no warrants or options over Ordinary shares in the capital of the Company, other than the 12,733,726 Subscription shares in issue (each of which gives the holder thereof the right to subscribe for one new Ordinary share) which represent 16.35%

# Directors' Report continued

of the Company's issued Ordinary share capital. If the authority to purchase the Company's Ordinary shares was exercised in full (and the authority to purchase Subscription shares not exercised at all) then the Subscription shares would represent 19.2% of the Company's issued Ordinary share capital.

The full text of the resolution is set out in the Notice of Meeting on pages 55 and 56. Repurchases of Ordinary shares will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares as and when market conditions are appropriate.

## Recommendation

The Board considers that resolutions 7 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which amount in aggregate to 72,082 Ordinary shares representing approximately 0.1% of the voting rights of the Company.

## Corporate Governance Statement

### Compliance

The Company is committed to high standards of Corporate Governance. This statement, together with the Statement of Directors' Responsibilities on page 30, indicates how the Company has applied the principles of good governance of the Financial Reporting Council UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of Corporate Governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code and of the AIC Code, other than in respect of the Board composition provision relating to the appointment of a Senior Independent Director, throughout the year under review.

### 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

As at 16th November 2011 (being the latest business day prior to the publication of this report), the Company's issued share capital consists of 77,864,682 Ordinary shares carrying one vote each and 12,733,726 Subscription shares with no voting rights. Therefore the total voting rights in the Company are 77,864,682.

## Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on page 28. The Company has no employees.

## Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
Chase Nominees <sup>1</sup>	19,168,199	25.16

<sup>1</sup>Non-beneficial. Held on behalf of JPMAM Investment Account, ISA and SIPP participants

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

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

## 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, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This

includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's Corporate Governance and risk control arrangements.

The Board has procedures in place to deal with potential conflicts of interest and confirms that there were no actual or indirect interests of a Director which conflicted with the interests of the Company during the year.

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

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, 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 Nigel Melville, consists of six Non-Executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 16 and 17.

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. 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. The Chairman, Nigel Melville, will retire at the end of the forthcoming AGM. Upon his departure, William Knight will assume the role of Chairman of the Company. The Board has resolved that Kathryn Matthews will take up the position of Audit Chairman once William Knight becomes Chairman of the

Board. The Directors are grateful for the leadership and support that the Chairman, Nigel Melville has given over the years to both the Board and the Company.

### 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 UK Corporate Governance Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for re-election at least every three years. 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 Annual General Meeting.

### Meetings and Committees

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

The table below details the number of Board and Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and two Nomination Committee meetings.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Sir Andrew Burns	5	2	2
William Knight	5	2	2
Irving Koo	5	2	2
Nigel Melville	5	2	2
Kathryn Matthews	5	2	2
Madam Yujiang Zhao	5	2	2

# Directors' Report continued

## Training and Appraisal

On appointment, the Manager provides 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. As part of the Board's evaluation process, each Director's training and development needs are reviewed and discussed.

The Board has agreed procedures for the formal evaluation of the Manager, its own performance and 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. The Audit Committee Chairman leads the evaluation of the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of its committees.

## Board Committees

### Nomination Committee

The Nomination Committee, chaired by Nigel Melville, consists of all the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. A variety of sources, including the use of external search consultants, may be used to ensure that a wide range of candidates is considered.

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. Following the introduction of the Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery and corruption.

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 William Knight, consists of all the Directors and 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.

As previously stated, Kathryn Matthews will assume the role of Audit Chairman at the conclusion of the AGM when William Knight steps down as Audit Chairman and becomes Chairman of the Company.

The Committee reviews the actions and judgements of the Manager in relation to the Half Year and Annual Report & Accounts and the Company's compliance with the UK Corporate Governance Code. It examines the effectiveness of the Company's internal control systems, receives information from the Manager's Compliance department and also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. In the Directors' opinion, the Auditors are considered independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the re-appointment and removal of external auditors. Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered. Having reviewed the performance of the external auditors, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation which will be put to shareholders at the forthcoming Annual General Meeting.

The Directors' statement on the Company's system of internal control is set out on page 27.

### Terms of Reference

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

## Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly each year by way of the Annual Report & Accounts, the Half Year Report and two Interim Management Statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's Ordinary shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in

person to meet shareholders and answer their questions. In addition, a presentation is given by the investment managers who review the Company's performance. 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 61.

The Company's Annual Report & Accounts is 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 submit questions via the Company's website or write to the Company Secretary at the address shown on page 61.

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

### Internal Control

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be 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. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 20 and 21). This process has been in place for the year under review and up to the date of the approval of the Annual Report & Accounts, and it accords with the Turnbull guidance. The Company does not

have an internal audit function of its own, but relies on the Internal Audit department of JPMAM which reports any material failings or weaknesses. This arrangement is kept under review.

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 Manager 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 the effectiveness of the Company's system of internal control for the year ended 30th September 2011 and to the date of approval of this Annual Report & Accounts. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

# Directors' Report continued

## Corporate Governance and Voting Policy

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

### Corporate Governance

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

### Proxy Voting

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

### Stewardship/Engagement

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

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

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

### Social & Environmental

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry. This analysis is then used to identify outliers which require further engagement.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request. JPMAM is also a signatory to Carbon Disclosure Project. J.P. Morgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website:

<http://www.jpmorganinvestmenttrusts.co.uk/governance>, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board

Christopher Cordrey, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary

17th November 2011

# 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 page 31.

## Directors' Remuneration<sup>1</sup>

Directors' Name	2011 £	2010 £
Sir Andrew Burns	<b>18,000</b>	18,000
William Knight	<b>21,000</b>	21,000
Irving Koo	<b>18,000</b>	18,000
Kathryn Matthews <sup>2</sup>	<b>18,000</b>	4,500
Nigel Melville	<b>24,000</b>	24,000
Madam Yujiang Zhao	<b>18,000</b>	18,000
<b>Total</b>	<b>117,000</b>	103,500

<sup>1</sup>Audited information.

<sup>2</sup>Appointed as a Director on 1st July 2010.

Since 1st October 2007, the Chairman has been paid £24,000 per annum, the Chairman of the Audit Committee £21,000 and the other Directors £18,000 per annum. From 1st October 2011, fees have been increased to £27,000, £23,500 and £20,000 respectively.

The total Directors' fees of £117,000 (2010: £103,500) comprise £117,000 (2010: £103,500) in respect of aggregate emoluments paid to Directors and £nil (2010: £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 fulfilling those roles.

As all Directors are Non-Executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, and industry research carried out by third

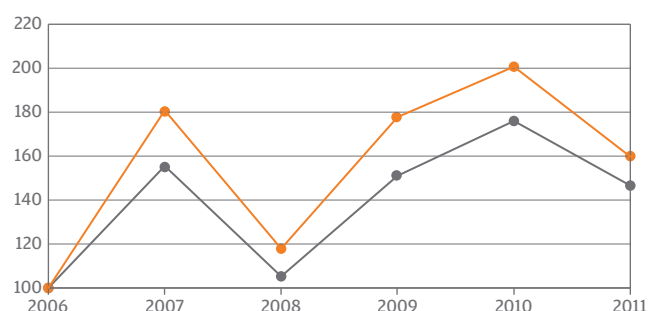
parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance related and the Directors do not have service contracts with the Company. The terms and conditions of Directors' appointments are set out in formal letters of appointment. The Articles stipulate that aggregate fees must not exceed £150,000 per annum. Any increase in the maximum aggregate amount requires both Board and shareholder approval.

Details of the Board's policy on tenure are set out on page 25.

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 the return of its benchmark index, the MSCI Golden Dragon Index, with dividends reinvested, in sterling terms, over the last five years is shown below:

## Five Year Ordinary Share Price and Benchmark Total Return to 30th September 2011



Source: Morningstar/Datastream.

— Ordinary share price total return.  
— Benchmark.

By order of the Board  
Christopher Cordrey, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
17th November 2011

# Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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 proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the

Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed in the Directors' Report confirms that, to the best of his/her knowledge:

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

For and on behalf of the Board  
William Knight,  
Director  
17th November 2011

# Independent Auditors' Report

## To the members of JPMorgan Chinese Investment Trust plc

We have audited the financial statements of JPMorgan Chinese Investment Trust plc for the year ended 30th September 2011 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. 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).

## Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

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

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30th September 2011 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 22, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Jeremy Jensen (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors, London

17th November 2011

## Notes:

- (a) The maintenance and integrity of the JPMorgan Chinese Investment Trust plc website ([www.jpchinse.co.uk](http://www.jpchinse.co.uk)) is the responsibility of JPMAM; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the Company's website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Income Statement

for the year ended 30th September 2011

	Notes	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
<b>(Losses)/gains on investments held at fair value through profit or loss</b>	2	–	(23,762)	(23,762)	–	17,011	17,011
Net foreign currency losses		–	(171)	(171)	–	(317)	(317)
Income from investments	3	3,546	–	3,546	3,223	–	3,223
Other interest receivable and similar income	3	1	–	1	1	–	1
<b>Gross return/(loss)</b>		<b>3,547</b>	<b>(23,933)</b>	<b>(20,386)</b>	3,224	16,694	19,918
Management fee	4	(1,285)	–	(1,285)	(1,098)	–	(1,098)
Performance fee writeback/(charge)	4	–	346	346	–	(110)	(110)
Other administrative expenses	5	(487)	–	(487)	(462)	–	(462)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		<b>1,775</b>	<b>(23,587)</b>	<b>(21,812)</b>	1,664	16,584	18,248
Finance costs	6	(269)	–	(269)	(127)	–	(127)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>1,506</b>	<b>(23,587)</b>	<b>(22,081)</b>	1,537	16,584	18,121
Taxation	7	(433)	–	(433)	(356)	–	(356)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>1,073</b>	<b>(23,587)</b>	<b>(22,514)</b>	1,181	16,584	17,765
<b>Return/(loss) per Ordinary share</b>	9	<b>1.38p</b>	<b>(30.33)p</b>	<b>(28.95)p</b>	1.55p	21.83p	23.38p

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. 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 36 to 54 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium £'000	Exercised warrant reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 30th September 2009</b>	19,026	8,989	3	581	34,363	35,870	1,542	<b>100,374</b>
Issue of Ordinary shares to the market	125	612	–	–	–	–	–	<b>737</b>
Re-issue of Ordinary shares from Treasury	–	1,171	–	–	3,029	–	–	<b>4,200</b>
Exercise of Subscription shares into Ordinary shares	(13)	13	–	–	–	–	–	<b>–</b>
Issue of Ordinary shares on exercise of Subscription shares	317	1,496	–	–	–	–	–	<b>1,813</b>
Net return on ordinary activities	–	–	–	–	–	16,584	1,181	<b>17,765</b>
Dividends appropriated in the year	–	–	–	–	–	–	(1,120)	<b>(1,120)</b>
<b>At 30th September 2010</b>	19,455	12,281	3	581	37,392	52,454	1,603	<b>123,769</b>
Issue of Ordinary shares to the market	125	760	–	–	–	–	–	<b>885</b>
Exercise of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–	<b>–</b>
Issue of Ordinary shares on exercise of Subscription shares	15	81	–	–	–	–	–	<b>96</b>
Net (loss)/return on ordinary activities	–	–	–	–	–	(23,587)	1,073	<b>(22,514)</b>
Dividends appropriated in the year	–	–	–	–	–	–	(1,166)	<b>(1,166)</b>
<b>At 30th September 2011</b>	19,594	13,123	3	581	37,392	28,867	1,510	<b>101,070</b>

The notes on pages 36 to 54 form an integral part of these accounts.

# Balance Sheet

at 30th September 2011

	Notes	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	104,414	130,880
<b>Current assets</b>			
Debtors	11	3,372	2,338
Cash and short term deposits		2,813	1,360
		6,185	3,698
<b>Creditors:</b> amounts falling due within one year	12	(9,529)	(10,322)
<b>Net current liabilities</b>		(3,344)	(6,624)
<b>Total assets less current liabilities</b>		101,070	124,256
<b>Provisions for liabilities and charges</b>			
Performance fee	13	–	(487)
<b>Net assets</b>		101,070	123,769
<b>Capital and reserves</b>			
Called up share capital	14	19,594	19,455
Share premium	15	13,123	12,281
Exercised warrant reserve	15	3	3
Capital redemption reserve	15	581	581
Other reserve	15	37,392	37,392
Capital reserves	15	28,867	52,454
Revenue reserve	15	1,510	1,603
<b>Total equity shareholders' funds</b>		101,070	123,769
<b>Net asset value per Ordinary share</b>	16	129.8p	160.1p

The accounts on pages 32 to 54 were approved and authorised for issue by the Directors on 17th November 2011 and were signed on their behalf by:

**William Knight**  
Director

The notes on pages 36 to 54 form an integral part of these accounts.

Company registration number: 02853893.

# Cash Flow Statement

for the year ended 30th September 2011

	Notes	2011 £'000	2010 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	17	<b>(312)</b>	290
<b>Returns on investments and servicing of finance</b>			
Interest paid		<b>(268)</b>	(127)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(268)</b>	(127)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		<b>(140,080)</b>	(106,923)
Sales of investments		<b>140,510</b>	96,545
Other capital charges		<b>(48)</b>	(102)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>382</b>	(10,480)
<b>Dividend paid</b>		<b>(1,166)</b>	(1,120)
<b>Net cash outflow before financing</b>		<b>(1,364)</b>	(11,437)
<b>Financing</b>			
Net drawdown of short term loan		<b>1,728</b>	5,055
Issue of Ordinary shares to the market		<b>885</b>	737
Re-issue of Ordinary shares from Treasury		–	4,200
Issue of Ordinary shares on exercise of Subscription shares		<b>96</b>	1,813
<b>Net cash inflow from financing</b>		<b>2,709</b>	11,805
<b>Net increase in cash for the year</b>	18	<b>1,345</b>	368

The notes on pages 36 to 54 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 30th September 2011

## 1. Accounting policies

### (a) Basis of accounting

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

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

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss.

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

### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from the 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 about the portfolio is provided internally on that basis to the 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 their acquisition, which are written off to capital at the time of acquisition. Subsequently the investments are valued at 'fair value', which are quoted bid prices for investments traded in active markets.

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

Gains and losses on sales of investments including the related foreign exchange gains and losses of a capital nature, 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 dealt with 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 revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

Overseas dividends are shown gross of any withholding tax.

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

### (d) Expenses

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

- any performance fee is allocated 100% to capital;
- expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commissions. Details of transaction costs are given in note 10 on page 41.

**(e) Finance costs**

Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS 25: 'Financial instruments: Presentation' and FRS 26: 'Financial instruments: Measurement'.

Finance costs are allocated wholly to revenue.

**(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 debtors and creditors 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.

**(g) Foreign currency**

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

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

Any gain or loss arising on monetary assets from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments arising from a change in exchange rates are included in the Income Statement within 'Gains or losses on investments held at fair value through profit or loss' and charged or credited to capital reserves.

**(h) Taxation**

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

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

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

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

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

**(i) Dividends**

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

**(j) Performance fee**

Any performance fee falling due for payment immediately is included in 'Creditors: amounts falling due within one year'. Amounts which are carried forward for payment in future years but which are subject to reduction by any future underperformance are included in 'Provisions for liabilities and charges'.

# Notes to the Accounts continued

	2011 £'000	2010 £'000
<b>2. (Losses)/gains on investments held at fair value through profit or loss</b>		
Gains on sales of investments held at fair value through profit or loss based on historical cost	10,338	11,779
Amounts recognised as investment holding gains and losses in the previous year in respect of investments sold during the year	(16,383)	(10,791)
(Losses)/gains on sales of investments based on the carrying value at previous balance sheet date	(6,045)	988
Net movement in investment holding gains and losses	(17,664)	16,115
Other capital charges	(53)	(92)
<b>Total capital (losses)/gains on investments held at fair value through profit or loss</b>	<b>(23,762)</b>	<b>17,011</b>

	2011 £'000	2010 £'000
<b>3. Income</b>		
<b>Income from listed investments</b>		
Overseas dividends	3,182	2,964
Scrip dividends	364	259
	<b>3,546</b>	<b>3,223</b>
<b>Other interest receivable and similar income</b>		
Deposit interest	1	1
<b>Total income</b>	<b>3,547</b>	<b>3,224</b>

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
<b>4. Management fee and performance fee<sup>1</sup></b>						
Management fee	1,285	–	1,285	1,098	–	1,098
Performance fee (writeback)/provision	–	(346)	(346)	–	110	110
	<b>1,285</b>	<b>(346)</b>	<b>939</b>	<b>1,098</b>	<b>110</b>	<b>1,208</b>

<sup>1</sup>Details of the management fee and performance fee are given in the Directors' Report on pages 21 and 22.

	2011 £'000	2010 £'000
<b>5. Other administrative expenses</b>		
Other administration expenses	347	335
Directors' fees <sup>1</sup>	117	104
Auditors' remuneration for audit services	23	23
	<b>487</b>	<b>462</b>

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on page 29.

	2011 £'000	2010 £'000
<b>6. Finance costs</b>		
Interest on bank loans	269	127

## 7. Taxation

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
<b>(a) Analysis of tax charge in the year</b>						
UK corporation tax at 27% (2010: 28%)	–	–	–	–	–	–
Overseas withholding tax	433	–	433	356	–	356
Current tax charge for the year	433	–	433	356	–	356

### (b) Factors affecting current tax charge for the year

The tax assessed for the year is higher (2010: lower) than the Company's applicable rate of corporation tax for the year of 27% (2010: 28%). The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	1,506	(23,587)	(22,081)	1,537	16,584	18,121
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 27% (2010: 28%)	407	(6,369)	(5,962)	430	4,644	5,074
Effects of:						
Non taxable capital losses/(gains)	–	6,462	6,462	–	(4,675)	(4,675)
Non taxable overseas dividends	(859)	–	(859)	(830)	–	(830)
Non taxable scrip dividends	(98)	–	(98)	(72)	–	(72)
Overseas withholding tax	433	–	433	356	–	356
Unrelieved expenses and charges	550	(93)	457	472	31	503
Current tax charge for the year	433	–	433	356	–	356

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £1,720,000 (2010: £1,429,000) based on a prospective corporation tax rate of 26% (2010: 27%). The reduction in the standard rate of corporation tax was substantively enacted on 29th March 2011 and is effective from 1st April 2011. The Government has also indicated that it intends to enact future reductions in the main rate of corporation tax of 1% each year down to 23% by 1st April 2014. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

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

# Notes to the Accounts continued

## 8. Dividends

### (a) Dividends paid and proposed

	2011 £'000	2010 £'000
2010 Final dividend paid of 1.5p (2009: 1.5p)	1,166	1,120
Final dividend proposed of 1.3p (2010: 1.5p)	1,012	1,160

For the year ended 30th September 2010, the Company declared a dividend of £1,160,000 but the final dividend paid amounted to £1,166,000 due to share issues after the balance sheet date but prior to the share register record date.

The final dividend proposed in respect of the year ended 30th September 2011 is subject to shareholder 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 ending 30th September 2012.

### (b) Dividend for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of the dividend proposed in respect of the financial year, as follows:

	2011 £'000	2010 £'000
Final dividend proposed of 1.3p (2010: 1.5p)	1,012	1,160

The revenue available for distribution by way of dividend for the year is £1,073,000 (2010: £1,181,000).

## 9. Return/(loss) per Ordinary share

The revenue return per share is based on the revenue return attributable to the Ordinary shares of £1,073,000 (2010: £1,181,000) and on the weighted average number of shares in issue during the year of 77,769,707 (2010: 75,958,289 excluding shares held in Treasury).

The capital loss per share is based on the capital loss attributable to the Ordinary shares of £23,587,000 (2010: £16,584,000 return) and on the weighted average number of shares in issue during the year of 77,769,707 (2010: 75,958,289 excluding shares held in Treasury).

The total loss per share is based on the total loss attributable to the Ordinary shares of £22,514,000 (2010: £17,765,000 return) and on the weighted average number of shares in issue during the year of 77,769,707 (2010: 75,958,289 excluding shares held in Treasury).

The Company has in issue 12,733,787 Subscription shares which are convertible into Ordinary shares at a price of 168 pence at any time up to and including 15th May 2013, whereupon the rights under the Subscription shares will lapse. There was no dilution of the return per Ordinary share in respect of the exercise rights attaching to the Subscription shares (year ended 30th September 2010: no dilution).

	2011 £'000	2010 £'000
<b>10. Investments held at fair value through profit or loss</b>		
Investments listed on a recognised stock exchange <sup>1</sup>	98,222	122,888
Unit trust fund	6,192	7,992
	<b>104,414</b>	<b>130,880</b>

	Listed overseas <sup>1</sup> £'000	2011 Unit trust fund £'000	Total £'000
Opening book cost	95,486	6,176	<b>101,662</b>
Opening investment holding gains	27,402	1,816	<b>29,218</b>
Opening valuation	122,888	7,992	<b>130,880</b>
Movements in the year:			
Purchases at cost	130,916	7,826	<b>138,742</b>
Sales - proceeds	(133,031)	(8,468)	<b>(141,499)</b>
Losses on sales of investments based on the carrying value at the previous balance sheet date	(5,801)	(244)	<b>(6,045)</b>
Net movement in investment holding gains and losses	(16,750)	(914)	<b>(17,664)</b>
Closing valuation	98,222	6,192	<b>104,414</b>
Closing book cost	102,137	7,106	<b>109,243</b>
Closing investment holding losses	(3,915)	(914)	<b>(4,829)</b>
Total investments held at fair value	98,222	6,192	<b>104,414</b>

<sup>1</sup>Includes warrants in listed companies.

Transaction costs on purchases during the year amounted to £407,000 (2010: £335,000) and on sales during the year amounted to £437,000 (2010: £303,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £16,383,000 have been transferred to gains and losses on sales of investments as disclosed in note 15 on page 44.

# Notes to the Accounts continued

	2011 £'000	2010 £'000
<b>11. Current assets</b>		
<b>Debtors</b>		
Securities sold awaiting settlement	3,224	2,235
Dividends and interest receivable	127	84
Other debtors	21	19
	<b>3,372</b>	2,338

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.

	2011 £'000	2010 £'000
<b>12. Creditors: amounts falling due within one year</b>		
Securities purchased awaiting settlement	251	1,953
Bank loan	8,987	6,980
Performance fee payable <sup>1</sup>	141	1,158
Other creditors and accruals	150	231
	<b>9,529</b>	10,322

<sup>1</sup>Further details of the performance fee can be found in the Directors' Report on pages 21 and 22.

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

The bank loan is unsecured and represents US\$14.0 million drawn down on the Company's facility with Scotiabank (2010: US\$11.0 million drawn down on a facility with Lloyds TSB). Further details of the facility are given in note 22(a)(ii) on pages 49 to 51.

	2011 £'000	2010 £'000
<b>13. Provisions for liabilities and charges</b>		
<b>Performance fee<sup>1</sup></b>		
Opening balance	487	1,535
Performance fee (writeback)/provision for the year	(346)	110
Amount realised during the year	(141)	(1,158)
Closing balance	–	487

<sup>1</sup>Further details of the performance fee can be found in the Directors' Report on pages 21 and 22.

	2011 £'000	2010 £'000
<b>14. Called up share capital</b>		
Issued and fully paid share capital		
Ordinary shares of 25p each		
Opening balance of 77,307,881 Ordinary shares (2010: 72,637,461 shares, excluding 2,904,000 shares held in Treasury)	19,328	18,160
Issue of 500,000 (2010: 500,000) Ordinary shares to the market	125	125
Issue of 56,740 (2010: 1,266,420) Ordinary shares on exercise of Subscription shares	15	317
Re-issue of nil (2010: 2,904,000) Ordinary shares from Treasury	–	726
Closing balance of 77,864,621 (2010: 77,307,881) Ordinary shares <sup>1</sup>	19,468	19,328
Subscription shares of 1p each		
Opening balance of 12,790,527 (2010: 14,056,947) Subscription shares	127	140
Conversion of 56,740 (2010: 1,266,420) Subscription shares into Ordinary shares	(1)	(13)
Closing balance of 12,733,787 (2010: 12,790,527) Subscription shares <sup>2</sup>	126	127

<sup>1</sup>During the year 56,740 Ordinary shares were issued following the exercise of Subscription shares and the details of this are given in footnote 2 below. During the year 500,000 Ordinary shares with a nominal value of £125,000 were issued to the market for a total consideration of £885,000.

<sup>2</sup>The Subscription shares were issued as a bonus issue to the Ordinary shareholders on 16th April 2008 on the basis of one Subscription share for every five Ordinary shares held. During the year, holders of 56,740 Subscription shares exercised their right to convert those shares into Ordinary shares at a price of 168 pence per share, giving a total consideration received of £95,323. Holders of the remaining Subscription shares may exercise their right to convert those shares into Ordinary shares at a price of 168 pence per share at any time up to and including 15th May 2013, whereupon the rights under the Subscription shares will lapse.

# Notes to the Accounts continued

	Share premium £'000	Exercised warrant reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves		Revenue reserve £'000
					Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	
<b>15. Reserves</b>							
Opening balance	12,281	3	581	37,392	23,790	28,664	1,603
Currency gains on cash and short term deposits	–	–	–	–	108	–	–
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	(6,045)	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	(17,664)	–
Transfer on disposal of investments	–	–	–	–	16,383	(16,383)	–
Performance fee writeback for the year	–	–	–	–	–	346	–
Performance fee realised	–	–	–	–	(141)	141	–
Other capital charges	–	–	–	–	(53)	–	–
Issue of Ordinary shares to the market	760	–	–	–	–	–	–
Exercise of Subscription shares into Ordinary shares	1	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	81	–	–	–	–	–	–
Unrealised exchange loss on foreign currency loan	–	–	–	–	–	(319)	–
Unrealised exchange loss on foreign currency loan now realised	–	–	–	–	(67)	67	–
Realised exchange gain on repayment of foreign currency loan	–	–	–	–	40	–	–
Dividends appropriated in the year	–	–	–	–	–	–	(1,166)
Net revenue for the year	–	–	–	–	–	–	1,073
Closing balance	13,123	3	581	37,392	34,015	(5,148)	1,510

## 16. Net asset value per Ordinary share

The net asset value per share is based on the net assets attributable to the Ordinary shareholders of £101,070,000 (2010: £123,769,000) and on the 77,864,621 (2010: 77,307,881) shares in issue at the year end.

	2011 £'000	2010 £'000
<b>17. Reconciliation of total (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities</b>		
Total (loss)/return on ordinary activities before finance costs and taxation	(21,812)	18,248
Less capital loss/(return) on ordinary activities before taxation	23,587	(16,584)
Scrip dividends received as income	(364)	(259)
Increase in accrued income	(43)	(14)
Increase in other debtors	(2)	(3)
(Decrease)/increase in accrued expenses	(78)	78
Performance fee paid	(1,158)	(842)
Overseas taxation	(442)	(334)
Net cash (outflow)/inflow from operating activities	(312)	290

	2010 £'000	Cash flow £'000	Exchange movements £'000	2011 £'000
<b>18. Analysis of changes in net debt</b>				
Cash and short term deposits	1,360	1,345	108	2,813
Bank loans falling due within one year	(6,980)	(1,728)	(279)	(8,987)
Net debt	(5,620)	(383)	(171)	(6,174)

#### 19. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2010: £nil).

#### 20. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on pages 21 and 22. The terms make allowance for the exclusion of management charges on investments held in funds managed by J.P. Morgan Asset Management ('JPMAM'). The fee payable to JPMAM for the year was £1,285,000 (2010: £1,098,000) of which £nil (2010: £95,000) was outstanding at the year end.

Details of the performance fee are set out in the Directors' Report on pages 21 and 22. A performance fee amounting to £141,000 (2010: £1,158,000) is payable to JPMAM for the year and the whole of this amount (2010: same) was outstanding at the year end.

Included in other management expenses in note 5 on page 38 are safe custody fees amounting to £62,000 (2010: £55,000) of which £16,000 (2010: £13,000) was outstanding at the year end. These fees were paid to third party custodians by JPMAM on behalf of the Company.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £38,000 (2010: £21,000) of which £nil (2010: £nil) was outstanding at the year end.

Handling charges, incurred on dealing transactions undertaken by overseas custodians during the year, amounting to £53,000 (2010: £92,000) were payable to JPMorgan Chase of which £27,000 (2010: £22,000) was outstanding at the year end.

# Notes to the Accounts continued

## 20. Transactions with the Manager continued

During the year, the Company has held investments in two funds which are managed by JPMAM. At 30th September 2011 one of these funds had been sold and the remaining fund was valued at £6.2 million (2010: one fund amounting to £8.0 million) and represented 5.9% (2010: 6.1%) of the Company's investment portfolio. During the year the Company made purchases of these investments with a total value of £7.8 million (2010: £3.7 million) and sales with a total value of £8.5 million (2010: £nil). No income was receivable from these investments in the current or comparative year.

At the year end, a bank balance of £2,813,000 (2010: £1,360,000) was held with JPMorgan Chase. A net amount of interest of £1,000 (2010: £1,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2010: £nil) was outstanding at the year end.

## 21. Disclosures regarding financial instruments measured at fair value

The disclosures required by the amendment to FRS 29: 'Improving Disclosures about Financial Instruments' are given below. The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio.

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

Level 1 - valued using quoted prices in active markets

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

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

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. Details of the valuation techniques used by the Company are given in note 1(b) on page 36.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 30th September:

	2011			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial assets held at fair value through profit or loss</b>				
Equity investments	103,125	–	–	103,125
Warrants	–	1,289	–	1,289
<b>Total</b>	<b>103,125</b>	<b>1,289</b>	<b>–</b>	<b>104,414</b>

	2010			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial assets held at fair value through profit or loss</b>				
Equity investments	130,334	–	–	130,334
Warrants	–	546	–	546
<b>Total</b>	<b>130,334</b>	<b>546</b>	<b>–</b>	<b>130,880</b>

There have been no transfers between Levels 1, 2 or 3 during the current or comparative year.

## 22. Financial instruments' exposure to risk and risk management policies

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

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

The Company's financial instruments may comprise:

- investments in equity shares, warrants, participatory notes and open ended investment companies, with exposure to 'Greater China' companies and which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a floating rate loan facility.

### (a) Market risk

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

#### (i) Currency risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and the currency in which it reports). As a result, movements in exchange rates may affect the sterling value of those items.

#### Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. Income denominated in foreign currencies is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements. It is currently not the Company's policy to hedge against foreign currency risk.

# Notes to the Accounts continued

## 22. Financial instruments' exposure to risk and risk management policies continued

### (a) Market risk continued

#### (i) Currency risk continued

##### Foreign currency exposure

The fair value of the Company's monetary items that have foreign currency exposure at 30th September are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	US Dollar £'000	Hong Kong Dollar £'000	2011 Taiwan Dollar £'000	Other £'000	Total £'000
Current assets	2,823	923	2,468	–	6,214
Creditors	(9,011)	(211)	(118)	–	(9,340)
Foreign currency exposure on net monetary items	(6,188)	712	2,350	–	(3,126)
Investments held at fair value through profit or loss that are equities	9,119	66,440	28,855	–	104,414
Total net foreign currency exposure	2,931	67,152	31,205	–	101,288

	US Dollar £'000	Hong Kong Dollar £'000	2010 Taiwan Dollar £'000	Other £'000	Total £'000
Current assets	364	2,093	1,191	30	3,678
Creditors	(7,004)	(1,010)	(920)	–	(8,934)
Foreign currency exposure on net monetary items	(6,640)	1,083	271	30	(5,256)
Investments held at fair value through profit or loss that are equities	9,878	89,230	31,772	–	130,880
Total net foreign currency exposure	3,238	90,313	32,043	30	125,624

The above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

##### Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2010: 10%) appreciation or depreciation in sterling against the US dollar, Hong Kong dollar, Taiwan dollar and the other currencies to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

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

	2011 £'000	2010 £'000
Income statement return after taxation		
Revenue return	355	296
Capital return	(313)	(526)
Total return after taxation for the year	42	(230)
Net assets	42	(230)

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

	2011 £'000	2010 £'000
Income statement return after taxation		
Revenue return	(355)	(296)
Capital return	313	526
Total return after taxation for the year	(42)	230
Net assets	(42)	230

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

**(ii) Interest rate risk**

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

**Management of interest rate risk**

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

# Notes to the Accounts continued

## 22. Financial instruments' exposure to risk and risk management policies continued

### (a) Market risk continued

#### (ii) Interest rate risk continued

##### 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.

	2011 £'000	2010 £'000
Exposure to floating interest rates		
Cash and short term deposits	2,813	1,360
Creditors: amounts falling due within one year - borrowings on the loan facility	(8,987)	(6,980)
Total exposure	(6,174)	(5,620)

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

On 27th January 2011, the Company arranged a US\$20 million unsecured 364 day multicurrency revolving loan facility with Scotiabank. Under the terms of this agreement, the Company may draw down up to US\$20 million or its equivalent in other currency, at an interest rate of LIBOR as, offered in the market for the relevant currency and loan period, plus a margin of 1.45% plus 'Mandatory Costs', which are the lender's costs of complying with certain regulatory requirements of the Bank of England and the Financial Services Authority. The facility is unsecured and is subject to covenants which are customary for a credit agreement of this nature. At 30th September 2011, the Company had drawn down US\$14.0 million (£9.0 million) on this facility at an interest rate of 1.74%.

At 30th September 2010, the company had drawn down US\$11.0 million (£7.0 million) on a similar facility with Lloyds TSB, which expired on 27th January 2011.

The exposure to floating interest rates has fluctuated during the year between net cash and loan balances as follows:

	2011 £'000	2010 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(9,274)	(5,620)
Minimum debit/maximum credit interest rate exposure to floating rates - net (loan)/cash balances	(5,242)	258

##### Interest rate sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets to a 1% (2010: 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.

	2011		2010	
	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	(62)	62	(56)	56
Capital return	–	–	–	–
Total return after taxation for the year	(62)	62	(56)	56
Net assets	(62)	62	(56)	56

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

### (iii) Other price risk

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

#### Management of other price risk

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

#### Other price risk exposure

The Company's exposure to changes in market prices at 30th September comprises its holdings in equity investments as follows:

	2011 £'000	2010 £'000
Equity investments held at fair value through profit or loss	104,414	130,880

#### Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 14 and 15. This shows that the investments' value is in the 'Greater China' area. Accordingly, there is a concentration of exposure to that region. However, it should be noted that an investment may not be wholly exposed to the economic conditions in its country of domicile or of listing.

# Notes to the Accounts continued

## 22. Financial instruments' exposure to risk and risk management policies continued

### (a) Market risk continued

#### (iii) Other price risk continued

##### Other price risk sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets to an increase or decrease of 10% (2010: 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.

	2011		2010	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(104)	104	(131)	131
Capital return	10,441	(10,441)	13,088	(13,088)
Total return after taxation for the year and net assets	10,337	(10,337)	12,957	(12,957)

### (b) Liquidity risk

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

#### Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities. The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a)(ii) to this note on pages 49 and 51.

#### Liquidity risk exposure

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

	2011			2010		
	Three months or less £'000	More than three months but not more than one year £'000	Total £'000	Three months or less £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year						
Securities purchased awaiting settlement	251	–	251	1,953	–	1,953
Bank loan - including interest	39	9,104	9,143	6,984	–	6,984
Performance fee payable	141	–	141	1,158	–	1,158
Other creditors and accruals	150	–	150	231	–	231
Provisions for liabilities and charges						
Performance fee	–	–	–	–	487	487
	581	9,104	9,685	10,326	487	10,813

**(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*

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given to investors on the protection of all assets of the Company.

**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 (2010: 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

## 23. Capital management policies and procedures

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

	2011 £'000	2010 £'000
Debt:		
Bank loan	8,987	6,980
	<b>8,987</b>	6,980
Equity:		
Share capital	19,594	19,455
Reserves	81,476	104,314
	<b>101,070</b>	123,769
Total debt and equity	<b>110,057</b>	130,749

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

The Board's policy is to limit gearing within the range 90% to 115%. Gearing for this purpose is defined as investments expressed as a percentage of net assets.

	2011 £'000	2010 £'000
Investments	104,414	130,880
Net assets	101,070	123,769
Gearing	<b>103.3%</b>	105.7%

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.

# Notice of Meeting

Notice is hereby given that the eighteenth Annual General Meeting of JPMorgan Chinese Investment Trust plc will be held at the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Friday, 16th December 2011 at 11.00 a.m. for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 30th September 2011.
2. To approve the Directors' Remuneration Report for the year ended 30th September 2011.
3. To approve a final dividend of 1.3p per share.
4. To re-elect Sir Andrew Burns as a Director of the Company.
5. To re-elect William Knight as a Director of the Company.
6. To reappoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider the following resolutions:

### Authority to allot new Ordinary shares – Ordinary Resolution

7. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot Ordinary shares in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary shares in the Company ('Rights') up to an aggregate nominal amount of £1,946,617, representing approximately 10% of the Company's issued Ordinary share capital (including shares held in Treasury, if any) as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2013 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require Ordinary shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot Ordinary

shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

### Authority to disapply pre-emption rights on allotment of relevant securities – Special Resolution

8. THAT subject to the passing of Resolution 7 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 7 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,946,617 representing approximately 10% of the issued 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 upon the expiry of the general authority conferred by Resolution 7 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

### Authority to repurchase the Company's shares – Special Resolution

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

PROVIDED ALWAYS THAT

- (i) the maximum number of Ordinary shares and Subscription shares hereby authorised to be purchased shall be 11,671,915 and 1,908,785 respectively, or if less, that number of Ordinary shares or Subscription shares which is equal to 14.99% of the issued share capital of the relevant share class (less shares held in Treasury, if any) as at the date of the passing of this Resolution;

# Notice of Meeting continued

- (ii) the minimum price which may be paid for an Ordinary share or Subscription share shall be 25 pence and 1 pence respectively;
- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for a share of that class of share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors);
- (v) the authority hereby conferred shall expire at the Company's Annual General Meeting in 2013 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares pursuant to any such contract.

By order of the Board  
Christopher Cordrey, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
17th November 2011

## Notes

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

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

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.jpchinse.co.uk](http://www.jpchinse.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 an alternative to completing a hard copy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at [www.shareview.co.uk](http://www.shareview.co.uk). Full instructions are given on both websites.
16. As at 16th November 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 77,864,682 Ordinary shares, carrying one vote each and 12,733,726 Subscription shares with no voting rights. Therefore the total voting rights in the Company are 77,864,682.

#### **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 Form of Proxy.

# Details of Subscription Shares

On 16th April 2008 the Company issued Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Following a Class Meeting of Subscription shareholders and a General Meeting of Ordinary shareholders on 28th June 2010, at which shareholders approved a variation of Subscription Share Rights, Subscription shareholders can choose to exercise their Subscription shares at a price of 168 pence per share at any time up to and including 15th May 2013, whereupon the rights under the Subscription shares will lapse.

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

of their Ordinary shares between Ordinary shares and Subscription shares received.

At the close of business on 16th April 2009 the middle market prices of the Company's Ordinary shares and Subscription shares were as follows:

Ordinary shares:	116p
Subscription shares:	22p

Accordingly an individual investor who on 15th April 2009 held five Ordinary shares (or a multiple thereof) would have received a bonus issue of one Subscription share (or the relevant multiple thereof) and would apportion the base cost of such holding 96.35% to the five Ordinary shares and 3.65% to the Subscription shares.

# Glossary of Terms and Definitions

## **Return to Ordinary Shareholders**

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

## **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 into 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 per share 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 into the shares of the underlying companies at the time the shares were quoted ex-dividend.

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

## **Share Price Discount/Premium to Net Asset Value ("NAV")**

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

## **Revenue Return per Ordinary share**

Net revenue return on ordinary activities after taxation, divided by the weighted average number of Ordinary shares in issue during the year.

## **Actual Gearing Factor**

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

## **Total Expense Ratio**

Management fees and all other operating expenses, excluding interest and any performance fee payable, expressed as a percentage of the average of the month end net assets during the year (2008 and prior years: the average of the opening and closing net assets).

## **Total Expense Ratio (including Performance Fee Payable)**

Management fees, all other operating expenses and any performance fee payable, but excluding interest, expressed as a percentage of the average of the month end net assets during the year. (2008 and prior years: the average of the opening and closing net assets).

## **Hong Kong H-Shares**

Companies incorporated in mainland China and listed in Hong Kong and other foreign stock exchanges.

## **Hong Kong Red Chips**

Companies incorporated outside mainland China and listed in Hong Kong, but with controlling shareholders (at least 30% ownership) from mainland Chinese entities.

## **Hong Kong P Chips**

Companies listed in Hong Kong which are incorporated in the Cayman Islands, Bermuda and the British Virgin Islands, with operations in mainland China. These companies are run by private sector Chinese businessmen.

## **China A-Shares (Indirect)**

Companies incorporated in mainland China and which are traded in the mainland A-Share markets. The prices of A-Shares are quoted in renminbi, and currently only mainlanders and selected foreign institutional investors are allowed to trade A-Shares.

The Company does not invest directly in China A-Shares but instead gains access to the A-Share market by investing into China A-Share access products.

## **China B-Shares**

Companies incorporated in mainland China and traded on the mainland B-Share markets. The prices of B-Shares are quoted in US dollars and are available to both mainlanders and foreign investors.

## **Performance Attribution**

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

# Glossary of Terms and Definitions

## 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 which are not included in the benchmark.

### Currency Effect

Measures the impact of currency exposure differences between the Company's portfolio and its benchmark.

### Gearing/Cash

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

### Management Fee/Other Expenses

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

### Performance Fee Charge/Writeback

Measures the effect of a performance fee charge or writeback.

# Information about the Company

## Financial Calendar

Financial year end	30th September
Final results announced	November
Half year end	31st March
Half year results announced	May
Interim Management Statements announced	January/July
Dividend on Ordinary shares paid	December
Subscription shares exercise dates	Any business day until 15th May 2013
Annual General Meeting	December

### History

JPMorgan Chinese Investment Trust plc was launched in October 1993, as The Fleming Chinese Investment Trust plc, by a public offer of shares which raised £60 million before expenses. The Company changed its name to JPMorgan Fleming Chinese Investment Trust in December 2001 and adopted its present name on 14th December 2005.

### Company Numbers

Company registration number: 02853893

### Ordinary Shares

London Stock Exchange number: 0343501  
ISIN: GB0003435012  
Bloomberg code: JMC LN

### Subscription Shares

London Stock Exchange number: B2PNJ66  
ISIN: GB00B2PNJ662  
Bloomberg code: JMCS

### Market Information

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

The Company's Subscription share price is listed on the London Stock Exchange and quoted daily in the Financial Times and on the J.P. Morgan website at [www.jpchinse.co.uk](http://www.jpchinse.co.uk), where the Subscription share price is updated every fifteen minutes during trading hours.

### Website

[www.jpchinse.co.uk](http://www.jpchinse.co.uk)

### Share Transactions

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

### Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

### Company's Registered Office

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

For company secretarial and administrative matters, please contact Christopher Cordrey.

### Custodian

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

### Registrars

Equiniti Limited  
Reference 1078  
Aspect House  
Spencer Road  
West Sussex BN99 6DA  
Telephone number: 0871 384 2320

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

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1078.

Registered shareholders can obtain further details on their holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk)

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

### Brokers

Winterflood Securities Limited  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA  
Telephone number: 020 310 0000

### Savings Product Administrators

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



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