



Annual Report **07**

JPMorgan Chinese  
Investment Trust plc

Annual Report & Accounts for the year ended 30th September 2007

# Features

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## Objective

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

## Investment Policy

- 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 10% 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 policy and risk management are contained in the Directors' Report on page 15.

## Benchmark

MSCI Golden Dragon Index in sterling terms.

## Structure

- UK domiciled.
- Full listing on the London Stock Exchange.
- Authorised share capital of 125,000,000 ordinary shares of 25p each, of which 75,462,001 (2006: 73,987,001) were in issue at the year end including 4,116,000 (2006: nil) shares held in treasury.

## Management Company

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

# Financial Results

Total Returns (capital plus income)

**+80.8%**

Return to shareholders<sup>1</sup>  
(2006: +8.2%)

**+85.7%**

Return on net assets<sup>2</sup>  
(2006: +13.8%)

**+55.5%**

Benchmark return<sup>3,4</sup>  
(2006: +12.3%)

**0.50p**

Dividend  
(2006: 0.70p)

## Long Term Performance

for periods ended 30th September 2007



A glossary of terms and definitions is provided on page 47.

<sup>1</sup>Source: Standard & Poor's – [www.funds.morningstar.com](http://www.funds.morningstar.com).

<sup>2</sup>Source: Fundamental Data – [www.funddata.com](http://www.funddata.com).

<sup>3</sup>Source: Datastream.

<sup>4</sup>The Benchmark is a composite based on the BNP Prime Peregrine China Index to 1st October 1998, 40% Hang Seng, 40% Taiwan Weighted and 20% Prime Peregrine China Index from 1st October 1998 to 1st October 2001, and the MSCI Golden Dragon Index thereafter. The Benchmark performance represents total return in sterling terms.

## Chairman's Statement



I am delighted to report that your Company saw continued strong performance over the year to 30th September 2007 with a total return on net assets (the percentage change in net asset value ('NAV') with the net dividend reinvested) of +85.7%, which significantly outperformed the total return of +55.5% on the Company's benchmark, the MSCI Golden Dragon Index.

The total return to shareholders (the percentage change in share price with the net dividend reinvested) for the financial year was slightly lower at +80.8% but nevertheless a very pleasing result. The slightly lower total return to shareholders takes into account the widening of the discount of the Company's share price to the underlying NAV per share from 4.6% to 6.7%.

### Revenue and Dividends

Revenue for the year, after taxation, was £386,000 (2006: £535,000) and earnings per share, calculated on the average number of shares in issue during the year, was 0.52 pence (2006: 0.74 pence).

Given the Company's surplus on its Revenue Account, the Board is recommending a dividend of 0.50 pence (2006: 0.70 pence) per share in respect of the financial year. Subject to shareholders' approval at the Annual General Meeting ('AGM'), the dividend will be paid on 21st December 2007 to shareholders on the register at close of business on 16th November 2007.

Whilst it is the Company's policy to distribute substantially all the available income each year, shareholders should note that the Company's objective remains that of long term capital growth and dividends will vary accordingly.

### 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. At an Extraordinary General Meeting in August 2006, shareholders gave the Board authority to issue up to approximately 22 million new shares in the Company. In January 2007 the Company's shares traded at a modest premium to their NAV and 1,475,000 new ordinary shares were issued at an average premium to NAV of 3.9%. As this authority is valid until August 2011, the Board does not consider it appropriate to put an additional resolution to shareholders at the forthcoming AGM to renew this authority.

At last year's AGM, shareholders granted the Directors authority to repurchase the Company's shares. During the year a total of 4,116,000 ordinary shares were repurchased to hold in Treasury at an average discount of 11.1%. The Board has undertaken to reissue shares held in Treasury only at a premium to the prevailing NAV at that time.

The Board believes that its active policy of share issuance and share buybacks has helped to reduce discount volatility and recommends that the repurchase authority be kept in place. Accordingly we are seeking approval from shareholders to renew the buyback authority at the forthcoming AGM.

"...the Board is recommending a dividend of 0.50 pence (2006 : 0.70 pence) per share in respect of the financial year."

### Corporate Governance

The Company operates in accordance with corporate governance best practice and the Board is committed to the highest standards of corporate governance applicable under the Combined Code and the 'Association of Investment Companies' ('AIC') Code of Corporate Governance for Investment Trusts. Comprehensive compliance statements can be found in the Corporate Governance section of this report on pages 20 to 23.

At the start of November, the Nomination Committee of the Board met and carried out an evaluation of the Directors, the Chairman, the Board itself and its committees, the results of which were satisfactory. The Board takes this review seriously and views it as an effective means of evaluating the continuing efficacy of the Board.

### Review of services provided by the Manager

The Board carried out a thorough review of the services provided by the Manager, noting in particular the outperformance against the benchmark both in the past year and over the longer term. 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 Board... hopes that the Manager will continue to deliver outperformance...”

The fees payable to the Manager comprise a fixed basic management fee of 1% of total assets per annum and a performance related fee of 15% of the outperformance of the NAV total return over the benchmark. The amount of the latter fee actually payable to the Manager is capped at 1% 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 outstanding outperformance in this financial year has earned the Manager a performance fee of £4,485,000 of which, under the cap arrangement, £872,000 is payable now and £3,613,000 is carried forward.

The Board is pleased with this outcome which is of great benefit to shareholders and hopes that the Manager will continue to deliver outperformance and earn substantial performance fees in future years as a result. The Company's expenses for the financial year as a percentage of the average of the opening and closing net assets (the 'Total Expense Ratio') was 1.34% before accounting for the performance fee and 2.39% after doing so. These ratios compare favourably with those of similar funds.

### Board of Directors

In accordance with the Company's Articles of Association, the Directors retiring by rotation at this year's Annual General Meeting will be Irving Koo and Madam Yujiang Zhao. In addition, having served as a Director for more than nine years, I offer myself for re-election on an annual basis. Your Board does not believe that length of service in itself should disqualify a Director from seeking re-election and, in proposing my re-election, it has taken into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. The Nomination Committee has met to consider the attributes and contributions of the individuals concerned and, following this review, has no hesitation in recommending their re-elections at the Annual General Meeting.

# Chairman's Statement continued

## Annual General Meeting

This year's Annual General Meeting will be held on Tuesday 11th December 2007 at 10.30 am at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ. I look forward to seeing as many of you as possible at the meeting. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

## Investment Managers

I am delighted to introduce to shareholders two additional members of JPMorgan's Greater China team, which is based in Hong Kong and has responsibility for the day to day management of the Company's investment portfolio.

Shumin Huang, who has been a member of the team since early 2006, was previously with Goldman Sachs where she was a managing director and head of the Asia-Pacific energy and chemicals team. She is a China country specialist and, together with Howard Wang, is responsible for the management of JF China Pioneer 'A' Share Fund – the Company's single largest investment.

Kevin Chan joined JPMorgan earlier this year from Morgan Stanley, where he was an executive director in the institutional equities division. Shareholders will have an opportunity to meet Kevin at this year's Annual General Meeting, when he will make a presentation on the Greater China markets.

## Outlook

After the outstanding performance over the past financial year, it would be unrealistic to expect a similar performance in the current financial year. Nevertheless, the continuing development of the Chinese capital markets should result in the valuation of the shares in the Company's investment portfolio better reflecting overall economic growth. The Board remains confident that over the longer term investment in Greater China will deliver strong capital growth.

## Nigel Melville

Chairman

7th November 2007

## Investment Managers' Report



Howard Wang

The Company achieved a total return on net assets of +85.7% against a benchmark return of +55.5% for the 12 months ended 30th September 2007. The Company performed very well ..... in terms of both stock selection and asset allocation.



Emerson Yip

### China

#### Market Performance

China markets posted a stellar performance over the period with the MSCI China Index up 114.9% (in sterling terms). Exceptionally strong corporate results, robust economic growth, ample liquidity and continued expectations of Renminbi revaluation continued to be the market drivers.

Over the year, the Chinese stock markets experienced high volatility, triggered by a number of local and global events such as the policy tightening in February, the decision by the Chinese government to raise stamp duty on stock trading in May and the sub-prime fall-out in August. Nonetheless, the markets showed great resilience and generally rallied soon after the uncertainties were cleared.

Materials and industrial stocks performed well over the year, primarily due to the global demand for commodities as well as to the spectacular growth of the Chinese economy. Hong Kong-listed 'H' Shares, which were at a deep discount to their 'A'-Share peers, also performed strongly in expectation that Chinese onshore liquidity would take advantage of the valuation disparity.



Kevin Chan

#### Market Outlook

China's tightening measures announced and implemented so far have been moderate and incremental. With China's strong economic data released year-to-date and the potential risk to growth on the upside, there are lingering concerns about further tightening measures and potential changes in policy tones post the 17th Party Congress.

We believe that government policies will remain accommodating given its "pro-growth" stance and that overall economic growth should remain promising, despite some moderating in 2008. Fundamentally, we remain comfortable about the growth prospects of the financial and property sectors as well as selective retailers, and will view corrections, if any, as a buying opportunity to increase our exposure to quality companies in these sectors.

While the financial jitters triggered by sub-prime fall-out have been calmed by the coordinated actions of developed economy central banks, the real economic impact has yet to be seen. Global growth downgrades are likely, especially in the US. That said, China stands out in terms of relative insulation from a global growth slowdown, having ample excess liquidity (in contrast to most other markets where liquidity is tightening).

The staggering response to the recently launched Qualified Domestic International Investor ('QDII') equity funds in China suggests greater liquidity support for Hong Kong/China stocks given that most of these funds are likely to target Hong Kong/China stocks. However, market volatility could also increase given the



Shumin Huang

## Investment Managers' Report continued

### Performance attribution for the year to 30th September 2007

Contributions to Total Returns	%
<b>Benchmark total return</b>	<b>55.5</b>
Asset allocation	8.7
Stock selection	27.3
Gearing/Cash	3.0
Currency	0.7
<b>Investment manager contribution</b>	<b>39.7</b>
<b>Portfolio total return</b>	<b>95.2</b>
Management fees/	
Other expenses	-1.9
Performance fees	-7.7
Share repurchases	0.1
<b>Other effects</b>	<b>-9.5</b>
<b>Net asset value total return</b>	<b>85.7</b>
<b>Impact of decrease/(increase) in discount</b>	<b>-4.9</b>
<b>Share price total return</b>	<b>80.8</b>

Source: Xamin/JPMAM, S&P and Fundamental Data.  
All figures are on a total return basis.

The table provides a breakdown, relative to the benchmark, of the contributions to total return.

A glossary of terms and definitions is provided on page 47.

trading-oriented nature of mainland Chinese investors. Our core strategy remains unchanged with an overweight position in domestic positions and added exposure to domestically driven cyclicals.

### Hong Kong Market Performance

The Hong Kong stock market achieved an impressive return during the year with the Hang Seng Index up 46.7% (in sterling terms). Concerns over US sub-prime mortgages led to panic selling reaching its height around mid August before a 50 basis point cut in the US Federal Reserve discount rate drove a sharp short-covering driven rebound. Even more encouraging was the news on the Chinese QDII and individual investor programmes. These provided an impelling force to push Hong Kong stock price indices to new highs.

The Hong Kong property market and property stocks turned more vibrant after a dull performance in 2006 and performed strongly towards the end of the period, thanks to positive wealth effects and possible further interest rate cuts later in the year. Other factors that boosted sentiment include a greater demand for properties from mainland Chinese investors.

### Market Outlook

The Hang Seng Index is likely to reach new highs, supported by a strong liquidity environment. Economic growth and corporate earnings are also boosting share prices despite more expensive valuations.

After the increase in the volume of property transactions, the gradual decline in unemployment and increase in inflation should enable developers to gain more pricing power, especially when land supply remains restrictive. However, we can see property stock prices running ahead of fundamentals.

While domestic demand is well supported by an improving labour market and the consequent positive wealth effect, total exports will also be stronger into the fourth quarter as usual. However, worries relating to demand from the US are building up. The Renminbi appreciation will also have a negative impact on export-related counters.

### Taiwan Market Performance

Taiwan's TWSE Index gained 31.5% (in sterling terms) over the reporting period, with materials performing the best while financials continued to be weak.

The sub-prime fall-out spurred a broad-based and violent correction in global equity markets in August, with the technology sector being seen as vulnerable to a slowdown in the US economy. We consequently saw investors moving away from technology, switching into the materials sector which has more favourable visibility of earnings growth over the banking sector.

Taiwan's central bank raised its discount rate from 2.63% to 3.25% over the period to retain liquidity in the domestic market. In fact, the central bank has been maintaining its current gradual, modest rate-hike cycle since the first quarter of 2004. The government may increasingly move to monitoring inflation more closely but this is yet to materialise. We believe that the moves from the central bank can help keep liquidity in the Taiwanese stock market.

**Market Outlook**

The Democratic Progressive Party (DPP) and Kuomintang (KMT) held rallies in Taiwan to support their separate proposals on a referendum related to the Island's bid to join the United Nations. The US and China have given their comments on this issue. The impact is so far limited but it is worthy of further attention should there be any new developments in the future.

We also expect the upcoming Presidential election season to feature more over time with potential economic-boosting measures coming on the horizon, including further improvement in cross-straits relations. We have also seen the Taiwanese government pension fund increasing its equity allocation which has given support to the market.

Meanwhile, the central bank could strengthen the New Taiwan Dollar to attract further liquidity to the stock market.

We believe the stock market will perform in line with its underlying fundamentals and therefore have diversified the portfolio by holding leading companies amongst the cement, plastics, steel, banking and technology sectors.

**Howard Wang****Emerson Yip****Kevin Chan****Shumin Huang**

Investment Managers

7th November 2007

## Summary of Results

	2007	2006	
<b>Total Returns</b> (capital plus income) for the year ended 30th September			
Return to shareholders <sup>1</sup>	+80.8%	+8.2%	
Return on net assets <sup>2</sup>	+85.7%	+13.8%	
MSCI Golden Dragon Index (in sterling terms) <sup>3</sup>	+55.5%	+12.3%	
<b>Net Asset Value, Share Price and Discount</b> at 30th September			
			% change
Net asset value per share	149.9p	81.8p	+83.3
Share price	139.8p	78.0p	+79.2
Discount of share price to net asset value	6.7%	4.6%	
Shareholders' funds (£'000)	106,969	60,508	+76.8
<b>Revenue</b> for the year ended 30th September			
Net revenue attributable to shareholders (£'000)	386	535	-27.9
Earnings per share	0.52p	0.74p	-29.7
Dividend per share	0.50p	0.70p	-28.6
<b>Actual Gearing Factor</b>	106.6%	102.7%	
<b>Total Expense Ratio</b> (excluding performance fee payable)	1.34%	1.55%	
<b>Total Expense Ratio</b> (including performance fee payable)	2.39%	1.66%	

A glossary of terms and definitions is provided on page 47.

<sup>1</sup>Source: Standard & Poor's – www.funds.morningstar.com.

<sup>2</sup>Source: Fundamental Data – www.funddata.com.

<sup>3</sup>Source: Datastream

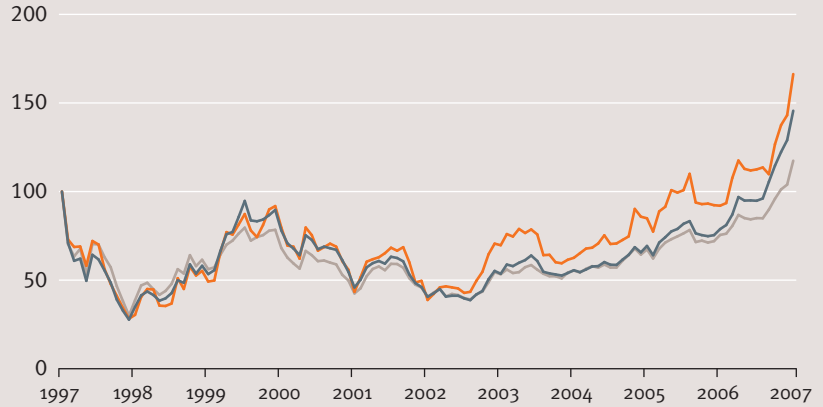
# Performance

- JPMorgan Chinese – Share price
- JPMorgan Chinese – Net asset value per share
- Benchmark

Source: Standard & Poor's – [www.funds.morningstar.com/Fundamental Data](http://www.funds.morningstar.com/Fundamental Data) – [www.funddata.com/Datastream](http://www.funddata.com/Datastream).

## Ten Year Performance

Figures have been rebased to 100 at 30th September 1997

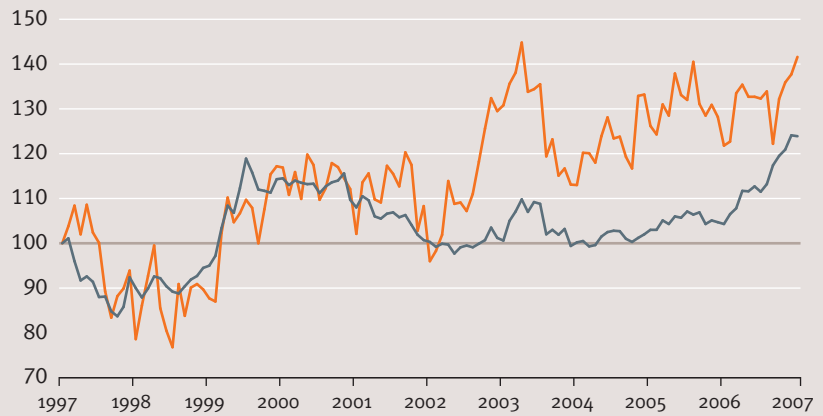


- JPMorgan Chinese – Share price
- JPMorgan Chinese – Net asset value per share
- The benchmark is represented by the grey horizontal line

Source: Standard & Poor's – [www.funds.morningstar.com/Fundamental Data](http://www.funds.morningstar.com/Fundamental Data) – [www.funddata.com](http://www.funddata.com).

## Performance Relative to Benchmark

Figures have been rebased to 100 at 30th September 1997



## Ten Year Financial Record

<b>As at 30th September</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005<sup>1</sup></b>	<b>2006</b>	<b>2007</b>
Shareholders' funds (£'m)	66.6	22.9	34.6	49.1	28.6	25.3	33.9	39.0	50.2	60.5	107.0
Net asset value per share (p)	110.2	37.8	57.3	83.6	49.2	43.5	57.5	59.0	73.3	81.8	149.9
Share price (p)	89.5	27.3	43.5	70.3	38.3	34.3	61.5	54.8	73.0	78.0	139.8
<b>Year to 30th September</b>											
Earnings per share (p)	0.07	0.51	0.14	(0.17)	(0.24)	0.30	0.69	1.03	0.96	0.74	0.52
Dividend per share (p)	nil	0.50	0.10	nil	nil	0.25	0.60	1.00	0.90	0.70	0.50
(Discount)/premium (%)	(17.5)	(27.8)	(24.1)	(15.9)	(22.2)	(21.1)	7.0	(7.1)	(0.4)	(4.6)	(6.7)
Actual Gearing (%)	103.6	89.8	104.2	102.4	98.2	87.0	94.7	93.6	98.2	102.7	106.6
Total expense ratio (%) (excluding performance fee)	1.54	1.63	2.10	2.15	2.02	2.42	2.05	1.80	1.60	1.55	1.34
Total expense ratio % (including performance fee) <sup>2</sup>	1.54	1.63	2.10	2.15	2.02	2.42	2.05	1.80	2.07	1.66	2.39
<b>Rebased to 100 since 30th September 1997</b>											
Share price – total return <sup>4</sup>	100.0	30.4	49.2	79.7	43.4	38.8	69.7	62.6	84.9	92.0	166.3
Net asset value per share – total return <sup>3</sup>	100.0	34.9	53.4	78.0	45.9	40.6	53.6	55.6	69.3	78.8	146.3
Composite Benchmark – total return (in sterling terms) <sup>5,6</sup>	100.0	38.7	56.2	68.1	42.5	40.5	53.3	55.4	67.3	75.5	117.4

A glossary of terms and definitions is provided on page 47.

<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 paid.

<sup>2</sup>The performance fee was introduced on 1st October 2003.

<sup>3</sup>Source: Fundamental Data – [www.funddata.com](http://www.funddata.com).

<sup>4</sup>Source: Standard & Poor's – [www.funds.morningstar.com](http://www.funds.morningstar.com).

<sup>5</sup>Source: Datastream.

<sup>6</sup>The benchmark is a composite based on the BNP Prime Peregrine China Index to 1st October 1998, 40% Hang Seng, 40% Taiwan Weighted and 20% Prime Peregrine China Index from 1st October 1998 to 1st October 2001, and the MSCI Golden Dragon Index thereafter. The Benchmark performance represents total return in sterling terms.

## Ten Largest Investments

Company	Country	As at 30th September 2007		As at 30th September 2006	
		£'000	% <sup>1</sup>	£000	%
<b>JF China Pioneer 'A' Share Fund</b> JF China Pioneer 'A' Share Fund is an open ended fund which aims to achieve long term capital growth by investing primarily in Chinese 'A' Shares.	China	11,069	10.0	2,704	4.5
<b>China Mobile</b> China Mobile is the largest cellular telecom service provider in China.	China	9,351	8.5	3,694	6.1
<b>China Life Insurance</b> China Life is China's largest life insurer and provides life, accident and health insurance.	China	6,764	6.1	1,521	2.5
<b>Hong Kong Exchanges &amp; Clearing<sup>2</sup></b> Hong Kong Exchanges & Clearing is the holding company for the Stock Exchange of Hong Kong, the Hong Kong Futures Exchange and the Hong Kong Securities Clearing Company.	Hong Kong	4,737	4.3	875	1.4
<b>Cheung Kong</b> Cheung Kong is Hong Kong's leading multi-national conglomerate. It is one of the largest developers of residential, commercial and industrial properties in Hong Kong and the holding company for its interests in Hutchinson.	Hong Kong	4,331	3.9	2,579	4.3
<b>Hon Hai Precision Industry</b> Hon Hai Precision Industry is the world's leading technology contract manufacturer.	Taiwan	4,257	3.8	2,555	4.2
<b>China Construction Bank<sup>2</sup></b> China Construction Bank is one of the largest commercial banks in China with over 68,000 corporate and 146 million personal customer accounts.	China	3,752	3.4	1,080	1.8
<b>China Merchants Bank<sup>2</sup></b> China Merchants Bank is one of the leading retail banks in China, with a focus on the eastern coastal provinces. It is headquartered in Shenzhen.	China	3,226	2.9	574	0.9
<b>China Petroleum &amp; Chemical<sup>2</sup></b> China Petroleum & Chemical Corporation ('SINOPEC') is China's leading oil refiner and distributor.	China	3,190	2.9	1,348	2.2
<b>China Shenhua Energy<sup>2</sup></b> China Shenhua Energy is one of China's largest integrated coal based energy companies.	China	2,953	2.7	751	1.2
<b>Total</b>		53,630	48.5		

<sup>1</sup>Based on total assets less current liabilities of £110.6m (2006: £60.5m).

<sup>2</sup>Not included in the ten largest investments at 30th September 2006.

As at 30th September 2006, the value of the ten largest investments amounted to £23.5m representing 38.8% of total assets less current liabilities.

## Geographic Analysis

	30th September 2007		30th September 2006	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
China	53.5	44.4	41.1	29.5
Hong Kong	25.6	24.3	26.3	30.1
Taiwan	24.0	31.3	35.2	40.4
Net current liabilities	(3.1)	—	(2.6)	—
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on total assets less current liabilities of £110.6m (2006: £60.5m).

## Sector Analysis

	30th September 2007		30th September 2006	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials (including property)	41.1	32.0	38.8	30.8
Information Technology	19.1	20.9	26.5	25.7
Industrials	8.6	9.7	3.1	9.2
Consumer Discretionary	8.6	5.3	9.9	6.0
Telecommunication Services	8.6	10.3	8.0	8.3
Energy	7.7	9.1	8.2	7.4
Materials	7.1	7.6	5.6	6.2
Utilities	1.5	3.5	2.5	5.3
Consumer Staples	0.8	1.6	—	1.1
Net current liabilities	(3.1)	—	(2.6)	—
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on total assets less current liabilities of £110.6m (2006: £60.5m).

## Investment Activity

year to 30th September 2007

	Value at 30th September 2006		Purchases £'000	Sales £'000	Changes in value £'000	Value at 30th September 2007	
	£'000	%				£'000	£'000
China	24,888	40.1	39,961	38,771	33,035	59,113	51.9
Hong Kong	15,917	25.6	23,652	27,061	15,817	28,325	24.8
Taiwan	21,310	34.3	32,858	32,305	4,715	26,578	23.3
<b>Total Portfolio</b>	<b>62,115</b>	<b>100.0</b>	<b>96,471</b>	<b>98,137</b>	<b>53,567</b>	<b>114,016</b>	<b>100.0</b>

# List of Investments

at 30th September 2007

Company	Valuation £'000	Company	Valuation £'000
<b>China</b>		<b>Taiwan</b>	
JF China Pioneer 'A' Share Fund <sup>1</sup>	11,069	Hon Hai Precision Industry	4,257
China Mobile	9,351	Innolux Display	2,670
China Life Insurance	6,764	Taiwan Semiconductor Manufacturing	2,557
China Construction Bank	3,752	Formosa Chemicals & Fibre	2,473
China Merchants Bank	3,226	Cathay Financial	2,140
China Petroleum & Chemical ('SINOPEC')	3,190	MediaTek	2,025
China Shenhua Energy	2,953	Siliconware Precision Industries	1,463
China Cosco	2,750	Delta Electronics	1,061
CNOOC	2,220	Wistron Corporation	1,034
Guangzhou R&F Properties	1,896	Foxconn Technology	1,023
Aluminium Corporation of China	1,863	Richtek Corporation	970
China Resources Power	1,626	Asia Cement Corporation	922
China National Building Material	1,595	Vanguard International Semiconductors	781
Air China	1,191	Tripod Technology Corporation	717
Shanghai Zhenhua Port Machinery	1,184	TXC Corporation	711
Yantai Changyu Pioneer Wine	910	Zyxel Communication Corporation	660
Angang Steel	869	Chroma Ate	619
China Shipping Container Lines	836	Topoint Technology	495
Ping An Insurance (Group) Co. of China	644		<b>26,578</b>
E-house China Holdings	622		
Ctrip.com International	602		
	<b>59,113</b>	<b>Total Portfolio</b>	<b>114,016</b>
<b>Hong Kong</b>		<sup>1</sup> Unlisted investment. This investment is held in order to gain exposure to China's 'A' Share market.	
Hong Kong Exchanges & Clearing	4,737	There are no fixed interest holdings in the portfolio.	
Cheung Kong	4,331		
Kerry Properties	2,288		
Hang Lung Properties	2,251		
Esprit	2,092		
Tencent	1,646		
Shimao Property Holdings	1,543		
Pacific Basin Shipping	1,482		
Li & Fung	1,420		
Belle International	1,146		
Parkson Retail	1,059		
Li Ning	994		
Lifestyle International	782		
Hutchison Whampoa	739		
Ajisen Holdings	628		
Intime Department Store Group	565		
Shun Tak Holdings	555		
China Aoyuan Property Group	67		
	<b>28,325</b>		

## Board of Directors



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

Joined the Board in February 1997 and appointed Chairman in December 2003.

Chairman of Emtelle Holdings, a leading manufacturer of fibre optic cabling systems for telecommunications. He is also 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 years.



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

Joined the Board in April 2004.

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.



### **Sir Andrew Burns, KCMG**

Joined the Board in December 2003.

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.



### **Irving Koo, OBE**

Joined the Board in February 2005.

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.



### **Madam Yujiang Zhao**

Joined the Board in February 2005.

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 the last twenty years. She spent six years as an economist at the State Commission for Restructuring the Economic Systems in the '80s, and also acted as Managing Director of a foreign investment bank responsible for operations in China for nine years.

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

# Directors' Report

The Directors present their report for the year ended 30th September 2007.

## 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 842 of the Income and Corporation Taxes Act 1988 for the year ended 30th September 2006. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 30th September 2006 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 266 of the Companies Act 1985. 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 (expressed in sterling terms).

### Investment Policies and Risk Management

In order to achieve its 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 in three different countries. The number of investments in the company will normally range between 40 and 70. 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). The Company does not 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 Limits and Restrictions

- 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%.
- At 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.
- 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\$500m) is 45% (including market movement) without Board permission.
- The Company will not normally invest in derivative instruments, although can undertake derivative actions against existing holdings in the portfolio up to a value of 5%.
- The Company will 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 110% without Board permission.

### Performance

In the year to 30th September 2007, the Company produced a total return to shareholders of +80.8% and a total return on net assets of +85.7%. This compares favourably with the return on the Company's benchmark index of +55.5%. As at 30th September 2007, the value of the Company's investment portfolio was £114.0m. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year.

### Total Return, Revenue and Dividends

Gross total return for the year totalled £55,604,000 (2006: £7,606,000) and net total return after deducting interest, administrative expenses, performance fees and taxation amounted to £49,570,000 (2006: £6,539,000).

The Directors recommend a dividend of 0.50 pence (2006: 0.70 pence) per share payable on 21st December 2007 to holders on the register at the close of business on 16th November 2007. This distribution will amount to £357,000 (2006: £518,000). No other dividends were paid in

## Directors' Report continued

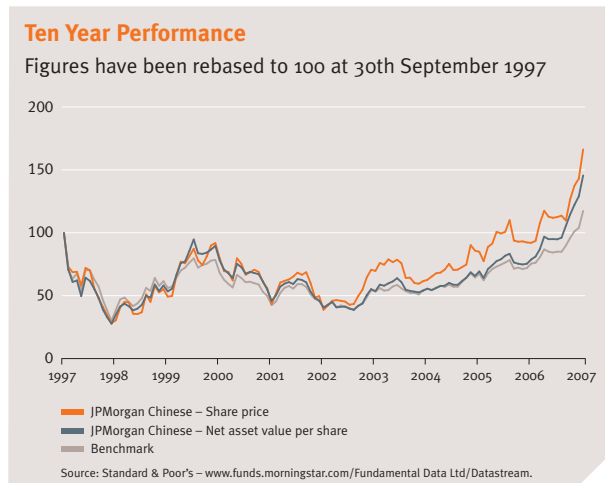
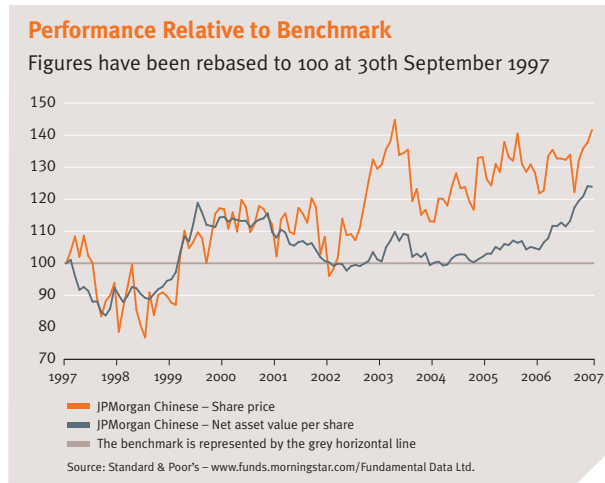
respect of the year. The revenue reserve after transfer of the dividend will amount to £439,000 (2006: £410,000).

### 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.



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

The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.

- **Performance attribution**

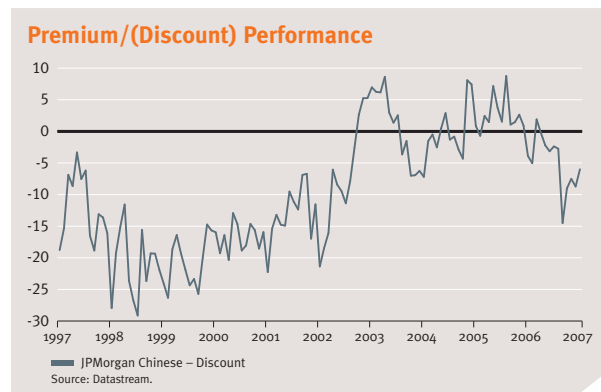
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the

various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 30th September 2007 are given in the Investment Managers' Report on page 6.

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

The Board operates a share issuance and share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market. This helps to reduce the volatility and absolute level of the premium/ discount to NAV at which the Company's shares trade.

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



The TER is an expression of the Company's management fees and all other operating expenses (excluding interest payments and performance fees) as a percentage of average net assets over the year. The TER for the year ended 30th September 2007 (excluding performance fee) was 1.34% (2006: 1.55%). 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 for 2007 was 2.39%.

### Share Capital

The Company has authority to issue new shares and to repurchase shares in the market for cancellation. During the year the Company issued 1,475,000 shares, representing 2.0% of the Company's issued share capital at the beginning of the financial year, for a consideration of £1,521,000. The average price of shares issued was 103.1 pence at an average premium to NAV of 3.9%.

Further to a special resolution passed on 12th December 2006, the Company has repurchased 4,116,000 shares into Treasury, representing 5.6% of the Company's issued share capital at the beginning of the financial year, for a consideration of £4,112,000. The average price of shares repurchased was 102.3 pence at an average discount to NAV of 11.3%. The Company will re-issue shares held in Treasury only at a premium to NAV.

Since the year end, and as at the date of this report, the Company has not issued or repurchased any shares.

The Board will seek shareholder approval at the forthcoming AGM to renew the Directors' authority to repurchase shares for cancellation. More details are given on page 19 and the full text of the resolution is set out on page 45.

### Principal Risks

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

- **Investment and Strategy:** An inappropriate investment strategy, for example, in asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies. 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, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Manager, who attends all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Manager employs the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate Board meeting devoted to strategy each year.
- **Discount:** In order to manage the Company's discount which can very volatile, the Company employs a share issuance and repurchase programme.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss 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.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under "Business of the Company" above. Should the Company breach Section 842, it may lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 842 qualification criteria are continually

monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 1985 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 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 842. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act 1985 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 20 to 23.
- **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 within the Internal Control section of the Corporate Governance report on page 22.
- **Financial:** The financial risks faced by the Company are disclosed in note 21 on pages 40 to 42.

### 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 in the countries in which it invests. This is discussed in the Investment Managers' Report on pages 5 to 7.

### Management

The Manager and Secretary, JPMorgan Asset Management (UK) Limited ('JPMAM') is employed under a contract terminable 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 on the terms agreed is in the interests of shareholders as a whole. In arriving at this view,

## Directors' Report continued

the Board considered the investment strategy and process of the Manager, noting outperformance of the benchmark over the long-term, and the support that the Company receives from JPMAM.

### Management and Performance Fee

The fixed basic annual management fee is 1% per annum, including marketing expenses, of the Company's total assets less current liabilities.

In addition to the basic annual management fee, there is a performance related fee calculated at 15% of out performance 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 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 will be calculated annually on 30th September, based on average total assets less current liabilities, and paid within three months of that date. An estimate will be 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 and restarts when outperformance of the benchmark has been achieved and a performance fee earned. This means that the performance fee is only payable when there has been positive relative performance since the last performance fee was paid.

The results for the year ended 30th September 2007 gave rise to a positive performance fee of £4,485,000 of which £872,000 becomes payable by 31st December 2007 under the terms of the agreement. The balance of £3,613,000 will be carried forward until paid in full or absorbed by any under performance in subsequent years.

### Going Concern

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place for its management to continue in operational existence for the foreseeable future. For this reason, they 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 2007, the Company had no outstanding trade creditors (2006: none).

### Directors

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

Directors	30th September 2007	1st October 2006
Sir Andrew Burns	4,682	4,682
Irving Koo	—	—
Nigel Melville	50,000	30,000
William Knight	4,300	4,300
Madam Yujiang Zhao	—	—

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

In accordance with the Articles of Association and Combined Code on Corporate Governance, the Directors retiring at the Annual General Meeting are Irving Koo, Madam Yujiang Zhao and Nigel Melville who, being eligible, offer themselves for re-election.

Nigel Melville has served as a Director for a period of more than nine years, hence now stands for re-election annually.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

### Disclosure of information to Auditors

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

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

The above confirmation is given and should be interpreted in accordance with the provision of Section 234ZA of the Companies Act 1985.

### Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%
Puddle Dock Nominees Limited <sup>1</sup>	18,970,550	25.1

<sup>1</sup>Held on behalf of JPMAM Share Plan, PEP and ISA participants.

### Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditor to the Company and resolutions proposing their reappointment, and to authorise the Directors to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting.

### Registrars

Lloyds TSB Group plc completed the sale of the Lloyds TSB Registrars business to Advent International, a global private equity firm, on 30th September 2007. Equiniti Limited, ("Equiniti") is now the new name for the Company's share registrar.

### Annual General Meeting

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

#### (i) Authority to increase the maximum aggregate Directors' fees (resolution 8)

To allow for Board succession planning, the Directors recommend that, in accordance with Article 72 of the Company's Articles of Association, the permitted maximum aggregate of Directors' fees payable be increased from £100,000 to £150,000 per annum.

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

At the Annual General Meeting held on 12th December 2006, shareholders gave authority to the Board to enable repurchases of up to 14.99% of the then issued share capital. At that time shareholders were informed that this authority would expire on 11th June 2008 or at the conclusion of the Company's Annual General Meeting in 2007. This being so, a Special Resolution will be proposed at the forthcoming Annual General Meeting that the Company be authorised to purchase in the market up to 11,311,753 shares (or, if less, the number of shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of Resolution a set out in the Notice of Meeting). Shares repurchased may be cancelled or held in Treasury and are only issued at a premium to NAV. The cash required to

repurchase shares will be met either from cash available or from selling investments in the portfolio.

The Directors consider that the renewal of the authority would be in the interests of shareholders as a whole as the repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Directors therefore recommend that shareholders vote in favour of the resolution.

The full text of the resolution is set out in full in the Notice of Meeting on page 45.

By order of the Board  
Lucy Dina, for and on behalf of  
JPMorgan Asset Management (UK) Limited, Secretary  
7th November 2007

# Corporate Governance

## Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 25, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of Corporate Governance and considers that, apart from certain matters noted below, the Company has complied with the best practice provisions of the Combined Code, insofar as they are relevant to the Company's business, and of the AIC Code throughout the year under review.

## Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, 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 during the year. 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 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 for compliance with applicable rules and regulations.

## Board Composition

The Board, chaired by Nigel Melville, consists of five non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a

breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 14.

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 consists entirely of non-executive directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

## Tenure

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

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

The Board recommends the re-election of Irving Koo and Madam Yujiang Zhao, who retire by rotation at this year's Annual General Meeting, and of Nigel Melville, who requires annual re-election as he has served as a Director for a period in excess of nine years. Before recommending the various Directors for re-election, the Nomination Committee conducted a thorough review of their performance and was satisfied that they fulfilled their respective roles in an effective manner.

## Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of Committees are shown with the Directors' profiles on page 14.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Sir Andrew Burns	5	2	1
William Knight	5	2	1
Irving Koo	5	2	1
Nigel Melville	5	2	1
Madam Yujiang Zhao	5	2	1

### Training and Appraisal

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

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

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

### Audit Committee

The Audit Committee, chaired by 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.

The Committee reviews the actions and judgements of the Manager in relation to the interim and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the 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 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 Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of internal control is set out on page 22.

### Terms of Reference

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

### Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders four times a 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 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 manager who reviews the Company's performance. During the year the Company's brokers and the Manager 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

## Corporate Governance continued

shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 43.

The Company's Annual Report and 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 write to the Company Secretary at the address shown on page 43. Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

### Internal Control

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. This arrangement is kept under annual 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 the report 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 2007, and to the date of approval of this Annual Report and Accounts.

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

### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from [www.jpmorgan.com](http://www.jpmorgan.com):

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

Proxy voting is an important part of the corporate governance process, and we view seriously our obligation to manage the voting rights of the shares entrusted to us as we would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the

financial interests of our clients. So far as is practicable we will vote at all of the meetings called by companies in which we are invested.

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

### **Corporate Social Responsibility**

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

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

## Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A of the Companies Act 1985. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 26.

For the year under review Directors' fees were paid at a fixed rate of £20,000 per annum for the Chairman, £17,500 per annum for the Chairman of the Audit Committee and £15,000 per annum for each other Director. With effect from 1st October 2007, Directors' fees were increased to £24,000 for the Chairman, £21,000 for the Audit Committee Chairman and £18,000 for other Directors.

### Directors' Remuneration

(Audited Information)

Director's Name	2007 £	2006 £
Nigel Melville (Chairman)	20,000	20,000
Sir Andrew Burns	15,000	15,000
William Knight	17,500	17,500
Irving Koo	15,000	15,000
Madam Yujiang Zhao	15,000	15,000
Total	82,500	82,500

The total Directors' fees of £82,500 (2006: £82,500) comprise £45,000 (2006: £62,500) in respect of aggregate emoluments paid to Directors and £37,500 (2006: £20,000) paid to third parties for making available the services of two of the Directors (2006: one).

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

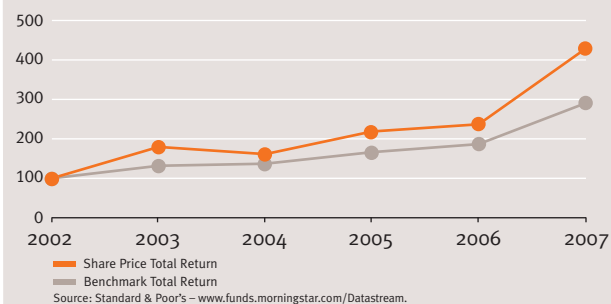
As all Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, and industry research on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Company's Articles stipulate that aggregate fees must not exceed £100,000 per

annum. Directors' fees are reviewed regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval. The Board will seek shareholder approval at the forthcoming Annual General Meeting to increase the maximum aggregate amount payable per annum to £150,000. The Directors do not have service contracts with the Company.

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

A graph showing the Company's share price compared with its benchmark index, the MSCI Golden Dragon Index (in sterling terms), over the last five years is shown below.

### Five year share price and benchmark total return to 30th September



By order of the Board  
Lucy Dina, for and on behalf of  
JPMorgan Asset Management (UK) Limited, Secretary  
7th November 2007

## Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice which give a true and fair view of the state of affairs of the Company as at the end of the year and of the net return for the year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 confirm that the accounts comply with the above requirements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the [www.jpmorganassetmanagement.co.uk](http://www.jpmorganassetmanagement.co.uk) website, which is maintained by the Company's Investment Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM.

# Independent Auditors' Report<sup>1</sup>

## To the members of JPMorgan Chinese Investment Trust plc

We have audited the accounts of the JPMorgan Chinese Investment Trust plc for the year ended 30th September 2007 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Investment Managers' Report that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's

corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Financial Results, the Chairman's Statement, the Investment Managers' Report and the other elements of the Investment Review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30th September 2007 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

## PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors  
London

7th November 2007

<sup>1</sup>The accounts are published on [www.jpmorganassetmanagement.co.uk](http://www.jpmorganassetmanagement.co.uk), which is a website maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM or any of its subsidiaries is, so far as it relates to the Company, the responsibility of JPMAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website or any other website upon which the accounts may be published and accordingly, the auditors accept no responsibility for any changes that may occur to the accounts following presentation on a website. Visitors to any website containing the accounts need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

# Income Statement

for the year ended 30th September 2007

	Notes	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
<b>Gains from investments held at fair value through profit or loss</b>							
	2	—	53,523	53,523	—	6,076	6,076
Net foreign currency gains/(losses)		—	194	194	—	(32)	(32)
Income from investments	3	1,880	—	1,880	1,538	—	1,538
Other interest receivable and similar income	3	7	—	7	24	—	24
<b>Gross return</b>		<b>1,887</b>	<b>53,717</b>	<b>55,604</b>	<b>1,562</b>	<b>6,044</b>	<b>7,606</b>
Management fee	4	(740)	—	(740)	(554)	—	(554)
Performance fee	4	—	(4,533)	(4,533)	—	(59)	(59)
Other administrative expenses	5	(379)	—	(379)	(298)	—	(298)
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>768</b>	<b>49,184</b>	<b>49,952</b>	<b>710</b>	<b>5,985</b>	<b>6,695</b>
Finance costs	6	(232)	—	(232)	(10)	—	(10)
<b>Net return on ordinary activities before taxation</b>		<b>536</b>	<b>49,184</b>	<b>49,720</b>	<b>700</b>	<b>5,985</b>	<b>6,685</b>
Taxation	7	(150)	—	(150)	(165)	19	(146)
<b>Net return on ordinary activities after taxation</b>		<b>386</b>	<b>49,184</b>	<b>49,570</b>	<b>535</b>	<b>6,004</b>	<b>6,539</b>
<b>Return per share (basic and diluted)</b>	9	<b>0.52p</b>	<b>66.67p</b>	<b>67.19p</b>	<b>0.74p</b>	<b>8.34p</b>	<b>9.08p</b>

**A final dividend of 0.50p per share (2006: 0.70p per share) is proposed in respect of the year ended 30th September 2007, costing £357,000 (2006: £518,000). More details can be found in note 8(a) on page 35.**

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 31 to 42 form an integral part of these accounts.

## Reconciliation of Movements in Shareholders' Funds

for the year ended 30th September 2007

	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 2005</b>	17,103	4,404	3	581	37,476	(10,425)	1,013	50,155
Adjustment to opening shareholders' funds at 1st October 2005 to reflect the adoption of bid prices	—	—	—	—	—	(116)	—	(116)
Shares issued	1,394	3,156	—	—	—	—	—	4,550
Net return from ordinary activities	—	—	—	—	—	6,004	535	6,539
Dividends appropriated in the year	—	—	—	—	—	—	(620)	(620)
<b>At 30th September 2006</b>	18,497	7,560	3	581	37,476	(4,537)	928	60,508
Shares issued	369	1,152	—	—	—	—	—	1,521
Repurchase of shares into treasury	—	—	—	—	(4,112)	—	—	(4,112)
Net return from ordinary activities	—	—	—	—	—	49,184	386	49,570
Dividends appropriated in the year	—	—	—	—	—	—	(518)	(518)
<b>At 30th September 2007</b>	18,866	8,712	3	581	33,364	44,647	796	106,969

The notes on pages 31 to 42 form an integral part of these accounts.

# Balance Sheet

at 30th September 2007

	Notes	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	10	114,016	62,115
<b>Current assets</b>			
Debtors	11	523	650
Cash and short term deposits		787	1,216
		1,310	1,866
<b>Creditors:</b> amounts falling due within one year	12	(4,705)	(3,452)
<b>Net current liabilities</b>		(3,395)	(1,586)
<b>Total assets less current liabilities</b>		110,621	60,529
<b>Provisions for liabilities and charges</b>			
Deferred tax	7	—	(21)
Performance fee	13	(3,652)	—
<b>Total net assets</b>		106,969	60,508
<b>Capital and reserves</b>			
Called up share capital	14	18,866	18,497
Share premium	15	8,712	7,560
Exercised warrant reserve	15	3	3
Capital redemption reserve	15	581	581
Other reserve	15	33,364	37,476
Capital reserves	15	44,647	(4,537)
Revenue reserve	15	796	928
<b>Equity shareholders' funds</b>		106,969	60,508
<b>Net asset value per share</b>	16	149.9p	81.8p

The accounts on pages 27 to 42 were approved and authorised for issue by the Directors on 7th November 2007 and were signed on their behalf by:

Nigel Melville

**Chairman**

The notes on pages 31 to 42 form an integral part of these accounts.

# Cash Flow Statement

for the year ended 30th September 2007

	Notes	2007 £'000	2006 £'000
<b>Net cash inflow from operating activities</b>	17	380	341
<b>Net cash outflow from returns on investments and servicing of finance</b>			
Interest		(222)	(10)
<b>Taxation paid</b>		(66)	(11)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(97,597)	(115,587)
Sales of investments		98,340	109,128
Other capital charges		(58)	(68)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		685	(6,527)
<b>Dividend paid</b>		(518)	(620)
<b>Net cash inflow/(outflow) before financing</b>		259	(6,827)
<b>Financing</b>			
Increase in short term loans		1,823	1,923
Issue of ordinary shares		1,521	4,550
Repurchase of shares into treasury		(4,112)	—
<b>Net cash (outflow)/inflow from financing</b>		(768)	6,473
<b>Decrease in cash in the year</b>	18	(509)	(354)

The notes on pages 31 to 42 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 30th September 2007

## 1. Accounting policies

### (a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985 and 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the 'SORP') issued by the AIC in December 2005.

The accounts have been prepared on a going concern basis and on the historical cost basis except for the measurement at fair value of investments.

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

### (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 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 the acquisition which are written off to the capital column of the income statement at the time of acquisition. Subsequently the investments are valued at "fair value", which for listed investments are bid market prices.

Unlisted investments are valued at fair value by the Board. In making its valuations, the Board takes into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the income statement within "Gains from investments held at fair value through profit or loss". Transaction costs incurred on the purchase and sale of investments are also included within this caption. 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 taken to capital.

Overseas dividends are shown gross of 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 foregone is recognised as income. 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:

- performance fees are allocated 100% to capital;
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise mainly broker commission. In accordance with the SORP, disclosure of transaction costs is now required and can be found in note 10.

### (e) Finance costs

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

Finance costs are allocated wholly to revenue.

## Notes to the Accounts continued

### (f) Financial instruments

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

Other receivables 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.

Derivative instruments are valued at fair value in the balance sheet. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

### (g) Foreign currency

In accordance with FRS23: "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.

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

Any gain or loss arising 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.

### (h) Taxation

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.

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 are included in the accounts in the year in which they are paid.

	2007 £'000	2006 £'000
<b>2. Gains from investments held at fair value through profit or loss</b>		
Gains from investments held at fair value through profit or loss based on historical cost	11,808	7,020
Amounts recognised as unrealised in the previous year	(1,939)	(4,618)
Realised gains based on carrying value at previous balance sheet date	9,869	2,402
Net movement in unrealised appreciation	43,698	3,764
Other capital charges	(44)	(90)
Total capital gains on investments held at fair value through profit or loss	53,523	6,076

	2007 £'000	2006 £'000
<b>3. Income</b>		
Income from investments listed overseas:		
UK dividends	13	28
Overseas dividends	1,766	1,352
Scrip dividends	101	158
	1,880	1,538
Other income:		
Deposit interest	7	24
<b>Total income</b>	<b>1,887</b>	<b>1,562</b>

	2007 £'000	2006 £'000
<b>4. Management and performance fees</b>		
Management fee	732	554
Irrecoverable VAT thereon	8	—
<b>Total</b>	<b>740</b>	<b>554</b>
Performance fee	4,485	59
Irrecoverable VAT thereon	48	—
<b>Total</b>	<b>4,533</b>	<b>59</b>

	2007 £'000	2006 £'000
<b>5. Other administrative expenses<sup>1</sup></b>		
Other management expenses	271	188
Directors' fees <sup>2</sup>	83	83
Auditors' remuneration for audit services	22	22
Auditors' remuneration for all other services	3	5
<b>Total</b>	<b>379</b>	<b>298</b>

<sup>1</sup>Expenses include the related irrecoverable VAT.

<sup>2</sup>Full disclosure is given in the Directors' Remuneration Report on page 24.

	2007 £'000	2006 £'000
<b>6. Finance costs</b>		
Interest on bank loans and overdrafts	232	10

## Notes to the Accounts continued

	Revenue £'000	2007 Capital £'000	Total £'000	Revenue £'000	2006 Capital £'000	Total £'000
<b>7. Taxation</b>						
<b>(a) Analysis of tax charge in the year</b>						
UK corporation tax at 30% (2006: 30%)	156	—	156	148	—	148
Double taxation relief	(156)	—	(156)	(84)	—	(84)
Overseas withholding tax	170	—	170	105	—	105
Tax relief on performance fee allocated to capital	—	—	—	19	(19)	—
Prior year adjustment	1	—	1	(6)	—	(6)
Current tax charge for the year	171	—	171	182	(19)	163
Deferred taxation	(21)	—	(21)	(17)	—	(17)
Total tax charge for the year	150	—	150	165	(19)	146

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

The tax charge for the year is higher (2006: lower) than the standard rate of corporation tax in the UK of 30% (2006: 30%). The difference is explained below:

	2007 £'000	2006 £'000
Revenue return on ordinary activities before taxation	536	700
Revenue return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 30% (2006: 30%)	161	210
Effects of:		
Non taxable scrip dividends	(30)	(47)
Non taxable UK dividends	(4)	(8)
Income taxed in different years	(18)	37
Overseas taxation	170	99
Unrelieved charges	47	—
Prior year adjustment	1	—
Double taxation relief	(156)	(84)
Marginal relief	—	(25)
Current tax charge for the year	171	182

### (c) Deferred taxation

The provision for deferred taxation is in respect of timing differences which have originated but not reversed by the balance sheet date. The movements on the deferred taxation account are as follows:

	2007 £'000	2006 £'000
Opening balance	21	38
Credited to revenue return	(21)	(17)
Closing balance	—	21

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 taxation on any capital gains or losses arising on the revaluation or disposal of investments.

The Company has an unrecognised deferred taxation asset of £1,437,000 (2006: nil). This has arisen from deductible expenses exceeding taxable income. Given the composition of the Company's portfolio it is unlikely that this asset will be fully utilised in the foreseeable future.

## 8. Dividends

### (a) Dividends paid and declared

	2007 £'000	2006 £'000
Final dividend of 0.70p (2005: 0.90p)	518	620 <sup>1</sup>
Final dividend payable of 0.50p (2006: 0.70p)	357	518

<sup>1</sup>The Company declared a dividend of £616,000, however, the dividend amounted to £620,000 due to the issue of shares in the period after the year end but prior to the record date.

The final dividend has been proposed in respect of the year ended 30th September 2007 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 30th September 2008.

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

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

	2007 £'000	2006 £'000
Final dividend of 0.50p (2006: 0.70p)	357	518

The revenue available for distribution by way of dividend for the year is £386,000 (2006: £535,000).

### 9. Return per share (basic and diluted)

The revenue return per share is based on the earnings attributable to the ordinary shares of £386,000 (2006: £535,000) and on the weighted average number of shares in issue during the year of 73,770,886 (2006: 71,968,636).

The capital return per share is based on the capital gains attributable to the ordinary shares of £49,184,000 (2006: £6,004,000) and on the weighted average number of shares in issue during the year of 73,770,886 (2006: 71,968,636).

The total return per share is based on the total return attributable to the ordinary shares of £49,570,000 (2006: £6,539,000) and on the weighted average number of shares in issue during the year of 73,770,886 (2006: 71,968,636).

## Notes to the Accounts continued

	2007 £'000	2006 £'000
<b>10. Investments</b>		
Investments listed on a recognised investment exchange <sup>1</sup>	102,947	59,411
Unlisted investments	11,069	2,704
<b>Total</b>	<b>114,016</b>	<b>62,115</b>

	Listed overseas <sup>1</sup> £'000	2007 Unlisted £'000	Total £'000
Opening book cost	53,869	2,704	56,573
Opening unrealised gains	5,542	—	5,542
Opening valuation	59,411	2,704	62,115
Movement in the year:			
Purchases at cost	94,686	1,785	96,471
Sales – proceeds	(96,578)	(1,559)	(98,137)
Sales – realised gains on investments	9,043	826	9,869
Net movement in unrealised appreciation	36,385	7,313	43,698
<b>Total</b>	<b>102,947</b>	<b>11,069</b>	<b>114,016</b>
Closing book cost	62,974	3,741	66,715
Closing unrealised gains	39,973	7,328	47,301
<b>Total</b>	<b>102,947</b>	<b>11,069</b>	<b>114,016</b>

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

Transaction costs on purchases during the year amounted to £280,000 (2006: £361,000) and on sales during the year amounted to £281,000 (2006: £328,000). These costs comprise mainly broker commission.

During the year, prior year unrealised gains amounting to £1,939,000 have been transferred to realised gains as disclosed in note 15.

	2007 £'000	2006 £'000
<b>11. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	313	516
Dividends and interest receivable	169	107
Other debtors	41	27
<b>Total</b>	<b>523</b>	<b>650</b>

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

#### Cash at bank and in hand

Cash at bank and in hand comprises bank balances and cash held by the Company, including short term bank deposits. The carrying amount of these approximates to their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

	2007 £'000	2006 £'000
<b>12. Creditors: amounts falling due within one year</b>		
Securities purchased for future settlement	67	1,294
Short term loan	3,632	1,923
Performance fee payable	872	59
VAT on performance fee payable	9	—
Taxation	—	64
Other creditors and accruals	125	112
<b>Total</b>	<b>4,705</b>	<b>3,452</b>

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

	2007 £'000	2006 £'000
<b>13. Provision for liabilities and charges</b>		
<b>Performance fee payable:<sup>1</sup></b>		
Opening balance	—	—
Performance fee for the year	4,485	59
Amount realised during the year	(872)	(59)
<b>Closing balance</b>	<b>3,613</b>	<b>—</b>

<sup>1</sup>Further details of the performance fee can be found in the Directors' report on page 18.

	2007 £'000	2006 £'000
<b>Irrecoverable VAT on performance fee payable:</b>		
Opening balance	—	—
Irrecoverable VAT on performance fee for the year	48	—
Amount realised during the year	(9)	—
<b>Closing balance</b>	<b>39</b>	<b>—</b>

## Notes to the Accounts continued

	2007 £'000	2006 £'000
<b>14. Called up share capital</b>		
<b>Authorised</b>		
125,000,000 shares of 25p each (2006: 125,000,000)	31,250	31,250
<b>Issued and fully paid</b>		
Shares of 25p each		
Opening balance	18,497	17,103
Issue of 1,475,000 shares (2006: 5,575,000 shares)	369	1,394
Repurchase of 4,116,000 shares into treasury (2006: nil)	(1,029)	—
Subtotal	17,837	18,497
Repurchase of 4,116,000 shares into treasury (2006: nil)	1,029	—
Closing balance <sup>1</sup>	18,866	18,497

<sup>1</sup>Represented by 75,462,001 (2006: 73,987,001) ordinary shares of 25p each including 4,116,000 (2006: nil) shares held in treasury.

During the year the Company issued 1,475,000 shares, with a nominal value £369,000, to brokers. The shares were all issued at a premium to the net asset value per share and the total consideration received amounted to £1,521,000.

	Share premium £'000	Exercised warrant reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
<b>15. Reserves</b>							
Opening balance	7,560	3	581	37,476	(10,079)	5,542	928
Currency gains on cash and short term deposits	—	—	—	—	80	—	—
Realised gains on investments	—	—	—	—	9,869	—	—
Net movement in unrealised appreciation	—	—	—	—	—	43,698	—
Transfer on disposal of investments	—	—	—	—	1,939	(1,939)	—
Performance fee	—	—	—	—	—	(4,485)	—
Performance fee now realised	—	—	—	—	(872)	872	—
Irrecoverable VAT on performance fee	—	—	—	—	(48)	—	—
Provision for irrecoverable VAT on performance fee carried forward	—	—	—	—	39	(39)	—
Other capital charges	—	—	—	—	(44)	—	—
Premium on shares issued	1,152	—	—	—	—	—	—
Repurchase of shares into treasury	—	—	—	(4,112)	—	—	—
Currency gains on loans	—	—	—	—	6	108	—
Dividends appropriated in the year	—	—	—	—	—	—	(518)
Net revenue for the year	—	—	—	—	—	—	386
Closing balance	8,712	3	581	33,364	890	43,757	796

### 16. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £106,969,000 (2006: £60,508,000) and on the 71,346,001 (2006: 73,987,001) shares in issue at the year end, excluding shares held in treasury.

	2007 £'000	2006 £'000
<b>17. Reconciliation of total return on ordinary activities before taxation to net cash inflow from operating activities</b>		
Total return on ordinary activities before taxation	49,952	6,695
Less capital return on ordinary activities before taxation	(49,184)	(5,985)
Scrip dividends received as income	(101)	(158)
(Increase)/decrease in accrued income	(62)	113
Increase in other debtors	(14)	(7)
Increase/(decrease) in accrued expenses	18	(1)
Performance fee paid	(59)	(211)
Overseas taxation	(170)	(105)
Net cash inflow from operating activities	380	341

	At 30th September 2006 £'000	Cash flow £'000	Exchange movement £'000	At 30th September 2007 £'000
<b>18. Analysis of changes in net debt</b>				
Cash at bank and in hand	1,216	(509)	80	787
Bank loans falling due within one year	(1,923)	(1,823)	114	(3,632)
Net debt	(707)	(2,332)	194	(2,845)

#### 19. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2006: none).

#### 20. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 17. The terms make allowance for the exclusion of management charges on investments held in funds managed JPMorgan Asset Management ("JPMAM"). The fee payable to JPMAM for the year was £732,000 (2006: £554,000) of which £nil (2006: £nil) was outstanding at the year end.

Details of the performance fee are set out in the Directors' Report on page 18. There is a performance fee payable to JPMAM for the year of £872,000 (2006: £59,000) and the whole of this amount was outstanding at the year end (2006: £59,000).

Included in other management expenses in note 5 on page 33 are safe custody fees amounting to £51,000 (2006: £36,000) of which £14,000 (2006: £10,000) 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 £36,000 (2006: £31,000) of which £nil (2006: £nil) was outstanding at the year end.

Handling charges, incurred on dealing transactions undertaken by overseas custodians during the year, amounting to £44,000 (2006: £90,000) were payable to JPMorgan Chase of which £16,000 (2006: £30,000) was outstanding at the year end.

The Company holds an investment in JF China Pioneer 'A' Share Fund which is managed by JPMAM. At 30th September 2007 this was valued at £11.1 million (2006: £2.7 million) and represented 9.7% (2006: 4.4%) of the Company's investment portfolio. During the year the Company made purchases of this investment with a total value of £1.7 million (2006: £2.7 million) and sales with a total value of £1.6 million (2006: £nil). No income was received from this investment in the current or comparative year.

At the year end, a bank balance of £787,000 (2006: £1,216,000) was held with JPMorgan Chase. A net amount of interest of £7,000 (2006: £10,000) was received by the Company during the year from JPMorgan Chase.

# Notes to the Accounts continued

## 21. Financial instruments

### (a) Management of risk

The Company's financial instruments may comprise:

- Investments in equity shares with overseas exposure. These are held in accordance with the Company's investment objective;
- Short term debtors, creditors and cash arising directly from its operations; and
- Derivative transactions which may include forward foreign currency contracts.

The Company is an investment trust and invests in shares and securities for the long term. It is the Company's policy that no short term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's operations are market price risk, liquidity risk, credit risk and foreign currency risk. A description of these risks is given below, together with the Board's policy for managing these risks where appropriate.

#### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss which the Company might incur as a result of holding a portfolio of investments when market prices fall.

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. An 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.

#### Liquidity risk

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary.

#### Credit risk

The Company's financial assets are bank balances, debtors and investments, which represent the Company's maximum exposure to credit risk in relation to financial assets. When buying and selling investments, the Company is exposed to the risk that the counterparty will not deliver the investment or cash. The Company will only deal with brokers which have been approved by JPMAM and banks with high credit ratings assigned by international credit rating agencies. Limits have been set as to the maximum exposure to any one counterparty at any time.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties.

#### Foreign currency risk

The Company has exposure to foreign currency as part of the risk reward inherent in a company that invests overseas.

The income and capital value of the Company's investments can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than Sterling which is the reporting currency.

The Board has identified three principal areas where foreign currency risk could impact the Company:

- movements in rates affect the value of investments;
- movements in rates affect short term timing differences; and
- movements in rates affect the income received.

The Company may be exposed to currency risk due to exchange rate movement in the period between investment trade date and the date of settlement. This exposure is short term and therefore the risk is not significant.

The Company may use forward currency contracts to manage the exposure to foreign currency movements.

**21. Financial instruments continued****(b) Currency exposures**

An analysis of the Company's net currency assets at 30th September 2007 is:

	China Renminbi £m	Hong Kong Dollar £m	Taiwan Dollar £m	Other £m	Total £m
Investments	33.7	41.5	25.0	13.8	114.0
Net current assets/(liabilities)	0.1	0.3	0.7	(3.5)	(2.4)
Financial instruments outstanding at year end	33.8	41.8	25.7	10.3	111.6

An analysis of the Company's net currency assets at 30th September 2006 is:

	China Renminbi £m	Hong Kong Dollar £m	Taiwan Dollar £m	Other £m	Total £m
Investments	13.4	19.6	20.3	7.2	60.5
Net current assets/(liabilities)	—	0.3	0.6	(2.7)	(1.8)
Financial instruments outstanding at year end	13.4	19.9	20.9	4.5	58.7

**(c) Interest rate risk profile of financial assets and financial liabilities****Financial assets**

The Company's financial assets comprise investments, debtors and cash. The investments are all equity shares which neither pay interest nor have a maturity date. The Company's debtors comprise unsettled broker balances for securities sold, dividends receivable, prepayments and other small balances on which no interest accrues. Cash balances in excess of a predetermined amount are placed on short term deposit and earn market rates of interest.

**Financial liabilities**

The Company's liabilities may include unsettled broker balances for securities purchased and other accruals on which no interest is payable, short term loans and overdrafts. Overdraft interest is payable at the prevailing market rate. The interest rate profile of the Company's financial liabilities at 30th September is:

	2007 £m	2006 £m
Floating rate financial liabilities	3.6	1.9
Liabilities on which no interest is paid	4.8	1.6
Total	8.4	3.5

During the year the Company arranged an £8 million loan facility with Lloyds TSB, expiring in January 2010. Under the terms of this agreement the Company may draw down up to £8 million in Sterling or other major currency at an interest rate of the relevant currency LIBOR for the loan period plus a margin of 0.70% plus the "Associated Costs Rate", which is the cost of complying with certain regulatory requirements. At 30th September 2007, the Company had drawn down US\$7.4 million (£3.6 million) on this facility at an interest rate of 6.45% repayable on 17th October 2007.

At 30th September 2006, the Company had drawn down a short term loan of US\$3.6 million (£1.9 million) with The Royal Bank of Scotland at an interest rate of US\$ LIBOR plus a margin. This was borrowed on an overnight basis.

## Notes to the Accounts continued

### (d) Maturity of the Company's financial liabilities

	2007 £m	2006 £m
Falling due in one year or less or on demand	8.4	3.5

### (e) Fair values of financial instruments

All financial assets and liabilities are included in the balance sheet at fair values.

# Information about the Company

## Financial Calendar

Financial year end	30th September
Interim results announced	May
Final results announced	November
Dividend on ordinary shares paid	December
Annual General Meeting	December
Interim Management Statements	January/July

## 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: 2853893  
 London Stock Exchange Sedol number: 0343501  
 ISIN: GB0003435012  
 Bloomberg code: JMC LN  
 Reuters code: JMC.L

## Market Information

The Company's shares are listed on the London Stock Exchange and are quoted daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman, The Independent and on the JPMorgan website at [www.jpmchinese.co.uk](http://www.jpmchinese.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

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

## Share Transactions

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

## Manager and Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

Finsbury Dials  
 20 Finsbury Street  
 London EC2Y 9AQ  
 Telephone number: 0207 742 6000

Please contact Lucy Dina for company secretarial and administrative matters at the Company's registered office.

## Registrars

Equiniti  
 Reference 1078  
 Aspect House  
 Spencer Road  
 West Sussex BN99 6DA  
 Telephone number: 0870 600 3984

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).

## Auditors

PricewaterhouseCoopers LLP  
 Hay's Galleria  
 1 Hay's Lane  
 London SE1 2RD

## Brokers

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

## Savings Product Administrators

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

**aic**

The Association of  
 Investment Companies A member of the AIC

# Shareholder Analysis

at 30th September 2007

	Number of shares	% Holding
Private Client Brokers	22,676,019	30.1
Retail investors holding shares directly or through nominee accounts <sup>1</sup>	18,182,751	24.1
Individuals in the Investment Trust Share Plan <sup>2</sup>	14,778,494	19.6
Individuals in the Investment Trust Savings Account <sup>2</sup>	3,863,193	5.1
Individuals in the Investment Trust Pensions Account <sup>2</sup>	2,366,861	3.1
Individuals in the Investment Trust Personal Equity Plan <sup>2</sup>	301,358	0.4
<b>Total Retail</b>	<b>62,168,676</b>	<b>82.4</b>
Other institutions	4,784,728	6.3
Unit trusts	2,266,462	3.0
Investment trusts <sup>3</sup>	1,136,362	1.5
Insurance	480,608	0.7
Pensions	389,165	0.5
Charities	120,000	0.2
<b>Total Institutions</b>	<b>9,177,325</b>	<b>12.2</b>
Treasury Shares*	4,116,000	5.4
<b>Total Shares in Issue</b>	<b>75,462,001</b>	<b>100.00</b>

Nominee accounts have been allocated to their appropriate category.

<sup>1</sup>Includes shares below threshold of 10,000 shares.

<sup>2</sup>Savings product managed by JPMorgan.

<sup>3</sup>Includes 675,000 shares held by JPMorgan Elect plc.

\*Shares held in Treasury do not carry any voting rights.

Source: Thomson Financial.

## Notice of Meeting

Notice is hereby given that the fourteenth Annual General Meeting of JPMorgan Chinese Investment Trust plc will be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Tuesday 11th December 2007 at 10.30 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 2007.
  - 2 To approve the Directors' Remuneration Report for the year ended 30th September 2007.
  - 3 To approve a final dividend of 0.50p per share.
  - 4 To re-elect Irving Koo as a Director of the Company.
  - 5 To re-elect Madam Yujiang Zhao as a Director of the Company.
  - 6 To re-elect Nigel Melville as a Director of the Company.
  - 7 To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased or (b) the price of the last independent trade; or (c) the highest current independent bid;
  - (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors) at the date following not more than seven days before the date of purchase;
  - (v) the authority hereby conferred shall expire on 10th June 2009 unless the authority is renewed at the Company's Annual General Meeting in 2008 or at any other general meeting prior to such time; and
  - (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry.

### Special Business

To consider the following resolutions:

#### Authority to increase the maximum aggregate Directors' fees – Ordinary Resolution:

- 8 THAT in accordance with Article 72 of the Company's Articles of Association, the maximum aggregate Directors' fees payable be increased from £100,000 to £150,000 per annum with immediate effect.

#### 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 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued ordinary shares of 25 pence each in the capital of the Company.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 11,311,753 or if less, that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for an ordinary share will be 25 pence;

By order of the Board  
Lucy Dina, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
7th November 2007

## Notice of Meeting continued

### Notes

- 1 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on vote on their behalf. A member wishing to appoint more than one proxy must appoint each proxy in respect of a specified number of shares within his holding. For this purpose a member may photocopy the enclosed Form of Proxy before completion and must indicate the number of shares in respect of which each proxy is appointed. A proxy need not be a member of the Company. The lodging of a form of proxy does not prevent a member from attending and voting if he so wishes.
- 2 Any instrument appointing a proxy, to be valid, must be lodged at the Company's Registrar not less than 2 business days before the time of the meeting.
- 3 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. on 7th December 2007 (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.
- 4 Entry to the above Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.  
  
A corporation, which is a shareholder, may appoint an individual to act as its representative and to vote in person at the meeting. The appointment must comply with section 375 of the Companies Act 1985. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless previously given to the Company's registrars.
- 5 The register of interests of the Directors and connected persons in the share capital of the Company is available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays and public holidays excepted). It will also be available for inspection at the Annual General Meeting.
- 6 No Director has any contract of service with the Company.

### 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. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's CREST Manual. The CREST message must be transmitted so as to be received by the issuer's agent (ID7RA01) by not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST message by the CREST Applications Host) from which the issuer's agent is able to retrieve the CREST message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s), should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timing and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member(s) is/are a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) is/are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

# Glossary of Terms

## Return to Shareholders

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

## Return on Net Assets

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

## Benchmark Return

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

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

## Discount/Premium

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

## Earnings per share

Net revenue return on ordinary activities after taxation, divided by the weighted average number of 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 was to increase by 100%.

## Total Expense Ratio (excluding performance fee)

Management fees and all other operating expenses, excluding interest and performance fees, expressed as a percentage of the average of the opening and closing net assets.

## Total Expense Ratio (including performance fee)

Management fees, all other operating expenses and performance fees payable, but excluding interest, expressed as a percentage of the average of the opening and closing net assets.

# Notes

# Notes

JPMorgan Helpline

Freephone 0800 40 30 30 or 0207 742 9999

9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline

Freephone 0800 41 31 76 or 0172 241 4888

9.00 am to 5.00 pm Monday to Friday

Please use this number if you have any queries relating to the Pension Account.

Your telephone call may be recorded for your security

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