

If you are in any doubt as to the action you should take, you should seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate financial adviser authorised under the Financial Services and Markets Act 2000.

This document comprises a prospectus relating to JPMorgan Chinese Investment Trust plc prepared in accordance with the Prospectus Rules made under section 84 of the Financial Services and Markets Act 2000 in order to make an offer of transferable securities to the public and to admit the transferable securities to trading on the London Stock Exchange. This document has been approved by and filed with the Financial Services Authority in accordance with the Prospectus Rules. In the twelve months prior to the date of this document the Company has not issued any Shares. This document and the information herein relates expressly to the Subscription Shares and the New Ordinary Shares.

If you sell or have sold or otherwise transferred your Ordinary Shares, please send this document, together with the accompanying form of proxy and/or voting instruction form at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom or by whom the sale or transfer was made, for delivery to the purchaser or transferee. The distribution of this document and/or the accompanying documents, in jurisdictions other than the UK, including the United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

Application will be made to the Financial Services Authority for the Subscription Shares and the New Ordinary Shares to be admitted to the Official List before they are issued. Application will also be made to the London Stock Exchange for all such Subscription Shares and the New Ordinary Shares to be admitted to trading on the London Stock Exchange's Main Market for listed securities before they are issued. (International Security Identification Numbers for the New Ordinary Shares: GB0003435012 and for the Subscription Shares: GB00B2PNJ662).

Winterflood Securities Limited, which is authorised and regulated by the Financial Services Authority, is acting for the Company in connection with the Bonus Issue and the Issue and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Winterflood Securities or for advising any such person in connection with the Bonus Issue or the Issue.

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# JPMorgan Chinese Investment Trust plc

*(Incorporated in England and Wales under the Companies Act 1985 No 2853893 and registered as an investment company under section 266 of the Companies Act 1985)*

## PROSPECTUS

### Bonus issue of Subscription Shares

### Proposed issue of up to 50 million New Ordinary Shares

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The existing Ordinary Shares are not, and neither the New Ordinary Shares nor the Subscription Shares will be, registered under the US Securities Act 1933 or under the relevant laws of any State of the United States or any state, province or territory of Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa. Subject to certain exceptions, the New Ordinary Shares made available pursuant to the Issue and the Subscription Shares issued under the Bonus Issue may not, directly or indirectly, be offered, sold, taken up, delivered or transferred in or into the United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa or to, or for the account or benefit of, US persons (as defined in Regulation S of the Securities Act). Neither the New Ordinary Shares nor the Subscription Shares have been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States. **The attention of Overseas Shareholders and other recipients of this document who are residents or citizens of any country other than the United Kingdom is drawn to the section entitled "Overseas Shareholders" in Part II of this document.**

**The whole text of this document should be read. The attention of potential investors is drawn in particular to the section of this document entitled "Risk Factors".**

**Potential Shareholders should inform themselves as to: (a) the possible tax consequences; (b) the legal requirements; and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence or domicile, and which might be relevant to the subscription, holding, or disposal of Ordinary Shares or Subscription Shares.**

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## SUMMARY

**This summary section should be read as an introduction to the Prospectus which comprises the whole of this document. Any decision to acquire New Ordinary Shares should be based on a consideration of the Prospectus as a whole.**

**Where a claim relating to the information contained in a prospectus is brought before a court, a plaintiff investor might, under national legislation of the EEA States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.**

**Civil liability attaches to those persons who are responsible for this summary, including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.**

### **The Company**

The Company is an existing UK investment trust, which was established in 1993 to provide long-term capital growth from investment in Greater China (China, Hong Kong and Taiwan).

The Company's investment policies are:

- 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 representing up to 10 per cent. of Shareholders' funds when appropriate to increase potential returns to Shareholders; and
- to invest no more than 15 per cent. of gross assets in other UK listed investment companies (including investment trusts).

The Company's Manager is JPMorgan Asset Management (UK) Limited. JPMorgan Asset Management is the investment management business of JPMorgan Chase & Co., a leading global financial services firm with operations in more than 50 countries. The JPMorgan Asset Management group of companies provides investment management products and services to individual and institutional investors worldwide and had total funds under management of approximately US\$1.2 trillion as at 31 December 2007.

### **The Bonus Issue**

The Company is proposing to issue Subscription Shares to Qualifying Shareholders on the basis of one new Subscription Share for every five Ordinary Shares. The Subscription Shares will be issued without cost to Qualifying Shareholders.

Each Subscription Share will confer the right (but not the obligation) to subscribe for one Ordinary Share on 15 May 2009 and at the end of each 12 month period thereafter until 15 May 2013 when the rights under the Subscription Shares will lapse. Each Subscription Share will be capable of conversion into one Ordinary Share on notification to the Company in the thirty days preceding 15 May in any of the years 2009 to 2013 (inclusive) on payment of the Conversion Price as set out below.

The Conversion Price will be equal to the unaudited NAV per Ordinary Share as at the close of business on the day immediately preceding the General Meeting, plus a percentage premium to such amount, rounded up to the nearest whole penny as follows:

- (a) if exercised in May 2009 – a 1 per cent. premium to such NAV per Ordinary Share;
- (b) if exercised in May 2010 – a 10 per cent. premium to such NAV per Ordinary Share; and
- (c) if exercised in May 2011, 2012 or 2013 – a 30 per cent. premium to such NAV per Ordinary Share.

The percentage premiums applying at each exercise opportunity and the resulting Conversion Prices reflect the Board's confidence in the Company's prospects and its hope that Qualifying Shareholders will be able to exercise their Subscription Share Rights and acquire Ordinary Shares on favourable terms in the future.

The Directors believe the Bonus Issue of Subscription Shares will have the following advantages:

- at no additional cost, Qualifying Shareholders will receive readily tradable securities with financial value which they may convert into Ordinary Shares in order to benefit from the Company's future growth or realise for cash;
- Shareholders will receive securities that have similar characteristics to warrants, but unlike warrants are qualifying investments for the purposes of an existing PEP and for the stocks and shares component of an ISA; and
- on any exercise of the Subscription Share Rights, the capital base of the Company will increase allowing operating costs to be spread across a larger number of Ordinary Shares and the total expense ratio to fall.

### **The Issue**

The Board intends to make available up to 50 million New Ordinary Shares to be issued from time to time, to existing Shareholders and to new investors, at the discretion of the Directors and at times when the Directors consider it to be in the best interests of existing Shareholders. Such issuance will be at a premium to the Net Asset Value per Ordinary Share at the time of issue, in order to cover the payment of any costs of the issue and the costs of investing the proceeds of the issue.

The Directors consider that the issue of New Ordinary Shares will lead to:

- the Company being able to meet demand from Shareholders and new investors for new Ordinary Shares at a reasonable premium to NAV per Ordinary Share;
- a broadening of the Shareholder base and an improvement in the liquidity of the Ordinary Shares; and
- the Company's costs being spread over a greater number of Ordinary Shares, which may result in the Company's total expense ratio being reduced.

### **Risk factors**

The principal risk factors affecting the Shares which are known to the Directors include (but are not limited to) the following:

#### ***General***

- A shareholding in the Company is suitable only for investors capable of evaluating the risks and merits of such shareholding and who have sufficient resources to bear any loss (including total loss) which may result from the shareholding. Prospective shareholders, therefore, should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 before investing.
- Changes in general economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax legislation and other factors can substantially and adversely affect equity investments and the Company's prospects.

### ***Greater China***

- Investing in equities of companies with substantial assets in or revenues derived from Greater China involves special considerations and certain risks not typically associated with more developed markets or economies.
- The risks inherent in Greater China can generally be expected to result in increased volatility in the shares of companies in Greater China and portfolios which invest in them when compared to their counterparts in developed markets. Investment trusts investing in Greater China generally can be expected to display greater share price and NAV volatility than those investing in developed markets.

### ***Subscription Shares***

- The Subscription Shares represent a geared investment and the market price of the Subscription Shares may be volatile.
- Although subscription shares are tradable securities, market liquidity for subscription shares may be less than the market liquidity of ordinary shares.
- The Subscription Shares could expire and have no value to holders.

### ***New Ordinary Shares***

- The Ordinary Share price is likely to fluctuate and may represent a discount or a premium to the NAV per Ordinary Share. This discount or premium is itself variable as conditions for supply and demand for the Company's Ordinary Shares change. This can mean that the Ordinary Share price can fall when the NAV rises, or vice versa.
- The Company may employ gearing from time to time, which may lead to an amplification of returns both upwards and downwards.
- Market liquidity in the shares of investment trusts is sometimes less than market liquidity in shares issued by larger companies on the London Stock Exchange.

### ***Other***

- Changes in taxation or the accounting policies of the Company could adversely affect Shareholders.

### **Costs of the Proposals**

The Company's expenses in connection with the Proposals are estimated to amount to £265,250 (inclusive of VAT).

### **General Meeting**

The Proposals are conditional on, amongst other things, the approval of Shareholders. A circular has today been despatched to Shareholders convening a General Meeting of the Company for 14 April 2008.

## RISK FACTORS

The Directors consider the factors set out below to be those which potential investors should consider as the key risks specific to an investment in the New Ordinary Shares and Subscription Shares. A shareholding in the Company is suitable only for investors capable of evaluating the risks and merits of such a shareholding and who have sufficient resources to bear any loss (including total loss) which may result from the shareholding. Prospective shareholders, therefore, should consult an independent financial adviser authorised under FSMA before investing. Furthermore, if Shareholders are in doubt as to the consequences of acquiring, holding or disposing of the Subscription Shares they should consult such an independent financial advisor.

The following risks are those material risks of which the Directors are aware. Additional risks which are not presently known to the Directors, or that the Directors currently deem immaterial, may also have an effect on the Company's business.

### General

Investment in the Company should not be regarded as short-term in nature. There can be no guarantee that any appreciation in the value of the Company's assets will occur or that the investment objective of the Company will be achieved. Investors may not get back the full amount invested. The price of Shares and the income from them may go down as well as up.

Changes in general economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax legislation and other factors can substantially and adversely affect equity investments and the Company's prospects.

### Greater China

Global economic conditions, including liquidity and credit conditions, may affect Greater China.

Investing in equity securities of companies with substantial assets in, or revenues derived from Greater China involves special considerations and certain risks not typically associated with more developed markets or economies.

Such risks may include:

- the risk of nationalisation or expropriation of assets or confiscatory taxation;
- social, economic or political uncertainty including war;
- dependence on exports and the corresponding importance of international trade and commodities prices and the economic health of major trading partners;
- currency exchange rate fluctuations which affect both the sterling value of share prices and the competitiveness and profitability of issuers;
- limitations on foreign investors or repatriation of invested capital and foreign exchange;
- potentially higher rates of inflation (including hyperinflation);
- a potential risk of substantial deflation;
- a higher degree of governmental involvement in and control over economies;
- arbitrary government decisions resulting from a lower level of democratic accountability than is typical of developed nations;
- differences in auditing and financial reporting standards or the application thereof which may result in the unavailability or unreliability of material information about economies and companies;
- poor oversight of securities markets;
- poor liquidity in securities markets;

- longer settlement periods for securities transactions;
- less stringent laws and practices in relation to the fiduciary duties of officers and directors and protection of investors;
- poor systems for the registration and custody of securities;
- difficulty of bringing legal proceedings to enforce contractual rights; and
- potentially high risk of social or economic disruption due to incidents such as the SARS epidemic and avian influenza.

The risks inherent in Greater China can generally be expected to result in increased volatility in the shares of Greater China companies and portfolios which invest in them when compared to their counterparts in developed markets. Investment trusts investing in Greater China can generally be expected to display greater share price and net asset value volatility than those investing in developed markets.

### **Foreign exchange risk in Greater China**

The Company will primarily invest in the shares of Greater China companies which are denominated in currencies other than sterling and whose operations are conducted in currencies other than sterling. The Company will therefore have an exposure to foreign exchange risk as a result of changes, both unfavourable and favourable, in exchange rates between those currencies and sterling. Foreign exchange risk may increase the volatility of the NAV per Ordinary Share. The Company does not have a policy of hedging or otherwise seeking to mitigate foreign exchange risk but reserves the right to do so from time to time.

### **Subscription Shares**

Investment in the Subscription Shares may not be suitable as a short-term investment. The value of a Subscription Share may go down as well as up.

Subscription Shares represent a geared investment, so a relatively small movement in the market price of the Ordinary Shares may result in a disproportionately large movement, unfavourable or favourable, in the market price of the Subscription Shares. The market price of the Subscription Shares may therefore be volatile.

The Company has applied for the Subscription Shares to be admitted to trading on the London Stock Exchange. The London Stock Exchange has the right to suspend or limit trading in a Company's Securities. Any suspension or limitation on trading in the Subscription Shares may affect the ability of Shareholders to realise their investment.

The intrinsic value of a Subscription Share at any time will be the prevailing market price of an Ordinary Share less the price payable on the exercise of the Subscription Share Rights and, as such, it is expected to rise or fall depending on whether the market price of an Ordinary Share rises or falls. The market price of a Subscription Share may be higher than the intrinsic value of a Subscription Share, reflecting the potential geared returns available from an investment in the Subscription Shares. However, the market price of the Subscription Shares will be determined by market forces and there is no guarantee that they will have a market value.

The published market price of the Subscription Shares will typically be their mid-market price. Due to the potential difference between the mid-market price of the Subscription Shares and the price at which Subscription Shares can be sold, there is no guarantee that the realisable value of the Subscription Shares will reflect their published market price.

In the event of the winding-up of the Company prior to the exercise of the Subscription Share Rights, Subscription Shareholders may receive a payment out of the assets which would otherwise be available for distribution amongst the Shareholders. This payment to Subscription Shareholders may not necessarily be an amount equal to the market value of their Subscription Shares.

In the case of any Subscription Shares whose Subscription Share Rights have not been exercised on or before the final date for exercising such rights, such Subscription Shares will cease to have any value unless a trustee appointed by the Company determines that the net proceeds of sale of the Subscription Shares that would arise on the exercise of such rights after deduction of all the costs and expenses of sale would exceed the costs of exercise of such rights.

Although subscription shares are tradable securities, market liquidity for subscription shares may be less than the market liquidity of ordinary shares.

The Subscription Shares, in so far as they give an entitlement to subscribe for new Ordinary Shares, are affected by the same risk factors as the Ordinary Shares as set out in this section headed "Risk Factors".

### **New Ordinary Shares**

The Company is an investment trust. Investment trusts aim to generate returns for shareholders by investing in other companies. As an investment trust may invest in a range of different companies, sectors and geographic regions, it may represent a method for investors to gain a diversified investment exposure. However, prospective Shareholders should be aware of certain factors which apply to the Company and to investment trusts generally.

#### ***Discounts***

The price of shares in an investment trust is determined by the interaction of supply and demand for such shares in the market as well as the net asset value per share. The share price can therefore fluctuate and may represent a discount or premium to the net asset value per share. This discount or premium is itself variable as conditions for supply and demand change. This can mean that the share price can fall when the net asset value per share rises, or vice versa.

The Company will seek to limit the level and volatility of the discount to NAV at which the Shares trade by repurchasing and issuing Shares when it is considered in the best interests of Shareholders to do so. However, there can be no guarantee that this strategy will always be successful or capable of being implemented.

#### ***Gearing***

Some investment trusts employ gearing, that is, seeking to enhance returns to shareholders by borrowing funds for investment. Where an investment trust is geared, its net asset value and price performance would be expected to represent an amplification of any upward or downward movement in the investment trust's portfolio as a result of price changes of the investments contained therein.

The Company's gearing policy is to use gearing where appropriate to increase potential returns to Shareholders for tactical purposes, up to a maximum level of 10 per cent. of Shareholders' funds, which may lead to an amplification of returns both upwards and downwards.

#### ***Liquidity***

Market liquidity in the shares of investment trusts is sometimes less than market liquidity in the shares issued by larger companies on the London Stock Exchange.

#### ***Dividends and income***

The Company's objective is to provide capital growth and not to provide any particular level of dividend. Consequently there may be fluctuations in the level of dividend income, or no dividends may be payable. The Company may only pay dividends to the extent that it has profits available for that purpose. Under the Articles, the Company may not pay a dividend out of capital reserves while it remains an investment company.

#### ***Accounting policies***

The Company has a policy of charging any performance fees payable within one year (which relate to outperformance on the capital account) to the realised capital reserve. Those payable in future years are charged to the unrealised capital reserve. Where a performance fee is earned, the NAV will be reduced by an amount equal to the performance fee.

## **Taxation**

Representations in this document concerning the taxation of Shareholders and the Company are based on current law and practice. These are, in principle, subject to change and prospective investors should be aware that such changes may affect the Company's ability to generate returns for Shareholders and/or the taxation of such returns to Shareholders. **If you are in any doubt as to your tax position you should consult an appropriate independent professional adviser.**

Any change in the taxation legislation or taxation regime applicable to the Company or the (including failure by the Company to satisfy the conditions of section 842 of the Income and Corporation Taxes Act 1988) could affect the value of the investments held by the Company, affect the Company's ability to provide returns to Shareholders or alter the post-tax returns to Shareholders.

## DIRECTORS, MANAGER AND ADVISERS

Directors	Nigel Melville ( <i>Chairman</i> ) Sir Andrew Burns KCMG William Knight Irving Koo OBE Madam Yujiang Zhao
Registered Office	all of: Finsbury Dials 20 Finsbury Street London EC2Y 9AQ
Manager and Secretary	JPMorgan Asset Management (UK) Limited Finsbury Dials 20 Finsbury Street London EC2Y 9AQ
Broker, Financial Adviser and Sponsor	Winterflood Securities The Atrium Building Cannon Bridge 25 Dowgate Hill London EC4R 2GA
Legal Advisers to the Company	Travers Smith 10 Snow Hill London EC1A 2AL
Auditors	PriceWaterhouseCoopers LLP 32 London Bridge Street London SE1 9SY
Registrar	Equiniti Limited Reference 1078 Aspect House Spencer Road Lancing West Sussex BN99 6ZL

## PART I

### THE PROPOSALS

#### **The Proposals**

The Company intends to issue the Subscription Shares by way of the Bonus Issue and make available for issue up to 50 million New Ordinary Shares subject to the passing of Resolutions.

#### ***The Bonus Issue***

The Company is proposing to issue Subscription Shares to Qualifying Shareholders on the basis of one Subscription Share for every five Ordinary Shares, subject to the passing of Resolution 1 set out in the Notice of General Meeting. The Subscription Shares will be issued without cost to Qualifying Shareholders.

Each Subscription Share will confer the right (but not the obligation) to subscribe for one Ordinary Share on 15 May 2009 and at the end of each 12 month period thereafter until 15 May 2013 when the rights under the Subscription Shares will lapse. Each Subscription Share will be capable of conversion into one Ordinary Share on notification to the Company in the thirty days preceding 15 May in any of the years 2009 to 2013 (inclusive) on payment of the Conversion Price as set out below.

The Conversion Price will be equal to the unaudited NAV per Ordinary Share as at 5 p.m. on 11 April 2008, plus a percentage premium to such amount, rounded up to the nearest whole penny as follows:

- (a) if exercised in May 2009 – a 1 per cent. premium to such NAV per Ordinary Share;
- (b) if exercised in May 2010 – a 10 per cent. premium to such NAV per Ordinary Share; and
- (c) if exercised in May 2011, 2012 or 2013 – a 30 per cent. premium to such NAV per Ordinary Share.

It is expected that a supplementary prospectus stating the Conversion Price will be published on 15 April 2008.

The percentage premiums applying at each exercise opportunity and the resulting Conversion Prices reflect the Board's confidence in the Company's prospects and its hope that Qualifying Shareholders will be able to exercise their Subscription Share Rights and acquire Ordinary Shares on favourable terms in the future.

Fractions of Subscription Shares will not be allotted or issued and entitlements will be rounded down to the nearest whole number of Subscription Shares.

The ISIN of the Subscription Shares is GB00B2PNJ662 and the TIDM is JMCS.

#### ***The Issue***

The Board intends to make available up to 50 million New Ordinary Shares to be issued from time to time, to existing Shareholders and to new investors, at the discretion of the Directors and at times when the Directors consider it to be in the best interests of existing Shareholders. Such issuance will be at a premium to the Net Asset Value per Ordinary Share at the time of issue, in order to cover the payment of any costs of the issue and the costs of investing the proceeds of the issue.

#### ***Authority to repurchase shares***

Shareholder resolutions were passed at the Company's annual general meeting on 11 December 2007 granting the Company authority to make market purchases of Shares representing (subject to certain conditions) up to 14.99 per cent. of the Company's issued share capital. The Company's authority to repurchase Shares is due to expire on 10 June 2009 unless previously renewed. The Company is proposing (subject to the passing of Resolutions 1 and 2) to renew this authority to buy back up to 14.99 per cent. of the issued Ordinary Share capital and to seek authority to buy back up to 14.99 per cent. of the issued Subscription Share capital.

Repurchases of Ordinary Shares will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per Ordinary Share as and when market conditions are appropriate and in accordance with the Listing Rules. Ordinary Shares repurchased might not be cancelled but rather held as treasury shares and may be subsequently re-issued at a premium. Purchases of shares to be held in treasury will be made in accordance with the Listing Rules and the Companies (Acquisitions of Own Shares) (Treasury Shares) Regulations 2003 (as amended).

Purchases through the market, will not exceed the higher of (i) 5 per cent. above the average of the middle market quotations (as derived from the Official List) for the 5 consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Ordinary Shares on the trading venue where the purchase is carried out.

Repurchases of Subscription Shares will be made at the discretion of the Board and will only be made when market conditions are appropriate.

### ***Share Issues and authority***

At an Extraordinary General Meeting held on 1 August 2006, a Shareholder resolution was passed which granted the Company a general authority to allot up to a maximum nominal amount of £5,522,500 Ordinary Shares for cash, representing approximately 30 per cent. of the then issued Ordinary Share capital; and to make such allotments without regard to pre-emption rights. It is proposed to renew these authorities at the General Meeting.

The Company is proposing (subject to the passing of the Resolution 1 at the General Meeting) to authorise the Directors to allot up to an aggregate nominal amount of £12,500,000 pursuant to the Issue and £3,675,516 pursuant to the Bonus Issue, and to allot up to an aggregate nominal amount of £12,500,000 pursuant to the Issue without regard to statutory pre-emption rights.

In the year to 30 September 2007, the Company issued a total of 1,475,000 new Ordinary Shares for cash for a total consideration of £1,521,000. Since 30 September 2007 and up to the date of the publication of this document no further Ordinary Shares have been issued.

### ***Continuation Vote***

When the Company was launched in 1993, the Directors felt that it was important to give shareholders the opportunity to consider the future of the Company at regular intervals.

The Company's Articles currently require that, at the AGM to be held in December 2008 and every fifth year thereafter, the Directors will propose an ordinary resolution that the Company continues as an investment trust for the period until the end of the AGM to be held five years later.

The Bonus Issue, if approved, will create Subscription Shares with a five year life. In order that the Subscription Share Rights are not affected by the Company's five yearly continuation vote schedule, it is proposed to bring forward the 2008 continuation vote and hold the vote at the General Meeting to be held in connection with the Proposals rather than at the Company's AGM later in the year. This change will be reflected in the New Articles proposed to be adopted at the General Meeting.

The Directors have considered both the viability of the Company along with its mandate and concluded that the investment outlook for the Greater China region is positive over the medium to long term. The Directors also believe that the continuing appointment of the present manager, JPMorgan Asset Management (UK) Limited is in the best interests of Shareholders and that the Company should continue in its current form.

If Resolution 3 is passed at the General Meeting the next continuation vote will be at the AGM in 2013.

### ***New Articles of Association***

If Resolution 1 is approved at the General Meeting, new Articles of Association will be adopted to replace the existing Articles. The New Articles, will provide for the rights attaching to the Subscription Shares and other matters connected with the Bonus Issue, amend the provisions relating to the

continuation vote, make minor technical changes and incorporate a number of changes to reflect recent legal developments, in particular certain provisions of the Companies Act 2006 which came, or will come, into effect in 2007 and 2008.

The principal changes in connection with the 2006 Act to be included in the New Articles relate to electronic communication with shareholders, shareholder meetings and resolutions, directors' indemnities, transfers of shares and directors' conflicts of interest. For a more detailed explanation of these and other amendments please refer to the Appendix to the Notice of General Meeting contained in the Circular.

### **Benefits of the Bonus Issue and the Issue**

The Directors believe the Bonus Issue of Subscription Shares will have the following advantages:

- at no additional cost, Qualifying Shareholders will receive readily tradable securities with financial value which they may convert into Ordinary Shares in order to benefit from the Company's future growth or realise for cash;
- Shareholders will receive securities that have similar characteristics to warrants, but unlike warrants are qualifying investments for the purposes of an existing PEP and for the stocks and shares component of an ISA; and
- on any exercise of the Subscription Share Rights, the capital base of the Company will increase allowing operating costs to be spread across a larger number of Ordinary Shares and the total expense ratio to fall.

The Directors consider that the issue of New Ordinary Shares will lead to:

- the Company being able to meet demand from Shareholders and new investors for new Ordinary Shares at a reasonable premium to NAV per Ordinary Share;
- a broadening of the Shareholder base and an improvement in the liquidity of the Ordinary Shares; and
- the Company's costs being spread over a greater number of Ordinary Shares, which may result in the Company's total expense ratio being reduced.

### **Admission and dealings**

The Subscription Shares and the New Ordinary Shares will be in registered form and may be issued either in certificated or uncertificated form. No temporary documents of title will be issued. Pending despatch of definitive certificates, transfers of New Ordinary Shares and Subscription Shares in certificated form will be certified against the Company's Share register. All documents or remittances sent by or to a subscriber of New Ordinary Shares (or his agent as appropriate) will be sent through the post at the risk of the subscriber.

Applications will be made to the UK Listing Authority for the Subscription Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on its Main Market. It is expected that Admission will occur, and that dealings will commence, on 16 April 2008 in respect of the Subscription Shares. On Admission of the Subscription Shares, the Subscription Shares will confer rights to subscribe for new Ordinary Shares representing, in aggregate, up to 20 per cent. of the then issued Ordinary Share capital of the Company.

Applications will be made from time to time for the Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange prior to them being issued. It is not possible to determine the exact number of New Ordinary Shares that will be issued and the Company will make listing applications to the UKLA as and when the need arises.

### **Costs of the Proposals**

The Company's expenses in connection with the Proposals are estimated to amount to £265,250 (inclusive of VAT). The Board is proposing to charge these costs to the Company's revenue account.

### **Profile of typical investor in the New Ordinary Shares**

The typical investors for whom the New Ordinary Shares are intended are professionally advised private investors, or institutional investors, seeking long-term capital growth by investment in Greater China companies. The Shares may also be suitable for financially sophisticated non-advised private investors who are capable of evaluating the risks and merits of an investment in the Company and who have sufficient resources to bear any loss that may result from such an investment. However, such investors should consider consulting an independent financial adviser authorised under FSMA before investing.

### **Overseas Shareholders**

The issue of the New Ordinary Shares and Subscription Shares to persons who have a registered or mailing address in countries other than the United Kingdom may be affected by the law or regulatory requirements of the relevant jurisdiction. The Board will allot any Subscription Shares due under the Bonus Issue to Overseas Shareholders to a market maker who will sell such Subscription Shares promptly at the best price obtainable. The proceeds of sale will be paid to the Overseas Shareholders entitled to them save that entitlements of less than £5 per Overseas Shareholder will be retained by the Company. Any Shareholder who is in any doubt as to their position should consult an appropriate professional adviser without delay.

The attention of Overseas Shareholders is drawn to page 21 of this document.

### **Taxation**

The attention of Shareholders is drawn to the summary of United Kingdom tax matters set out in paragraph 12 of Part V of this document. Any Shareholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional adviser.

### **General Meeting**

The Proposals are conditional on, amongst other things, the approval by Shareholders of resolutions to be proposed at a general meeting of the Company which has been convened for 14 April 2008.

## PART II

### INFORMATION ON THE COMPANY AND INFORMATION FOR OVERSEAS SHAREHOLDERS

#### Introduction

The Company is a UK investment trust, established in September 1993, which has an objective of achieving capital growth through investment in Greater China. The Company is publishing this document in order that it can issue the Subscription Shares and make available up to 50 million New Ordinary Shares from time to time, subject to the granting of necessary Shareholder approval.

#### Investment policy

The Company's objective is to provide long term capital growth by investment in Greater China companies. It aims to outperform the MSCI Golden Dragon Index (expressed in sterling terms).

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 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 per cent. above or below the benchmark index weighting.

Liquidity and borrowings are managed with the aim of increasing returns to shareholders.

Gearing up to 10 per cent. of Shareholders' funds may be used when appropriate to increase potential returns to Shareholders.

The Company will not normally invest in derivative instruments, although it may undertake transactions in derivative instruments for the purpose of efficient portfolio management. The extent of any derivative transactions will not exceed 5 per cent. of the Company's gross assets at the time the derivative position is entered into.

The company will not normally invest in unquoted investments, and no more than 10 per cent. of the Company's total assets can be invested in unquoted investments.

The maximum permitted exposure to group or related companies is 15 per cent. of the Company's total assets.

The Company does not invest more than 15 per cent. of its gross assets in other UK listed investment companies (including investment trusts). The Company does not invest more than 10 per cent. of its gross assets in companies that themselves may invest more than 15 per cent. of their gross assets in UK listed investment companies.

In implementing the investment policy the Board and the Manager agree to observe certain limits and restrictions on the operations of the Manager in order to manage risk, these limits and restrictions (which may be changed from time to time) are summarised below.

- As a result of market growth, the maximum permitted exposure to each individual company is 12.5 per cent. of the Company's total assets, with the exception of China Mobile and JF China Pioneer 'A' Share Fund which is 15.0 per cent.
- At time of purchase, the maximum permitted exposure to each individual company is 10.0 per cent. of the Company's total assets, and 12.5 per cent. for China Mobile and JF China Pioneer 'A' Share Fund.
- The maximum permitted exposure to mid-cap stocks (a stock with a market capitalisation of below US\$500m) is 45 per cent. (including market movement) without Board permission.

## Investment portfolio

As at the close of business on 14 March 2008 (being the latest practicable date prior to the publication of this document) the major investments of the Company, the industrial sector and geographic allocations of the Company were as follows:-

### *Top twenty investments*

<i>Security Issuer</i>	<i>% of total assets as at 14 March 2008</i>
China Mobile (Hong Kong) Limited (China)	8.06
China Mobile provides cellular telecommunication services in the People's Republic of China.	
JF China Pioneer 'A' Share Fund (China)	7.11
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.	
Cheung Kong Holdings Limited (Hong Kong)	4.53
Cheung Kong develops and invests in real estate. The company also provides real estate agency and management services, operates hotels, and invests in securities.	
Cathay Financial Holding Co., Limited (Taiwan)	3.79
Cathay Financial is a holding company. Through its subsidiaries, the company provides traditional life, health care and accident insurances, as well as banking, security underwriting and brokerage services.	
CNOOC Limited (Hong Kong)	3.72
CNOOC explores, develops, produces, and sells crude oil and natural gas.	
China Construction Bank (China)	3.58
China Construction Bank is one of the largest commercial banks in China with over 68,000 corporate and 146 million personal customer accounts.	
China Merchants Bank (China)	3.35
China Merchants Bank is one of the leading retail banks in China, with a focus on eastern coastal provinces. It is headquartered in Shenzhen.	
Taiwan Semiconductor Manufacturing Company Ltd. (Taiwan)	3.24
TSMC manufactures and markets integrated circuits. The company provides the following services: wafer manufacturing, wafer probing, assembly and testing, mask production, and design services.	
China Shenhua Energy Co., Limited (China)	3.08
China Shenhua Energy is one of China's largest integrated coal based energy companies.	
China Life Insurance Co., Limited (China)	2.87
China Life Insurance offers a wide range of life, accident, and health insurance products and services.	
Sun Hung Kai Properties Limited (Hong Kong)	2.61
Sun Hung Kai Properties develops and invests in properties. The Company also operates hotels, manages properties, car parking and transportation infrastructure.	

<i>Security Issuer</i>	<i>% of total assets as at 14 March 2008</i>
Hon Hai Precision Industry Co., Ltd (Taiwan)	2.52
Hon Hai Precision manufactures and markets personal computer (PC) connectors, and cable assemblies used in desktop PCs and PC servers.	
Hong Kong Exchanges & Clearing (Hong Kong)	2.49
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.	
Chinatrust Financial Holding Company Ltd (Taiwan)	2.40
Chinatrust Financial Holdings Company Ltd is a holding company. Through its subsidiaries, the Company provides a variety of banking and financial services including deposit, loan, guarantee, international banking, trust banking, credit card, investment banking, safety deposit box and internet banking services.	
Formosa Plastics Corp (Taiwan)	2.28
Formosa Plastics Corporation manufacturers and markets plastic materials and chemical fiber products. The Company's products include PVC, high density polyethylene, tairyln acrylic fiber, acrylic acid and ester, carbon fiber, caustic soda, PVC modifier and calcium carbonate.	
Nan Ya Plastics Corporation (Taiwan)	2.17
Nan Ya Plastics Corporation manufactures and markets plastic and chemical fiber products. The Company's products include polyester filament yarns, flexible PVC (Polyvinyl Chloride) film products, plastic leather products, and rigid film products. Nan Ya also manufactures printed circuit boards.	
China Petroleum & Chemical Corporation (China)	2.15
China Petroleum & Chemical explores for and produces crude oil and natural gas in China. The Company also owns refineries that make petroleum and petrochemical products such as gasoline, diesel, jet fuel, kerosene, ethylene, synthetic fibers, synthetic rubber, synthetic resins, and chemical fertilizers.	
AU Optronics Corporation (Taiwan)	2.07
AU Optronics Corporation manufactures and markets thin film transistor-liquid crystal displays and plasma display panels. The Company sells its products in Taiwan and exports world-wide.	
Chunghwa Telecom Co., Ltd. (Taiwan)	1.99
Chunghwa Telecom Co., Ltd. provides local, domestic, and international long distance services. The Company also offers wireless telecommunication, paging and internet services.	
China Communications Construction Company Ltd. (China)	1.77
China Communications Construction Company Ltd. is a transportation infrastructure group. The Company is involved in infrastructure construction, infrastructure design, dredging, and port machinery manufacturing. The Company has operations world-wide.	
Top twenty investments total	65.78
Balance (35 investments)	32.93
Net current assets	1.29
Total	100.00

*(Business descriptions extracted from Bloomberg)*

### ***Industrial sector breakdown***

<i>Sector</i>	<i>% of total assets as at 14 March 2008</i>
Financials	40.07
Information Technology	15.20
Telecommunication Services	11.70
Energy	8.95
Consumer Discretionary	8.52
Materials	7.56
Industrials	4.90
Consumer Staples	0.78
Utilities	0.63
Sub-total	98.31
Cash	1.29
Total	100.0

### ***Geographic portfolio allocation***

<i>Country</i>	<i>% of total assets as at 14 March 2008</i>
China	45.74
Hong Kong	24.31
Taiwan	28.66
Sub-total	98.71
Cash	1.29
Total	100.00

*(source : JPMorgan Asset Management)*

### **Investment trends and outlook**

China is the world's fastest growing major economy. Economic growth has averaged 9.5 per cent. over the past two decades and in 2007 the economy grew by 11.4 per cent., the fastest rate of growth seen for 13 years. Given the levels of economic growth it was perhaps unsurprising that in 2007 China's stock market was the best performing within both the Greater China and the wider Asia Pacific region, posting a 63.4 per cent. gain in sterling terms. The strong market performance was further fuelled by the continued strength in domestic growth, expectations for Renminbi appreciation and ample liquidity. For the first time in seven years, China's consumption outweighed net exports and investments in 2007 to contribute 4.4 per cent. of the overall 11.4 per cent. GDP growth.

The Hong Kong market also posted a positive return of 38.8 per cent. in 2007 benefiting from the spill-over effect of China growth, supportive liquidity and improving economic fundamentals. Taiwan was the least well performing market in the Greater China region, posting a modest 6.6 per cent. gain in 2007.

The Board, based on advice from the Manager, believes that China's economic fundamentals will remain strong and, despite the recent sharp falls in global financial markets, has a positive long-term outlook for its stock market. Nevertheless, global growth expectations are being downgraded and China is no exception. The World Bank recently cut its GDP growth forecast for China to 9.6 per cent. (from 10.8 per cent.) but, by the standards of any other country, this is still enviably fast. The Board believes that China should prove more resilient amid a global growth slowdown, as the momentum of domestic demand should remain robust and the government is well positioned to stimulate demand by easing fiscal policy and credit controls, should the U.S. downturn worsen. The Board therefore believes that, despite moderating in 2008, China's economic growth should remain solid.

The Board believes that the Hong Kong market, being interest rate sensitive, should continue to draw investor interest in view of the current global economic backdrop. High job security and positive wealth effect should hold up property demand and lend support to domestic demand in general.

For Taiwan, the Board believes that the markets will remain volatile in the short-term. Further earnings downgrades are expected for the technology sector to reflect slowing US and global demand and the impact of higher labour costs in China.

## **The Management of the Company**

### ***The Board***

The Directors are responsible for determining the Company's investment policy and have overall responsibility for the Company's activities.

The Board consists of five non-executive Directors, all of whom are considered to be independent of the Manager, including the Chairman.

The Directors of the Company are as follows:

#### ***Nigel Melville (Chairman) (aged 62)***

Chairman since December 2003 and a Director since February 1997. Chairman of Emtelle Holdings Limited, a UK based manufacturer of fibre optic cabling systems for telecommunications. He is also a director of a number of public and private companies, including Matrix Income & Growth 2 VCT plc. 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 more than twenty years.

#### ***Sir Andrew Burns, KCMG (aged 64)***

A Director since December 2003. British Consul-General to Hong Kong and Macau from 1997-2000. A career British diplomat since 1965, he has 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 a director of Aberdeen All Asia Investment Trust plc.

#### ***William Knight (aged 64)***

A Director since April 2004. A founder partner of Emerisque Capital, he has been involved with the Greater China region for more than 30 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 bank activities throughout Asia, based in Hong Kong, and later as a Managing Director of Lloyds Bank Fund Management. He currently serves on the board of the Greater China Corporation, a New York based public company that makes direct investments in the Greater China region.

#### ***Irving Koo, OBE (aged 60)***

A Director since February 2005. Managing director of Trion Pacific Limited, a Hong Kong-based consultancy specialising in marketing and communications 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 member of the Hong Kong Management Association.

#### ***Madam Yujiang Zhao (aged 58)***

A Director since 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 1980's, and also acted as managing director of a foreign investment bank responsible for operations in China for nine years.

## ***The Manager***

The Company's Manager is JPMorgan Asset Management (UK) Limited. JPMorgan Asset Management is the investment management business of JPMorgan Chase & Co., a leading global financial services firm with operations in more than 50 countries. The JPMorgan Asset Management group of companies provides investment management products and services to individual and institutional investors worldwide and had total funds under management of approximately US\$1.2 trillion as at 31 December 2007.

Specialist Greater Chinese equity portfolios are managed within the Manager's sixty nine person strong Pacific Regional Group ("PRG"). Within the PRG, Greater China country specialists manage twenty five China and Greater Chinese equity mandates with total assets under management of approximately US\$20 billion as at 31 December 2007.

The investment managers with primary responsibility for the day-to-day management of the Company's portfolio are Howard Wang and Emerson Yip who have an average of 12 years' industry experience.

## **Performance**

### ***Total return performance in sterling to 29 February 2008, per cent.***

	<i>3 months</i>	<i>6 months</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>
<b>NAV per Share</b>	(11.3)	1.6	37.9	117.5	218.1
<b>Price per Share</b>	(9.5)	(0.3)	27.5	89.4	214.6
<b>MSCI Golden Dragon Index</b>	(7.9)	3.2	27.2	82.4	158.0

*(source: Fundamental Data, MSCI)*

The above table represents performance of the Company and its performance benchmark at a particular point in time. There can be no guarantee that the Company's performance will be replicated over future time periods, including both in the short-term and the long-term.

## **Dividend policy**

It is the intention of the Directors to distribute substantially all of the Company's net income (if any) after expenses for each year ending 30 September in the form of a single dividend in December of each year. However, in view of the Company's primary objective of achieving capital growth there may be fluctuations in the level of dividend income.

## **Administration and secretarial arrangements**

Under the Management Agreement, the Manager provides all services of a secretarial, accounting and administrative nature (excluding registration services) to the Company including the calculation of the NAV of the Company's Shares). The Manager receives an aggregate fee for all its services provided under the Management Agreement including the discretionary management of the Company's assets. Full details of the fees provided for by the Management Agreement are contained in paragraph 11 of Part V of this document.

## **Reports to Shareholders and Annual General Meetings**

The Company's annual report and accounts will be prepared up to 30 September each year and copies are normally sent to Shareholders in November. The Company's annual general meetings are usually held in December of each year.

## **Overseas Shareholders**

The issue of the New Ordinary Shares and the Subscription Shares to persons who have a registered or mailing address in countries other than the United Kingdom may be affected by the law or regulatory requirements of the relevant jurisdiction. Any Shareholder who is in any doubt as to their position should consult an appropriate professional adviser without delay.

### ***General***

Receipt of this document will not constitute an invitation or offer to acquire New Ordinary Shares or Subscription Shares. Neither the New Ordinary Shares nor the Subscription Shares will be issued to Shareholders who have a registered or mailing address in those countries in which it would or might involve a breach of the relevant securities laws or regulations to make such an invitation, offer or issue. In those circumstances, this document will be sent for information only and should not be copied or redistributed.

No person receiving a copy of this document in any country other than the United Kingdom may treat the same as consisting an invitation, offer or issue to them, unless, in the relevant country, such invitation, offer or issue could lawfully be made to them without compliance with any registration or other legal or regulatory requirements.

Persons receiving a copy of this document should not distribute or send the same to any person in, or citizen or resident of, or into any country where to do so would or might involve a breach of the local securities laws or regulations. If a copy of this document is received by any person in any such territory, or by their agent or nominee in any such territory, he must not seek to acquire New Ordinary Shares or Subscription Shares. Any person who does forward this document into any such countries (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph.

The Subscription Shares are not being issued to Overseas Shareholders and this document may not be treated as an invitation or offer to any Overseas Shareholders.

The Board will allot any Subscription Shares due under the Bonus Issue to Overseas Shareholders to a market maker who will sell such Subscription Shares promptly at the best price obtainable. The proceeds of sale will be paid to the Overseas Shareholders entitled to them save that entitlements of less than £5 per Overseas Shareholder will be retained by the Company.

Notwithstanding any other provision of this document the Company reserves the right to permit any Shareholder to take up Subscription Shares if the Company in its sole and absolute discretion is satisfied at any time prior to the General Meeting that the transaction in question is exempt from, or not subject to the legislation or regulations giving rise to the restrictions in question.

## PART III

### FINANCIAL INFORMATION RELATING TO THE COMPANY

#### 1. Statutory accounts for the three financial years ended 30 September 2005, 2006 and 2007

Statutory accounts of the Company for the three financial years ended 30 September 2005, 2006 and 2007, in respect of which the Company's auditors, PricewaterhouseCoopers LLP, have given unqualified opinions that the accounts give a true and fair view of the state of affairs of the Company and of its total return and cash flows for the year ended 30 September 2007 and have been properly prepared in accordance with the Companies Act 1985. PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants in England and Wales.

#### 2. Published annual reports and accounts for the three financial years ended 30 September 2005, 2006 and 2007

##### 2.1 *Historical financial information*

The published annual reports and audited accounts for the Company for the three financial years ended 30 September 2005, 2006 and 2007, which have been incorporated in this document by reference, included, on the pages specified in the table below, the following information:

<i>Nature of Information</i>	<i>Annual report and accounts for the year ended 30 September</i>		
	<i>2005 Page No(s)</i>	<i>2006 Page No(s)</i>	<i>2007 Page No(s)</i>
Income Statement (known as Statement of total return in prior year accounts)	32	34	27
Reconciliation of Movements in Shareholders' Funds	n/a	35	28
Balance sheet	33	36	29
Cash flow statement	34	37	30
Accounting policies	35	38-39	31-32
Notes to the financial statements (incorporating summary of principal accounting policies)	35-43	38-51	31-42
Audit report	31	32-33	26
Chairman's statement	1-4	2-4	2-4
Managers' Report	5-8	5-7	5-7
Directors' Report	19-22	16-21	15-19

## 2.2 *Selected financial information*

The key audited figures that summarise the Company's financial condition in respect of the three financial years ended 30 September 2007, which have been extracted without material adjustment from the historical financial information referred to in paragraph 2.1 of this Part III (unless otherwise indicated in the notes below the following table), are set out in the following table:

	<i>As at or for year ending 30 September</i>			
	<i>2005</i>	<i>2005 (Restated)*</i>	<i>2006</i>	<i>2007</i>
Total assets less current liabilities (£'000)	49,577	50,193	60,529	110,621
Total net assets (£'000)	49,539	50,155	60,508	106,969
NAV per Share (pence)	72.4	73.3	81.8	149.9
Revenue				
Gross return (£'000)	1,570	1,570	1,562	1,887
Return attributable to Shareholders (£'000)	641	641	535	386
Return per Share (pence)	0.96	0.96	0.74	0.52
Dividend per Share (pence)	0.90	0.90	0.70	0.50
Total				
Gross return (£'000)	10,567	10,567	7,606	55,604
Return attributable to Shareholders (£'000)	9,496	9,496	6,539	49,570
Return per Share (pence)	14.19	14.19	9.08	67.19

\* Restatements and prior year adjustments resulting from the adoption of new accounting policies as detailed below:

In accordance with FRS 21: "Events after the Balance Sheet Date", dividends are not accrued in the accounts unless they have been approved by shareholders before the balance sheet date. Dividends payable to equity shareholders are recognised in the "Reconciliation of Movements in Shareholders' Funds" in the Company's accounts when they have been approved by shareholders and become a liability of the Company. This has led to an increase in net assets at 30 September 2005.

## 2.3 *Operating and financial review*

The Company's published annual reports and accounts for the three financial years ended 30 September 2007 included, on the pages specified in the table below, descriptions of the Company's financial condition (in both capital and revenue terms); details of the Company's investment activity and portfolio exposure; and changes in its financial condition for each of those years.

<i>Nature of Information</i>	<i>Annual report and accounts for the year ended 30 September</i>		
	<i>2005 Page No(s)</i>	<i>2006 Page No(s)</i>	<i>2007 Page No(s)</i>
Chairman's statement	1-4	2-4	2-4
Manager's report	5-8	5-7	5-7
Portfolio analyses	13-14	10-11	11-12
Performance, discount and financial record	11-12	9&17	9,10 & 16

The causes of material changes in the capital value of the Company's assets in these three financial years can be summarised as follows:

- (i) in the year to 30 September 2005, the Company made a net capital gain of £8,997,000. £9,003,000 of gains related to gains on investments, including an unrealised gain of £6,126,000 and a realised gain of £2,919,000;
- (ii) in the year to 30 September 2006, the Company made a net capital gain of £6,044,000. £6,076,000 of gains related to gains on investments, including an unrealised gain of £3,764,000 and a realised gain of £2,402,000; and

- (iii) in the year to 30 September 2007, the Company made a net capital gain of £53,717,000. £53,523,000 of gains related to gains on investments, including an unrealised gain of £43,698,000 and a realised gain of £9,869,000.

#### 2.4 *Availability of annual reports and accounts for inspection*

Copies of the Company's annual reports and audited accounts for the three financial years ended 30 September 2005, 2006 and 2007 are available for inspection at the address set out in paragraph 21 of Part V of this document.

### 3. **Capitalisation and indebtedness**

The following table shows, sourced from the Company's internal accounting records, the Company's unaudited indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 14 March 2008 (being the latest practicable date prior to the publication of this document) and the Company's audited capitalisation as at 30 September 2007 (being the last date in respect of which the Company has published financial information).

	<i>14 March 2008</i>
	<i>£'000</i>
<i>Total Current Debt</i>	
Guaranteed	—
Secured	—
Unguaranteed/unsecured <sup>(1)</sup>	5,313
<i>Total Non-Current Debt</i>	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
	<i>30 September 2007</i>
	<i>£'000</i>
<i>Shareholder equity</i> <sup>(2)</sup>	
Share capital	18,866
Share premium	8,712
Other reserve <sup>(3)</sup>	33,364
Exercised warrant reserve	3
Capital reserves – realised	890
Capital reserves – unrealised	43,757
Capital redemption reserve	581

(1) Unsecured debt comprises accruals for expenses, interest payable, amounts due to brokers, current tax provisions and any short-term loans.

(2) In accordance with CESR guidance retained revenue reserves of £796,000 have been excluded from Shareholders' equity.

(3) Created during the year ended 30 September 2000 following a cancellation of the share premium account.

As at 14 March 2008 (being the latest practicable date prior to the publication of this document), there has been no material change in the audited capitalisation of the Company since 30 September 2007 (being the last date in respect of which the Company has published financial information) save that the total Shareholders' funds (excluding revenue reserve) had decreased to £81.5 million due to the falls in the market value of the Company's portfolio (sourced from the Company's internal accounting records) and the repurchase of 663,000 Shares into treasury at a total cost of £852,265 resulting in the decrease in Other Reserve to £32.5 million.

The following table shows the Company's unaudited net indebtedness as at 14 March 2008 (being the latest practicable date prior to the publication of this document).

	<i>14 March 2008</i>
	<i>£'000</i>
A. Cash	1,115
B. Cash equivalent	—
C. Trading securities	—
D. <i>Liquidity</i> (A + B + C)	1,115
E. Current financial receivable	—
F. Current bank debt	2,218
G. Current portion of non-current debt	—
H. Other current financial debt	3,095
I. <i>Current financial debt</i> (F + G + H)	5,313
J. <i>Net current financial indebtedness</i> (I – E – D)	4,198
K. Non-current bank loans	—
L. Bonds issued	—
M. Other non-current loans	—
N. <i>Non-current financial indebtedness</i> (K + L + M)	—
O. <i>Net financial indebtedness</i> (J + N)	4,198

#### **4. Working capital**

In the Company's opinion, the Company has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

## PART IV

### PARTICULARS OF THE SUBSCRIPTION SHARES

Conditional upon the passing of Resolution 1 at the General Meeting, the Subscription Shares are expected to be issued on 16 April 2008 and will carry the rights described below. The Existing Articles will be replaced with the New Articles to reflect, *inter alia*, these rights.

#### 1. Subscription Rights

- (a) A registered holder for the time being of a Subscription Share (a “**Subscription Shareholder**”) shall have a right (“**Subscription Right**”), exercisable by notice to the Company in the thirty days preceding 15 May 2009 or in the thirty days preceding the end of every 12 month period thereafter until (and including) 15 May 2013 (a “**Subscription Date**”), to subscribe, on the date of the relevant Subscription Date for an Ordinary Share at the price per Ordinary Share to be determined by the Company as being equal to the Net Asset Value of the Company (calculated on an undiluted basis) attributable to one Ordinary Share as at the close of business on 11 April 2008 plus a percentage premium of such amount rounded up to the nearest whole penny (the “**Conversion Price**”) payable in full in Pounds Sterling on subscription as follows:
- (a) if exercised in May 2009 – a 1 per cent. premium to such NAV per Ordinary Share;
  - (b) if exercised in May 2010 – a 10 per cent. premium to such NAV per Ordinary Share; and
  - (c) if exercised in May 2011, 2012 or 2013 – a 30 per cent. premium to such NAV per Ordinary Share.

It is expected that a supplementary prospectus stating the Conversion Price will be published on 15 April 2008.

Each Subscription Share relates to one Ordinary Share, but the Conversion Price (and the number of Subscription Shares outstanding) will be subject to adjustment as provided in paragraph 2 below. The Subscription Shares registered in a holder’s name will be evidenced by a Subscription Share certificate issued by the Company and, in the case of Subscription Shares in uncertificated form, by means of any relevant computer-based system enabling title to units of a security to be evidenced and transferred without a written instrument (the “**Relevant Electronic System**”).

The “**Net Asset Value**” or “**NAV**” for this purpose means the value of the Company’s assets (excluding revenue items for the current financial year) minus all prior charges at their par value and the costs of the bonus issue. Prior charges include all loans and overdrafts that are to be used for investment purposes. “**Business Day**” for this purpose means any day on which banks are open for business in London.

- (b) In order to exercise the Subscription Rights, in whole or in part, which are conferred by any Subscription Shares that are in certificated form, the Subscription Shareholder must lodge the relevant Subscription Share certificate(s) (or such other document as the Company may, in its discretion, accept) at the office of the registrars for the time being of the Company (the “**Registrars**”) during the period of 29 days ending on the Business Day before the relevant Subscription Date, having completed the notice of exercise of Subscription Rights thereon (or by giving such other notice of exercise of Subscription Rights as the Company may, in its discretion, accept), accompanied by a remittance for the Conversion Price for the Ordinary Shares in respect of which the Subscription Rights are exercised. Once lodged, a notice of exercise of Subscription Rights shall be irrevocable save with the consent of the directors of the Company (the “**Directors**”). Compliance must also be made with any statutory and regulatory requirements for the time being applicable.
- (c) The Subscription Rights which are conferred by any Subscription Shares that are in uncertificated form on the relevant Subscription Date shall be exercisable, in whole or in part, (and treated by the Company as exercised) on the relevant Subscription Date if, during the period of 29 days

ending on the Business Day before the relevant Subscription Date, (i) an Uncertificated Subscription Notice is received as referred to below and (ii) a remittance for the aggregate Conversion Price for the Ordinary Shares in respect of which the Subscription Rights are being exercised is received by the Company or by such person as it may require for these purposes in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the facilities and requirements of the Relevant Electronic System concerned). For these purposes, an “**Uncertificated Subscription Notice**” shall mean a properly authenticated dematerialised instruction and/or other instruction or notification received by the Company or by such person as it may require for these purposes in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the regulations and facilities and requirements of the Relevant Electronic System). The Directors may, in addition but subject to the regulations and facilities and requirements of the Relevant Electronic System, determine when any such properly authenticated dematerialised instruction and/or other instruction or notification and any such remittance is to be treated as received by the Company or by such person as it may require for these purposes. Without prejudice to the generality of the foregoing, the effect of the Uncertificated Subscription Notice may be such as to divest the holder of the Subscription Shares concerned of the power to transfer such Subscription Shares to another person. Once lodged, an Uncertificated Subscription Notice shall be irrevocable save with the consent of the Directors. Compliance must also be made with any statutory and regulatory requirements for the time being applicable.

- (d) Not earlier than 56 days nor later than 30 days before the relevant Subscription Date, the Company shall give notice in writing to the holders of the outstanding Subscription Shares reminding them of their Subscription Rights and, in relation to any Subscription Shares that are in uncertificated form, stating the form of Uncertificated Subscription Notice prescribed by the Directors.
- (e) Ordinary Shares issued pursuant to the exercise of Subscription Rights which are conferred by any Subscription Shares that are in certificated form will be allotted not later than 14 days after and with effect from the relevant Subscription Date and certificates in respect of such Ordinary Shares will be despatched (at the risk of the person(s) entitled thereto) not later than 28 days after the relevant Subscription Date to the person(s) in whose name(s) the Subscription Share is registered at the date of exercise (and, if more than one, to the first-named, which shall be sufficient despatch for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any like tax as may be applicable) to such other persons (not being more than four in number) as may be named in the form of nomination available for the purpose from the Registrars (and, if more than one, to the first-named, which shall be sufficient despatch for all).
- (f) Ordinary Shares issued pursuant to the exercise of Subscription Rights which are conferred by Subscription Shares that are in uncertificated form will be allotted not later than 14 days after and with effect from the relevant Subscription Date and the Company shall procure that the appropriate instructions are given to enable such Ordinary Shares to be evidenced by means of the Relevant Electronic System as a holding of the person(s) in whose name(s) the Subscription Shares in respect of which Subscription Rights have been exercised were registered as at the date of such exercise or (subject as provided by law, to the payment of stamp duty reserve tax or any like tax as may be applicable, to such terms and conditions as the Directors may from time to time prescribe for this purpose and to the facilities and requirements of the Relevant Electronic System) to such other person(s) (not being more than four in number) as may be named in the properly authenticated dematerialised instruction and/or other instruction or notification in such form.
- (g) For the avoidance of doubt, unless the Directors otherwise determine or unless the regulations or the facilities or requirements of the Relevant Electronic System otherwise require, the Ordinary Shares issued on the exercise of any Subscription Rights shall be issued in certificated form where such Subscription Rights were conferred by Subscription Shares which were held in certificated form or in uncertificated form where such Subscription Rights were conferred by Subscription Shares which were held in uncertificated form.

- (h) Ordinary Shares allotted pursuant to the exercise of Subscription Rights will not rank for any dividends or other distributions declared, paid or made on the Ordinary Shares by reference to a record date prior to the relevant Subscription Date but, subject thereto, will rank in full for all dividends and other distributions declared, paid or made on the Ordinary Shares and otherwise will rank *pari passu* in all other respects with the Ordinary Shares in issue at the relevant Subscription Date, provided that, on any allotment falling to be made pursuant to paragraph 3(g) below, the Ordinary Shares to be allotted shall not rank for any dividend or other distribution declared, paid or made by reference to a record date prior to the date of actual allotment.
- (i) For so long as the Company's Ordinary Shares are admitted to trading on the London Stock Exchange, it is the intention of the Company to apply to the UK Listing Authority for the Ordinary Shares allotted pursuant to any exercise of Subscription Rights to be admitted to the Official List and the Company will use all reasonable endeavours to obtain the admission thereof not later than 28 days after the relevant Subscription Date. "**Official List**" for this purpose means the official list of the UK Listing Authority. "**UK Listing Authority**" for this purpose means the Financial Services Authority of the United Kingdom acting in its capacity as the competent authority for the purposes of Part V of the Financial Services and Markets Act 2000.
- (j) The exercise of Subscription Rights by any Subscription Shareholder who is a US person or the right of such a Subscription Shareholder to receive the Ordinary Shares falling to be issued to him following the exercise of his Subscription Rights, will be subject to such requirements, conditions, restrictions, limitations or prohibitions as the Company may at any time impose, in its sole discretion, for the purpose of complying with the securities laws of the United States (including, without limitation, the United States Securities Act of 1933, as amended, the United States Investment Company Act of 1940, as amended, and any rules or regulations promulgated under such Acts). As used herein, "**US person**" means any person or entity defined as such in Rule 902 (o) under the Securities Act of 1933 and, without limiting the generality of the foregoing, US person includes a natural person resident in the United States, a corporation or partnership organised or incorporated under the laws of the United States (including any State thereof) and an estate or trust, if any executor, administrator or trustee is a US person, but shall not include a branch or agency of a US person located outside the United States if such agency or branch operates for valid business reasons and is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located and "**United States**" means the United States of America (including the States thereof and the District of Columbia), its territories and possessions.

## 2. Adjustments of Subscription Rights

The Conversion Price (and the number of Subscription Shares outstanding) shall from time to time be adjusted in accordance with the provisions of this paragraph 2:

- (a) If and whenever there shall be an alteration in the nominal amount of the Ordinary Shares as a result of a consolidation or sub-division, the Conversion Price in force immediately prior to such alteration shall be adjusted by multiplying it by a fraction of which the numerator shall be the nominal amount of one such Ordinary Share immediately after such alteration and the denominator shall be the nominal amount of one such Ordinary Share immediately prior to such alteration, and such adjustment shall become effective on the date the alteration takes effect.
- (b) If and whenever the Company shall allot to holders of Ordinary Shares any Ordinary Shares credited as fully paid by way of capitalisation of reserves or profits (other than Ordinary Shares paid up out of distributable reserves and issued in lieu of a cash dividend), the Conversion Price in force immediately prior to such allotment shall be adjusted by multiplying it by a fraction of which the numerator shall be the aggregate nominal amount of the issued Ordinary Shares immediately before such allotment and the denominator shall be the aggregate nominal amount of the issued and allotted Ordinary Shares immediately after such allotment and such adjustment shall become effective as at the date of allotment of such Ordinary Shares.

- (c) If on a date (or by reference to a record date) on or before the relevant Subscription Date, the Company makes any offer or invitation (whether by way of rights issue or otherwise but not being an offer to which paragraph 3(k) below applies or an offer made in connection with scrip dividend arrangements) to the holders of the Ordinary Shares, or any offer or invitation (not being an offer to which paragraph 3(h) below applies) is made to such holders otherwise than by the Company, then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the then Subscription Shareholders as if their Subscription Rights had been exercisable and had been exercised on the date immediately preceding the record date for such offer or invitation on the terms (subject to any adjustment made previously pursuant to paragraphs 2(a) to (f)) on which the same could have been exercised on that date, provided that, if the Directors so resolve in the case of any such offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the then Subscription Shareholders but the Conversion Price shall be adjusted: (i) in the case of an offer of new Ordinary Shares for conversion by way of rights at a price less than the market price at the date of announcement of the terms of the offer, by multiplying the Conversion Price for the relevant Subscription Date by a fraction of which the numerator is the number of Ordinary Shares in issue on the date of such announcement plus the number of Ordinary Shares which the aggregate amount payable for the total number of new Ordinary Shares comprised in such rights issue would purchase at such market price and the denominator is the number of Ordinary Shares in issue on the date of such announcement plus the aggregate number of Ordinary Shares offered for conversion and (ii) in any other case, in such manner as the independent financial advisers appointed by the Board shall report in writing to be fair and reasonable. Any such adjustments shall become effective, in the case of (i) above, as at the date of allotment of the new Ordinary Shares which are the subject of the offer or invitation and, in the case of (ii) above, as at the date determined by the independent financial advisers appointed by the Board. For the purposes of this paragraph “**market price**” shall mean the average of the middle market quotations (as derived from the Official List) for one Ordinary Share for the five consecutive dealing days ending on the dealing day immediately preceding the day on which the market price is to be ascertained.
- (d) No adjustment will be made to the Conversion Price pursuant to paragraphs 2(a), (b) or (c) above (other than by reason of a consolidation of Ordinary Shares as referred to in paragraph 2(a) above) if it would result in an increase in the Conversion Price and, in any event, no adjustment will be made if such adjustment would (taken together with the amount of any adjustment carried forward under the provisions of this paragraph 2(d)) be less than 1 per cent. of the Conversion Price then in force and on any adjustment the adjusted Conversion Price will be rounded down to the nearest whole penny. Any adjustment not so made and any amount by which the Conversion Price is rounded down will be carried forward and taken into account in any subsequent adjustment.
- (e) Whenever the Conversion Price is adjusted as provided in accordance with paragraphs 2(a) to (d) above (other than by reason of a consolidation of Ordinary Shares as referred to in paragraph 2(a) above), the Company shall issue, for no payment, additional Subscription Shares to each Subscription Shareholder at the same time as such adjustment takes effect.

Fractions of Subscription Shares will not be allotted to holders of Subscription Shares but all such fractions will be aggregated and, if practicable, sold in the market. The net proceeds will be paid to the Subscription Shareholders entitled thereto at the risk of such persons, save that amounts of less than £5.00 will be retained for the benefit of the Company. Subscription Share certificates relating to such additional Subscription Shares will be issued within 21 days of the said adjustment taking effect or the Company will procure that appropriate instructions are given to enable the adjustment to be made to the Subscription Shareholder’s holding of Subscription Shares in the Relevant Electronic System.

- (f) Whenever the Conversion Price is adjusted in accordance with this paragraph by reason of a consolidation of Ordinary Shares as referred to in paragraph 2(a) above, the number of Ordinary Shares into which each holder of Subscription Shares is entitled to convert such Subscription Shares will be reduced accordingly.

- (g) The Company shall give notice to holders of Subscription Shares within 28 days of any adjustment made pursuant to paragraphs 2(a) to (f) above.
- (h) If a holder of Subscription Shares shall become entitled to exercise his Subscription Rights pursuant to paragraph 3(h) below, the Conversion Price payable on such exercise (but not otherwise) shall be reduced by an amount determined by the independent financial advisers appointed by the Board in accordance with the following formula:

$$A = (B+C) - D$$

where:

- A = the reduction in the Conversion Price;
- B = the Conversion Price which would, but for the provisions of this paragraph 2(h), be applicable (subject to any adjustments previously made pursuant to paragraphs 2(a) to (f) above) if the Subscription Rights were exercisable on the date on which the Company shall become aware as provided in paragraph 3(h) below;
- C = the average of the middle market quotations (as derived from the Official List) for one Subscription Share for the 5 consecutive dealing days ending on the dealing day immediately preceding the date of the announcement of the offer referred to in paragraph 3(h) below (or, where such offer is a revised offer, the original offer) or, if applicable and earlier, the date of the first announcement of the intention to make such offer or original offer or of the possibility of the same being made; and
- D = the average of the middle market quotations (as derived from the Official List) for one Ordinary Share for the 5 consecutive dealing days ending on the dealing day immediately preceding the date of the announcement of the offer referred to in paragraph 3(h) below (or, where such offer is a revised offer, the original offer) or, if applicable and earlier, the date of the first announcement of the intention to make such offer or original offer or of the possibility of the same being made,

provided that:

- (i) the Conversion Price shall not be reduced so as to cause the Company to be obliged to issue Ordinary Shares at a discount to nominal value and, if the application of the above formula would, in the absence of this proviso (i), have reduced the Conversion Price to below the nominal value of an Ordinary Share, the number of Ordinary Shares into which a Subscription Share may convert pursuant to paragraph 3(h) below shall be adjusted in such manner as the independent financial advisers appointed by the Board shall report to be appropriate to achieve the same economic result for the Subscription Shareholders as if the Conversion Price had been reduced without regard to this proviso (i); and
- (ii) no adjustment shall be made to the Conversion Price where the value of D exceeds the aggregate value of B and C in the above formula.

The notice required to be given by the Company under paragraph 3(h) below shall give details of any reduction in the Conversion Price pursuant to this paragraph 2(h).

- (i) For the purpose of determining whether paragraph 3(j) below shall apply and accordingly whether each holder of a Subscription Share is to be treated as if his Subscription Rights had been exercisable and had been exercised as therein provided, the Conversion Price which would have been payable on such exercise shall be reduced by an amount determined by the independent financial advisers appointed by the Board in accordance with the following formula:

$$A = (B+C) - D$$

where:

- A = the reduction in the Conversion Price;
- B = the Conversion Price which would, but for the provisions of this paragraph 2(i), be applicable (subject to any adjustments previously made pursuant to paragraphs 2(a) to (f) above) if the Subscription Rights were exercisable on the date on which the effective resolution referred to in that paragraph shall be passed (as the case may be);

- C = the average of the middle market quotations (as derived from the Official List) for one Subscription Share for the 5 consecutive dealing days ending on the dealing day immediately preceding the date of the presentation of the petition for such order or of the notice convening the meeting at which such resolution shall be passed (as the case may be) or, if applicable and earlier, the date of the first announcement of the presentation of such petition or the convening of such meeting (as the case may be) or that the same is proposed; and
- D = the amount (as determined by the independent financial advisers appointed by the Board) of the assets available for distribution in the liquidation of the Company in respect of each Ordinary Share, taking into account for this purpose the Ordinary Shares which would arise on exercise of all the Subscription Rights and the Conversion Price which would be payable on the exercise of such Subscription Rights (subject to any adjustments previously made pursuant to paragraphs 2(a) to (f) above but ignoring any adjustment to be made pursuant to this paragraph 2(i)),

provided that no adjustment shall be made to the Conversion Price where the value of D exceeds the aggregate value of B and C in the above formula.

- (j) Where an event which gives or may give rise to an adjustment to the Conversion Price occurs whether in such proximity in time to another such event or otherwise in circumstances such that the Company in its absolute discretion determines that the foregoing provisions need to be operated subject to some modification in order to give a result which is fair and reasonable in all the circumstances such modification shall be made in the operation of the foregoing provisions as may be advised by the independent financial advisers appointed by the Board to be in their opinion appropriate in order to give such a result.

### **3. Other Provisions**

So long as any Subscription Rights remain capable of exercise:

- (a) the Company shall not (except with the sanction of a special resolution of the Subscription Shareholders):
- (i) make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Ordinary Shares;
  - (ii) issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to the holders of its Ordinary Shares; or
  - (iii) on or by reference to a record date falling within the period of six weeks ending on the relevant Subscription Date, make any such allotment as is referred to in paragraph 2(b) above or any such offer or invitation as is referred to in paragraph 2(c) above (except by extending to the Subscription Shareholders any such offer or invitation as may be made by a third party);
- (b) the Company shall not (except with the sanction of a special resolution of the Subscription Shareholders) in any way modify the rights attached to its existing Ordinary Shares as a class, or create or issue any new class of equity share capital (as defined in section 744 of the Companies Act 1985 or section 548 of the Companies Act 2006 as applicable) except for shares which carry, as compared with the rights attached to the existing Ordinary Shares, rights which are not more advantageous as regards voting, dividend or return of capital, provided that nothing herein shall restrict the right of the Company to increase, consolidate or sub-divide its share capital;
- (c) the Company shall not issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves nor make any such offer as is referred to in paragraph 2(c) if, in either case, the Company would on any subsequent exercise of the Subscription Rights be obliged to issue Ordinary Shares at a discount to nominal value;

- (d) the Company shall not (except with the sanction of a special resolution of the holders of the Subscription Shares or for a reduction not involving any payment to Shareholders) reduce any of its share capital or any uncalled or unpaid liability in respect of any of its share capital;
- (e) the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all Subscription Rights remaining exercisable;
- (f) the Company shall not (except with the sanction of a special resolution of the holders of the Subscription Shares) change its financial year end from 30 September (except to a date falling within seven days before or after 30 September);
- (g) the Company shall not grant (or agree to grant) any option in respect of, or create any rights of conversion for, any Ordinary Shares, the nominal amount of which, together with the aggregate nominal amount of any Ordinary Shares over which options or rights of conversion (including those of the Subscription Shares) shall be subsisting at the date of such grant or creation, would exceed in the aggregate 20 per cent. of the nominal amount of the Ordinary Shares (excluding any treasury shares) then in issue, nor (except with the sanction of a special resolution of the Subscription Shareholders) will the Company grant (or offer or agree to grant) any such option in respect of, or create any such rights of conversion for, or issue any securities or loan capital carrying rights of conversion into, Ordinary Shares if the price at which any such option or right is exercisable is lower than the Conversion Price for the time being;
- (h) subject as provided in paragraph 3(i) below, if at any time an offer is made to all Shareholders (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued Ordinary Share capital of the Company and the Company becomes aware on or before the relevant Subscription Date that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons as aforesaid, the Company shall give notice to the Subscription Shareholders of such vesting or pending vesting within 14 days of its becoming so aware, and each such Subscription Shareholder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his Subscription Rights on the terms (subject to any adjustments pursuant to paragraphs 2(a) to (f) and subject to paragraph 2(h) above) on which the same could have been exercised if they had been exercisable and had been exercised on the date on which the Company shall become aware as aforesaid. The publication of a scheme of arrangement under section 425 of the Companies Act 1985 or sections 895 to 901 of the Companies Act 2006 providing for the acquisition by any person of the whole or any part of the issued Ordinary Share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 3(h) and reference herein to such an offer shall be read and construed accordingly;
- (i) if under any offer as referred to in paragraph 3(h) above the consideration shall consist solely of the issue of ordinary shares of the offeror and the offeror shall make available an offer of Securities to subscribe for ordinary shares in the offeror in exchange for the Subscription Shares, which offer the financial advisers to the Company (acting as experts and not as arbitrators) shall consider to be fair and reasonable (having regard to the terms of the offer and any other circumstances which may appear to such financial advisers to be relevant), then a Subscription Shareholder shall not have the right to exercise his Subscription Rights on the basis referred to in paragraph 3(h) above and, subject to the offer as referred to in paragraph 3(h) above becoming or being declared wholly unconditional and the offeror being in a position to acquire compulsorily the whole of the then issued Ordinary Share capital of the Company not already owned by it or its associates, any Director shall be irrevocably authorised as attorney for the holders of Subscription Shares who have not accepted the offer of Subscription Shares to subscribe for ordinary shares in the offeror in exchange for the relevant securities:
  - (i) to execute a transfer of the Subscription Shares held by such holders in favour of the offeror in consideration of the issue of subscription shares to subscribe for ordinary shares in the offeror as aforesaid whereupon all the Subscription Shares shall lapse; and
  - (ii) to do such acts and things as may be necessary or appropriate in connection therewith;

- (j) if:
  - (i) an order is made or an effective resolution is passed for winding-up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by a special resolution of the Subscription Shareholders); and
  - (ii) if in such winding-up and on the basis that all Subscription Rights then unexercised had been exercised in full and the Conversion Price therefore at the relevant Subscription Date had been received in full by the Company there shall be a surplus available for distribution amongst the holders of the Ordinary Shares, including for this purpose the Ordinary Shares which would arise on exercise of all the Subscription Rights (taking into account any adjustments pursuant to paragraphs 2(a) to (f) and 2(i) above), which surplus would, on such basis, exceed in respect of each Ordinary Share a sum equal to such Conversion Price

each Subscription Shareholder shall be treated as if immediately before the date of such order or resolution (as the case may be) his Subscription Rights had been exercisable and had been exercised in full on the terms (subject to any adjustments pursuant to paragraphs 2(a) to (f) and 2(i) above) on which the same could have been exercised if they had been exercisable and had been exercised immediately before the date of such order or resolution (as the case may be), and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of the Ordinary Shares such sum as he would have received had he been the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per Ordinary Share equal to the Conversion Price (subject to any adjustments pursuant to paragraphs 2(a) to (f) and 2(i) above). Subject to the foregoing, all Subscription Rights shall lapse on liquidation of the Company; and

- (k) notwithstanding paragraphs 3(a) to (j) above, the Company may, without the sanction of special resolution of the Subscription Shareholders:
  - (i) purchase any of its own equity share capital (whether by tender, by private treaty or through the market);
  - (ii) hold its Ordinary Shares in treasury (for the purposes of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003) and sell any such Ordinary Shares held in treasury; and
  - (iii) effect a reduction in its share premium account or capital redemption reserve.

#### **4. Issue of C Shares**

- (a) Notwithstanding the provisions of paragraph 3 above, a Qualifying C Share Issue (as defined in (b) below) shall not constitute an alteration or abrogation of the rights attached to the Subscription Shares (and shall not require the sanction of a special resolution of the Subscription Shareholders) even though it may involve modification of the rights attached to the existing Ordinary Shares of the Company or the creation or issue of a new class of equity share capital if the Directors are of the opinion (having regard to all the circumstances) that such issue should not have any material dilutive effect on the Net Asset Value per Ordinary Share.
- (b) For this purpose, a “**Qualifying C Share Issue**” means an issue by the Company of shares which will, within one year of the date of issue thereof, be converted into Ordinary Shares ranking *pari passu* in all respects with the Ordinary Shares then in issue (other than, if the case requires, as regards dividends or other distributions declared, paid or made in respect of the financial year in which the conversion takes place) and may include the issue in connection therewith of Subscription Shares (whether on the same terms and conditions as the Subscription Shares or otherwise) and any matters reasonably incidental to the process by which such shares are converted into Ordinary Shares, including but not limited to the creation, issue, sub-division, consolidation, redesignation, purchase, redemption or cancellation of any share capital of the Company, including share capital with preferred or deferred rights.

## 5. Modification of Rights

All or any of the rights for the time being attached to the Subscription Shares and any of these terms and conditions may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of a special resolution of the Subscription Shareholders. All the provisions of the Articles of Association for the time being of the company as to general meetings shall *mutatis mutandis* apply as though the Subscription Shares were a class of shares forming part of the capital of the Company.

## 6. Purchase

The Company and its subsidiaries shall have the right to purchase Subscription Shares in the market, by tender or by private treaty but:

- (a) such purchases will be limited to a maximum price per Subscription Share which, in the case of purchases through the market, will not exceed the higher of (i) 5 per cent. above the average of the middle market quotations (as derived from the Official List) for the 5 consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the value of a Subscription Share calculated on the basis of the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Subscription Shares on the trading venue where the purchase is carried out; and
- (b) if such purchase are by tender, such tender will be available to all Subscription Shareholders alike.

All Subscription Shares so purchased shall forthwith be cancelled and shall not be available for re-issue or resale.

## 7. Transfer

Each Subscription Share will be in registered form and will be transferable:

- (a) in the case of Subscription Shares held in certificated form, by an instrument of transfer in any usual or common form, or in any other form which may be approved by the Directors; and
- (b) in the case of Subscription Shares held in uncertificated form, by giving the appropriate instructions for transfer by means of the Relevant Electronic System.

No transfer of a fraction of a Subscription Share may be effected.

## 8. General

- (a) The Company will, concurrently with the issue of the same to the holders of the Ordinary Shares, send to each Subscription Shareholder (or, in the case of joint holders, to the first named) a copy of each published annual report and accounts of the Company (or such abbreviated or summary financial statement sent to holders of Ordinary Shares in lieu thereof), together with all documents required by law to be annexed thereto, and a copy of every other statement, notice or circular issued by the Company to holders of Ordinary Shares.
- (b) For the purposes of these conditions, “**special resolution of the Subscription Shareholders**” means a resolution proposed at a meeting of the Subscription Shareholders duly convened and passed by a majority consisting of not less than three-fourths of the votes cast, whether on a show of hands or on a poll.
- (c) Subject as provided in paragraph 7, the provisions of the Articles of Association for the time being of the Company relating to notice of meetings, untraced members, lost certificates and the registration, transfer and transmission of Ordinary Shares shall, *mutatis mutandis*, apply to the Subscription Shares as if they were Ordinary Shares.

- (d) Any determination or adjustment made pursuant to these terms and conditions by the independent financial advisers appointed by the Board shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and each of the Subscription Shareholders.
- (e) Any references in these particulars to a statutory provision shall include that provision as from time to time modified or re-enacted.
- (f) Subject to paragraph 3(j) above Subscription Shares carry no right to any dividend or other distribution by the Company and (save to the extent that the Directors elect in connection with an exercise of Subscription Share Rights as provided in paragraph 8(j) below) no right to be redeemed (although the Company may elect to purchase Subscription Shares pursuant to paragraph 6). Subscription Shareholders are not entitled to attend or vote at meetings of Shareholders and have no right to share in any surplus in the event of liquidation beyond the right to be repaid the sum of one penny, being the nominal value of each Subscription Share (in receipt of which conversion rights have not been exercised) held (which rights rank immediately after the rights of the Ordinary Shareholders to be repaid the nominal value of 25p for each Ordinary Share (but see also paragraph 3(h) above)).
- (g) If, immediately after any Subscription Date (other than the final Subscription Date) and after taking account of any Subscription Rights exercised on that date, Subscription Rights shall have been exercised or cancelled in respect of 75 per cent or more of the Subscription Shares originally issued (subject to the adjustment of the number of Subscription Shares in accordance with paragraph 2 of this Part IV (excluding any Ordinary Shares to which Subscription Rights attached to Subscription Shares purchased by the Company or any of its subsidiaries relate but including any further Subscription Shares issued in accordance with the Articles), the Company shall be entitled at any time within the next following 14 days to serve notice in writing on the holders of the Subscription Shares then outstanding of its intention to appoint a trustee for the purposes set out in this paragraph 8(g) (the “**Early Subscription Trustee**”) upon the expiry of 21 days from the date of such notice (the “**Notice Period**”) and for this purpose the Notice Period shall expire at 3.00pm on the 21st day. Such notice shall give in its terms the holders of the outstanding Subscription Shares a final opportunity to exercise their Subscription Rights in the normal manner as though such 21st day were a Subscription Date and will include all necessary details and instructions to enable the exercise of the Subscription Rights. Forthwith after the expiry of the Notice Period, the Company shall appoint the Early Subscription Trustee who, provided that in such trustee’s opinion the net proceeds of sale after deduction of all costs and expenses incurred by such trustee will exceed the costs of exercising the Subscription Rights, shall within the period of 14 days following the expiry of the Notice Period either:
  - (i) exercise the Subscription Rights which shall not have been exercised on the terms on which the same could have been exercised immediately prior to the expiry of the Notice Period if they had then been exercisable and had been exercised and sell in the market the Ordinary Shares resulting from such exercise, or
  - (ii) (if it appears to the Early Subscription Trustee that doing so is likely to realise greater net proceeds for Subscription Shareholders) accept any offer available to Subscription Shareholders for the purchase of the outstanding Subscription Shares.

The Early Subscription Trustee shall distribute *pro rata* the proceeds of any such sale or acceptance of any such offer less, in either case, such costs of exercising the Subscription Rights and such other costs and expenses to the persons entitled thereto at the risk of such persons as soon as practicable after such sale and in any event within 28 days after the expiry of the Notice Period, provided that entitlements of under £5.00 shall be retained for the benefit of the Company. Following the expiry of the Notice Period, if the Early Subscription Trustee shall not exercise the Subscription Rights then outstanding within the period of 14 days following such expiry as set out in this paragraph 8(g) (and such trustee’s decision in respect thereof shall be final and binding on all holders outstanding Subscription Shares), all Subscription Rights shall lapse.

- (h) Within seven days following the final Subscription Date the Company shall appoint a trustee (the “**Final Subscription Trustee**”) who, provided that in such trustee’s opinion the net proceeds of sale after deduction of all costs and expenses incurred by such trustee will exceed the costs of exercising the Subscription Rights, shall within the period of 14 days following the final Subscription Date, either
  - (i) exercise all the Subscription Rights which shall not have been exercised on the terms on which the same could have been exercised on the final Subscription Date and sell in the market the Ordinary Shares resulting from such exercise, or
  - (ii) (if it appears to the Final Subscription Trustee that doing so is likely to realise greater net proceeds for Subscription Shareholders) accept any offer available to Subscription Shareholders for the purchase of the outstanding Subscription Shares.

The Final Subscription Trustee shall distribute *pro rata* the proceeds of any such sale or acceptance of any such offer less, in either case, such costs of exercising the Subscription Rights and such other costs and expenses to the persons entitled thereto at the risk of such persons within 56 days of the final Subscription Date, provided that entitlements of under £3.00 shall be retained for the benefit of the Company. If the Final Subscription Trustee shall not exercise the Subscription Rights within the period of 14 days following the final Subscription Date as set out in this paragraph 8(h) (and such trustee’s decision in respect thereof shall be final and binding on all holders of outstanding Subscription Shares), all Subscription Rights shall lapse.

- (i) The Early Subscription Trustee or the Final Subscription Trustee (as appropriate) shall have no liability of any nature whatsoever where such trustee has acted honestly and reasonably and shall have no responsibility for the safe custody of, or to earn any interest on, any unpaid or unclaimed money.
- (j) Subscription Rights shall be effected in accordance with this paragraph 8(j) or in such manner as may be authorised by law. For the purposes of this paragraph 8(j) the “**Relevant Shares**” shall mean those Subscription Shares in respect of which Subscription Rights are exercised.
  - (i) To enable such subscription to be effected, the Directors may determine to redeem at par the Relevant Shares on any Subscription Date out of profits of the Company which would otherwise be available for dividend. In the event that the Directors determine to redeem the same at par out of such profits, a Relevant Share shall confer upon the holder thereof the right to subscribe for, and shall authorise the secretary of the Company (or any other person appointed for the purpose by the Directors) to subscribe as agent on such holder’s behalf for, one Ordinary Share at such price as shall represent the aggregate of:
    - (a) the Conversion Price, and
    - (b) the amount of the redemption moneys to which the holder is entitled,
 and in any such case, the Subscription Notice given by such holder shall be deemed irrevocably to authorise and instruct such agent to apply the redemption moneys payable to such holder in subscribing for such Ordinary Shares at such price.
  - (ii) To enable such subscription to be effected, the Directors may determine to redeem at par the Relevant Shares on any Subscription Date out of the proceeds of a fresh issue of Ordinary Shares. In the event that the Directors determine to redeem the same at par out of such proceeds, a Relevant Share shall confer upon the holder thereof the right to subscribe for, and shall authorise the secretary of the company (or any other person appointed for the purpose by the Directors) to subscribe as agent on such holder’s behalf for, one Ordinary Share at such price as shall represent the aggregate of:
    - (a) the Conversion Price, and
    - (b) the amount of the redemption moneys to which the holder is entitled,

and in any such case, the Subscription Notice given by such holder shall be deemed irrevocably to authorise and instruct such agent to apply the redemption moneys payable to such holder in subscribing for such Ordinary Shares at such price.

- (iii) To enable such subscription to be effected, the Directors may determine to effect such subscription by means of a consolidation and sub-division of the Relevant Shares. In such case the requisite consolidation and sub-division shall be effected pursuant to the authority given by the resolution adopting the Articles by consolidating into one share all the Relevant Shares held by any holder or joint holders and in respect of which a Subscription Notice shall have been given in respect of the relevant Subscription Date (treating holdings of the same holders or joint holders in certificated form and uncertificated form as separate holdings, unless the Directors otherwise determine) and, if the Directors so determine, any shares allotted to such holder or joint holder pursuant to paragraph 8(j)(v) and converting (and, if necessary, sub-dividing) such consolidated share into shares of 25p each (or such other nominal amount as may be appropriate as a result of any consolidation or sub-division of Ordinary Shares) of which one share for every complete 25p (or such other nominal amount as may be appropriate as a result of any consolidation or sub-division of Ordinary Shares) of the nominal amount of the consolidated share shall be Ordinary Shares (fractional entitlements to an Ordinary Share being disregarded) and the balance (if any) of such consolidated share shall be deferred shares which shall carry the limited rights set out in the Articles but in particular will be capable of being redeemed by the Company without further authorisation.
- (iv) In relation to any Relevant Shares that are to be redeemed in accordance with paragraph 8(j)(i) or 8(j)(ii) and that are, on the Subscription Date concerned, in uncertificated form, the Directors shall be entitled in their absolute discretion to determine the procedures for the redemption of such Relevant Shares (subject always to the facilities and requirements of Relevant Electronic System). Without prejudice to the generality of the foregoing, the procedures for the redemption of any such Relevant Shares may involve or include the sending by the Company or by any person on its behalf of an issuer instruction to the operator of Relevant Electronic System requesting or requiring the deletion of any computer based entries in the relevant system concerned that relate to the holding of the Relevant Shares concerned, and/or the Company may, if the Directors so determine (by notice in writing to the holder concerned), require the holder of the Relevant Shares concerned to change the form of the Relevant Shares from uncertificated form to certificated form prior to the Subscription Date concerned (in case may be, shall determine the procedure for such redemption).
- (v) To enable any subscription to be effected in accordance with paragraph 8(j)(i) the resolution adopting the Articles will authorise the Directors to capitalise any part of the amount then standing to the credit of any of the Company's reserve accounts (whether or not the same would lawfully distributable by way of cash dividend) or to the credit of the share premium account, capital redemption reserve, profit and loss account or otherwise available for the purpose and the same shall be applied in paying up in full at par shares to be allotted and issued, credited as fully paid, to and amongst the holders of the Subscription Shares exercising their Subscription Rights in accordance with their respective entitlements. The restrictions and limitations in the Articles relating to capitalisation issues generally shall not apply to any capitalisation or creation or issue of shares pursuant to paragraph 8(j) which shall instead be effected pursuant to the authority given by the resolution adopting the Articles.

## PART V

### GENERAL INFORMATION

#### 1. Responsibility

The Company, whose registered office appears at paragraph 2.1.6 of this Part V, and the Directors, whose names and functions appear on page 10 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

#### 2. The Company and the Manager

##### 2.1 *Incorporation*

2.1.1 The Company was incorporated in the UK with an unlimited life on 10 September 1993. The Company was incorporated as The Fleming Chinese Investment Trust plc and changed its name to JPMorgan Fleming Chinese Investment Trust plc on 13 December 2001 and to its current name on 14 December 2005. The Company is registered as an investment company under Section 266 of the Companies Act with registered number 2853893.

2.1.2 The Company has at all times conducted its affairs so as to enable it to qualify as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988.

2.1.3 The Company is not regulated as a collective investment scheme by the Financial Services Authority.

2.1.4 Existing Shares in the Company are listed on the Official List and admitted to trading on the London Stock Exchange's Main Market for Listed Securities. The ISIN of the Ordinary Shares is GB0003435012.

2.1.5 The principal legislation under which the Company operates is the Companies Acts and regulations promulgated thereunder. The Company is domiciled in the UK.

2.1.6 The address of the registered office of the Company is Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ, with telephone number +44 (0) 20 7742 6000.

##### 2.2 *Principal activities of the Company*

The Memorandum of Association of the Company provides that a principal object of the Company is to carry on business as an investment trust company and to undertake all kinds of trust and agency business.

##### 2.3 *The Manager*

The Manager is a private limited company, incorporated in England and Wales on 27 February 1974 under company number 1161446. The Manager is regulated by the Financial Services Authority. The principal legislation under which the Manager operates is the Companies Acts. The address of the registered office of the Manager is 125 London Wall, London, EC2Y 5AJ with telephone number 020 7742 6000.

### 3. Share capital

- 3.1 The following table shows the authorised and issued share capital (excluding treasury shares) of the Company as at 30 September 2007 (being the last date in respect of which the Company has published financial information) and as at 14 March 2008 being the latest practicable date prior to the publication of this document):

	<i>30 September 2007</i>		<i>14 March 2008</i>	
	<i>Nominal Value (£)</i>	<i>Number of Shares</i>	<i>Nominal Value (£)</i>	<i>Number of Shares</i>
Issued Share Capital (fully paid)	18,866,000	71,346,001	17,670,750	70,683,001
Authorised share capital	31,250,000	125,000,000	31,250,000	125,000,000

- 3.2 Save as disclosed, no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- 3.3 With effect from Admission, all of the Ordinary Shares and Subscription Shares will be in registered form and, subject to the Ordinary Shares and Subscription Shares being admitted to and accordingly enabled for settlement in CREST, the Ordinary Shares and Subscription Shares will be capable of being held in uncertificated form. No temporary documents of title will be issued.
- 3.4 The Company's authorised share capital has not changed since a resolution was passed at the AGM held on 16 December 2003 to increase the authorised share capital of the company from £25,000,000 to £31,250,000, divided into ordinary shares of 25p each.
- 3.5 The Company's issued share capital history during the last three financial years and since 30 September 2007 is as follows:
- in the financial year ended 30 September 2005, the Company issued a total of 2,325,000 new Ordinary Shares at an average price of 70.98 pence per share. At 30 September 2005, the Company had 68,412,001 Ordinary Shares in issue;
  - in the financial year ended 30 September 2006, the Company issued a total of 5,575,000 new Ordinary Shares at an average price of 82.7 pence per share. As at 30 September 2006, the Company had 73,987,001 Ordinary Shares in issue; and
  - in the financial year ended 30 September 2007, the Company issued a total of 1,475,000 new Ordinary Shares at an average price of 103.1 pence per share. The Company repurchased 4,116,000 Ordinary Shares into treasury at an average price of 102.3 pence per share. As at 30 September 2007, the Company had 75,462,001 Ordinary Shares in issue, including shares held in treasury; and
  - since 30 September 2007 to 14 March 2008, the Company has repurchased 663,000 Ordinary Shares into treasury at an average price of 126.0 pence per share and has issued no further Ordinary Shares.
- 3.6 Other than as described at paragraph 3.5 of this Part V, the Company did not repurchase any Shares during the three financial years ended 30 September 2005, 2006 and 2007 or between 30 September 2007 and 14 March 2008 (being the latest practicable date prior to the publication of this document).
- 3.7 The Company was authorised to issue Ordinary Shares by virtue of the resolutions numbered 1 and 2 passed at an extraordinary general meeting held on 1 August 2006. The resolutions passed were as follows:
- “1. THAT for the purposes of section 80 of the Companies Act 1985 (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):
    - the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £5,522,500 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution;

- (b) the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution,

so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked.

2. THAT forthwith and contingently on the authority referred to in paragraph 1 being granted, the Directors be and are empowered in accordance with section 95 of the Companies Act 1985 (the “Act”) to allot equity securities (as defined in section 94 of the Act) for cash, pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution shall be limited to:

- (a) the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or requirements of any recognised regulatory body or stock exchange in, any territory; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value not exceeding £5,522,500,

and this power, unless renewed, shall expire on 1 August 2011 but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.”

- 3.8 At the AGM of the Company held on 11 December 2007 a resolution authorising the Company to make market purchases of Ordinary Shares was passed as follows:

“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;
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of (a) 105 per cent. 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.”
- 3.9 At the General Meeting shareholders will be asked to pass resolutions in relation to the Company’s share capital to:
- (i) increase the Company’s share capital from £31,250,000 to £43,891,366 by the creation of 14,136,600 Subscription Shares of one penny each and by the creation of a further 50 million New Ordinary Shares of 25p each;
  - (ii) authorise the Directors to allot shares in connection with the Bonus Issue and the Issue (in substitution for the authority granted at the extraordinary general meeting of the Company held on 1 August 2006);
  - (iii) authorise the Directors to allot shares in connection with the Issue without regard to statutory pre-emption rights (in substitution for to the authority granted at the extraordinary general meeting of the Company held on 1 August 2006);
  - (iv) adopt new Articles to, *inter alia*, provide for the Subscription Shares; and
  - (v) authorise the Company to make market purchases of the Subscription Shares and the Ordinary Shares.
- 3.10 Subject to the Act, any equity shares issued by the Company for cash must first be offered to existing shareholders in proportion to their holdings of Ordinary Shares. Both the Act and the Listing Rules allow for disapplication of pre-emption rights which may be waived by a special resolution of the shareholders, either generally or specifically, for a maximum period not exceeding five years.
- 3.11 Each New Ordinary Share will rank in full for all dividends and distributions declared made or paid after their issue and otherwise *pari passu* in all respects with existing Ordinary Share and will have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as each existing Ordinary Share, as set out in the Articles. The Subscription Shares will have the rights described in Part IV of this Document. The New Ordinary Shares and the Subscription Shares will be denominated in Pounds Sterling.

#### **4. Memorandum and Articles of Association**

The Memorandum of Association and the Articles contain, *inter alia*, material provisions as summarised in paragraph 4.1 and 4.2 below, the proposed changes to the Articles that will be effected if the New Articles are adopted at the General Meeting relate to the rights attaching to the Subscription Shares (these rights are summarised in Part IV of this Document) and to take into account recent legal developments and other technical matters (these proposals are explained in the Notice of General Meeting).

##### **4.1 Memorandum of Association**

One of the Company’s principal objects is to carry on the business of an investment trust company and to undertake all kinds of trust and agency business. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the address specified in paragraph 21 of this Part V.

##### **4.2 Articles of Association**

###### **4.2.1 Share capital**

The Company’s authorised share capital consists of ordinary shares.

The Shares have such rights, preferences and restrictions attached to them as are set out in the Articles.

The Articles do not confer any additional rights for the holders of ordinary shares to share in any surplus in the event of the liquidation of the Company other than rights provided by legislation.

#### 4.2.2 *Variation of rights*

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Companies Act 1985 as amended and every other statute for the time being in force concerning companies and affecting the Company (the “**Statutes**”), be varied or abrogated in respect of the whole or any part of that class either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (but at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum) and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him. Where the rights of some only of the shares of any class are to be varied, the foregoing provisions apply as if each group of shares of the class differently treated formed a separate class whose rights are to be varied.

#### 4.2.3 *Alteration of share capital*

The Company may from time to time by ordinary resolution:

- (i) increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled; and
- (iv) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the provisions of the Statutes), and by the same resolution may confer special rights or restrictions on any of the shares resulting from the sub-division.

Subject to the provisions of the Statutes, the Company may purchase any of its own shares (including any redeemable shares), provided that, should any class of convertible shares be in issue at the date on which any such purchase is authorised by members as required by the Statutes, no such purchase shall take place unless and until it has been sanctioned by an extraordinary resolution passed at a separate general meeting of the holders of each such class of convertible shares.

Subject to the provisions of the Statutes, the Company may by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any way.

#### 4.2.4 *Issue of shares*

Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company in general meeting passed pursuant thereto, all unissued shares shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

#### 4.2.5 *Transfer of shares*

Any member may transfer all or any of his shares by instrument of transfer in writing in any usual or common form or in any other form which the Directors may approve and need not be under seal. The instrument of transfer shall be signed by or on behalf of the transferor and, except in the case of fully-paid shares, by or on behalf of the transferee. The registration of transfers either generally or in respect of any class of shares may be suspended by the Directors at any time, provided that the register of members may not be closed for more than thirty days in any year. The Directors may refuse to recognise an instrument of transfer unless:

- (i) it is in respect of only one class of share; and
- (ii) it is lodged at the transfer office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

The Directors may in their absolute discretion refuse to register any transfer of shares other than fully-paid shares provided that, where such shares are admitted to the Official List of the London Stock Exchange, such discretion shall not be exercised so as to prevent dealings in shares of that class from taking place on an open and proper basis.

#### 4.2.6 *General meetings*

Annual general meetings of the Company shall be held at least once each year. Other meetings of the Company shall be called extraordinary general meetings.

The notice period for annual general meetings of the Company and any extraordinary general meeting at which it is proposed to pass a special resolution shall be not less than 21 clear days. The notice period for any other extraordinary general meeting shall not be less than 14 clear days. Notices of general meetings shall specify the time and place of the meeting. In every notice there should appear a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member.

The quorum for a general meeting shall be two members present in person or by proxy and entitled to vote. If within five minutes after the time appointed for the meeting a quorum is not present, or if during a meeting a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. If otherwise convened, it should stand adjourned to such other day and such time and place as may have been specified for the purpose in the notice convening the meeting or (if not so specified) as the chairman may determine. The chairman of the Board or, failing him, a deputy chairman, shall preside as chairman at a general meeting of the Company, subject to the right of the Directors present at any meeting to appoint a chairman if neither the chairman nor deputy chairman of the Board is present within five minutes after the time appointed for holding the meeting, and subject to the right of the members present to appoint a chairman from among their number should no Director be present or should all of the Directors present decline to act as chairman.

#### 4.2.7 *Votes of members*

Subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every member who is present in person shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for each share of which he is the holder. No member shall, unless the Directors otherwise determine, be entitled in respect of shares held by him to vote at a general meeting or a meeting of the holders of any

class of shares either personally or by proxy or to exercise any other right conferred by membership in relation to such meetings of the Company if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid or if that member or any other person appearing to be interested in shares held by him in the Company shall have been served with a notice under Section 212 of the Companies Act 1985 and be in default for the prescribed period from such service in supplying the information thereby required.

#### 4.2.8 *Dividends*

- (iii) The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors. If and so far as in the opinion of the Directors the profits of the Company justify such payments, the Directors may pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.
- (iv) No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. Any surplus over the book value derived from the sale or realisation of any capital asset and any other sums representing capital profits within the meaning of Section 265 of the Companies Act or other accretions to capital assets shall not be available for dividend or other distribution within the meaning ascribed thereto by Section 263(2) of the Companies Act otherwise than by way of the redemption or purchase of any of the Company's own shares in accordance with Section 160 or 162 in Chapter VII or Part V of the Companies Act.
- (v) Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and revert to the Company.

#### 4.2.9 *Untraced shareholders*

The company shall be entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by transmission if, during a period of 12 years, no communication has been received by the Company from the member or the person entitled by transmission and no cheque or warrant sent by the Company through the post in a pre-paid letter addressed to the member or person entitled by transmission at his address on the register of members or other last known address given by such person has been cashed and at least three dividends have become payable in relation to such shares during those 12 years and no such dividend has been claimed and within a further period of three months from the date of newspaper advertisements giving notice of its intention to sell such shares placed after the expiry of the period of 12 years the Company has not received any communication from the member or the person entitled by transmission and notice has been given by the Company to the London Stock Exchange of its intention to make such sale. The Company shall be obliged to account to the former member or person entitled by transmission for the net proceeds of the sale of such shares but no trust shall be created in respect of the debt and no interest shall be payable in respect of the same and the Company shall not be required to account for any money earned on the net proceeds.

#### 4.2.10 *Suspension of share rights*

If a member or any person appearing to be interested in shares held by such member has been duly served with a notice pursuant to Section 793 of the Companies Act 2006 and the Company has not received the information required with the prescribed period, then, unless the Directors otherwise determine, the member shall not be entitled to attend or vote (personally or by proxy) at a general meeting or to exercise any other right conferred by membership in relation to general meetings.

Where the shares in respect of which the Company has not received the information required represent 0.25 per cent. or more of the issued shares of the class the Directors may further direct in their absolute discretion that:

- (i) any dividend or other monies otherwise payable in respect of such shares shall be retained by the Company; and/or
- (ii) no transfer of any of the shares held by the member shall be registered unless the transfer is an approved transfer or:
  - (a) the member is not himself in default in supplying the required information; and
  - (b) the transfer is only part of the member's holding and when presented for registration is accompanied by a certificate certifying that the shares transferred are not shares in relation to which the default has occurred.

#### 4.2.11 *Directors*

- (vi) Unless otherwise determined by ordinary resolution of the Company, the Directors shall not be less than three nor more than eight in number.
- (vii) Directors shall not be required to hold any shares in the Company by way of qualification. A Director who is not a member shall nevertheless be entitled to attend and speak at any general meeting.
- (viii) The ordinary remuneration of the Directors shall from time to time be determined by the Directors but shall not in aggregate exceed £150,000 per annum or such higher amount as may from time to time be determined by an ordinary resolution of the Company. Such remuneration shall be divisible among the Directors as they may agree or, failing agreement equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. The Directors may also be paid all reasonable expenses incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings or otherwise in connection with the business of the Company. Any Director who holds any executive office or who serves on any committee of the Directors or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the Directors may determine. The Directors shall have power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director or ex-Director and for the purpose of providing any such gratuities, pensions or other benefits to contribute to any scheme or fund or to pay premiums. The Directors may purchase and maintain insurance for, or for the benefit of, any persons who are or were directors, officers or employees of the Company or any associated company or who are or were trustees of any pension fund in which employees of the Company or any associated company are interested.
- (ix) The Directors may from time to time appoint one or more of their body to any executive office (including, where considered appropriate, the office of Chairman or Deputy Chairman) on such terms and for such periods as they may (subject to the provisions of the Statutes) determine and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke or vary the terms of any such appointment.
- (x) A Director may be party to or in any way interested in any contract or arrangement or transaction to which the Company is a party or in which the Company is in any way interested and he may hold and be remunerated in respect of any office or place of profit (other than the office of Auditor) under the Company or any other company in which the Company is in any way interested and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other company and be remunerated therefore and in any such case as aforesaid (save as otherwise agreed by him) he may retain for his own absolute use and benefit all profits and advantages accruing to him thereunder or in consequence thereof.

- (xi) Save as otherwise provided in the Articles, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he, together with any person connected with him, has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of, or otherwise in or through, the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote. Subject to the provisions of the Statutes, a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
  - (b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which offer he is or is to be interested as a participant;
  - (d) any proposal concerning any other body corporate in which he is interested, directly or indirectly, and whether as an officer or member or otherwise, provided that he (together with persons connected with him) is not beneficially interested in one per cent. or more of the issued shares of any class of such body corporate (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed to be a material interest in all circumstances);
  - (e) any proposal concerning the adoption, modification or operation of a superannuation fund, retirement, death or disability benefits scheme or employees' share scheme under which he may benefit and which either (aa) has been approved, or is conditional upon approval, by the Board of Inland Revenue for taxation purposes or (bb) relates to both employees and Directors of the Company (or any of its subsidiary undertakings) and does not accord him any privilege or benefit not accorded to the employees to whom the scheme or fund relates; or
  - (f) any proposal concerning the giving to him of any indemnity pursuant to the provisions of the Articles or concerning insurance which pursuant to the provisions of the Articles the Company is empowered to maintain and/or purchase for the benefit of any Directors or persons who include Directors.
- (xii) At each annual general meeting, at least one-third of the Directors for the time being shall retire from office by rotation. Subject to the provisions of the Statutes, the Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

- (xiii) Any provision of the Statutes which, subject to the provisions of the Articles, would have the effect of rendering any person ineligible for appointment as a Director or liable to vacate office as a Director on account of his having reached any specified age or requiring special notice or any other special formality in connection with the appointment of any Director over a specified age, shall not apply to the Company.

## **5. Mandatory Bids, Squeeze-Out and Sell-Out Rules relating to the Shares**

### **5.1 *Mandatory bid***

The City Code on Takeovers and Mergers applies to the Company. Under Rule 9 of the City Code, if:

- (i) a person acquires an interest in shares in the Company which, when taken together with shares already held by him or persons acting in concert with him, carry 30 per cent. or more of the voting rights in the Company; or
- (ii) a person who, together with persons acting in concert with him, is interested in not less than 30 per cent. and not more than 50 per cent. of the voting rights in the Company acquires additional interests in shares which increase the percentage of shares carrying voting rights in which that person is interested,

the acquiror and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for any interests in the Ordinary Shares by the acquiror or its concert parties during the previous 12 months.

### **5.2 *Compulsory Acquisition***

Under sections 974 – 991 of the 2006 Act, if an offeror acquires or contracts to acquire (pursuant to a takeover offer) not less than 90 per cent. of the shares (in value and by voting rights) to which such offer relates it may then compulsorily acquire the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding holders of shares telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for the outstanding holders of shares. The consideration offered to the holders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

In addition, pursuant to section 983 of the 2006 Act, if an offeror acquires or agrees to acquire not less than 90 per cent. of the shares (in value and by voting rights) to which the offer relates, any holder of shares to which the offer relates who has not accepted the offer may require the offeror to acquire his shares on the same terms as the takeover offer.

The offeror would be required to give any holder of shares notice of his right to be bought out within one month of that right arising. Sell-out rights cannot be exercised after the end of the period of three months from the last date on which the offer can be accepted or, if later, three months from the date on which the notice is served on the holder of shares notifying them of their sell-out rights. If a holder of shares exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## 6. Valuation policy

The NAV per Share will be calculated each business day by the Manager. For the purposes of calculating the NAV per Share, the Company's listed investments are valued at bid prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Where premiums are payable by foreign investors, the market value, for the purpose of the accounts, includes the premium. Unlisted investments are valued by the Board. In making their valuations, the Board takes into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors. Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised and unrealised surpluses and deficits on the revaluation of investments are taken to the capital reserve – unrealised.

The calculation of the NAV per Share will only be suspended in circumstances where the underlying data necessary to value the investments of the Company cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.

As at 14 March 2008 (being the latest practicable date prior to the publication of this document), the unaudited NAV per Share was 115.29 pence per Share and the NAV of the Company was £81.5 million (as provided by the Manager).

## 7. Borrowing

Subject to the Companies Acts, the Memorandum of Association of the Company and the Articles and to any directions given to the Company in the general meeting, the Directors shall manage the Company's business and can use all the Company's powers. In particular, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property (present and future) and uncalled capital or any part or parts thereof and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights, powers of control or rights of influence exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the Company and for the time being owing to persons outside the Company shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to the adjusted capital and reserves (as defined in the Articles).

The Company currently has no long-term fixed liabilities.

## 8. Interests of directors, major shareholders and related party transactions

### 8.1 Directors' interests

As at 14 March 2008 (being the latest practicable date before the publication of this document), the Directors had a beneficial interest in the following number of Ordinary Shares:

<i>Name</i>	<i>Number of Shares</i>	<i>% of issued ordinary share capital</i>
Sir Andrew Burns	4,682	0.007
William Knight	4,300	0.006
Irving Koo	—	—
Nigel Melville	50,000	0.071
Madam Yujiang Zhao	—	—

8.2 Save as disclosed in paragraph 8.1 above, immediately following Admission, no Director will have any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company or any of its subsidiary undertakings.

### 8.3 *Directors' contracts with the Company*

- 8.3.1 None of the Directors provides his services to the Company pursuant to a service contract with the Company. Their appointments are subject to the terms of their letters of appointment.
- 8.3.2 Sir Andrew Burns is engaged by the Company as a non-executive director. Sir Andrew commenced in that office on 16 December 2003. He will be subject to re-election at the annual general meeting of the Company to be held in 2008.
- 8.3.3 William Knight is engaged by the Company as a non-executive director. Mr Knight commenced in that office on 27 April 2004. He will be subject to re-election at the annual general meeting of the Company to be held in 2008.
- 8.3.4 Irving Koo is engaged by the Company as a non-executive director. Mr Koo commenced in that office on 1 February 2005. He will be subject to re-election at the annual general meeting of the Company to be held in 2008.
- 8.3.5 Nigel Melville is engaged by the Company as a non-executive director. Mr Melville commenced in that office on 6 February 1997. He will be subject to re-election at the annual general meeting of the Company to be held in 2008.
- 8.3.6 Madam Yujiang Zhao is engaged by the Company as a non-executive director. Madam Zhao commenced in that office on 1 February 2005. She will be subject to re-election at the annual general meeting of the Company to be held in 2009.
- 8.3.7 In the financial year ended 30 September 2007, Nigel Melville received a Director's fee of £20,000, William Knight received a Director's fee of £17,500 and Sir Andrew Burns, Irving Koo and Madam Yujiang each received Directors' fees of £15,000. The Directors were not paid any amount of remuneration by way of benefits in kind, pension contributions and any contingent or deferred compensation by the Company for their services in all capacities to the Company. Accordingly, there are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors.
- 8.3.8 The Company has not made any loans to the Directors which are outstanding, nor has it ever provided any guarantees for the benefit of any Director or the Directors collectively.

### 8.4 *Other interests*

Over the five years preceding the date hereof, the Directors have held the following directorships (apart from their directorships of the Company) and/or partnerships:

- 8.4.1 Sir Andrew Burns currently holds a directorship in Aberdeen All Asia Investment Trust plc, MGIC plc, The UK Foundation of the University of British Columbia, The International Polar Foundation UK, Hestercombe Gardens Trust Limited and Canada United Kingdom Colloquia.
- 8.4.2 William Knight currently holds a directorship in Fidelity Asian Values plc, Gryphon Capital Corporation Limited, Gryphon Emerging Markets United, Navigator London Financial Group Ltd, Navigator Finance Ltd., Navigator Corporate Advisers Ltd., Navigator Capital Limited, Thai-Euro Fund Ltd, European Growth Fund Limited, Siberia Investment Co. P.L.C., KASB Bank Limited, L.G. India Fund Limited, Abingworth Bioventures SICAV, Emerisque Capital (Mauritius) Limited and the Greater China Corporation.
- 8.4.3 Irving Koo currently holds a directorship in Trion Pacific Limited (domiciled in Hong Kong).
- 8.4.4 Nigel Melville currently holds a directorship in Matrix Income & Growth 2 VCT plc, Matrix Ventures Fund VCT plc, Eyr 2001 Limited, M.K.M. Trading Company Limited, Emtelle Holdings Limited, Egypt Investment Company Limited and the National Osteoporosis Society. He was formerly a director of Emtelle UK Limited (resigned 21/12/2003) and Rye CMS Limited (dissolved 06/04/2006).
- 8.4.5 Madam Yujiang Zhao currently holds a directorship in Mahon China (domiciled in New Zealand).

8.5 The Directors in the five years before the date of this Prospectus:

8.5.1 do not have any convictions in relation to fraudulent offences;

8.5.2 have not been associated with any bankruptcies, receiverships or liquidations of any partnership or company through acting in the capacity as a member of the administrative, management or supervisory body or as a partner, founder or senior manager or such partnership or company; and

8.5.3 do not have any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) and have not been disqualified by a court from acting as a member of the administration, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

#### 8.6 *Major shareholders*

8.6.1 As at 14 March 2008 (being the latest practicable date before publication of this document) insofar as known to the Company, the following parties were known to be interested in three per cent. or more of the Shares (being the threshold of notification under the Act):

<i>Shareholder</i>	<i>Holding</i>	<i>%</i>
Puddledock Nominees Ltd. *	18,970,550	25.14

\* Held non-beneficially on behalf of clients of the JPMorgan ISA, PEP and Share Plan.

8.6.2 All Shareholders have the same voting rights in respect of the share capital of the Company.

8.6.3 The Company and the Directors are not aware of any person, who directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

8.6.4 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

#### 8.7 *Related party transactions*

The Company was not a party to, nor had any interest in, any related party transaction (as defined in the Standards adopted according to the Regulation (EC) No 1606/2002) at any time during the three financial years to 30 September 2007 or during the period 1 October 2006 to 14 March 2008 (being the latest practicable date before publication of this document) other than entry into the Management Agreement (described in paragraph 11 of this Part V).

#### 8.8 *Other material interests*

The Company is receiving legal and financial advice from Travers Smith and Winterflood Securities respectively, in addition to certain administrative services from third parties in connection with the Bonus Issue and the Issue. The legal and financial advisers act for many other clients, including others in the investment funds sector and, on occasion, the professional advisers may face conflicts of interest as a result of acting both for the Company and such other clients. In the event of a conflict of interest, the legal and financial advisers will take such reasonable steps to ensure it is resolved fairly.

None of the directors has any conflict of interest between any duties to the Company and his private interests and any other duties. The Manager, any of its directors, officers, employees, agents and affiliates and the Directors and any person or company with whom they are affiliated or by whom they are employed (each an “**Interested Party**”) may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company. In particular, Interested Parties may provide services similar to those provided to the Company to other entities and shall not be liable to account for any profit from any such services. For example, an Interested Party may acquire on behalf of a client an investment in which the Company may invest.

## **9. Share options and share scheme arrangements**

No share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

## **10. Investment restrictions**

The Company will at all times invest and manage its assets in accordance with its published investment policy as set out on page 15 of this document.

In order to comply with the current Listing Rules, the Company will not invest more than 10 per cent., in aggregate, of the value of its total assets (calculated at the time of any relevant investment) in other closed-ended investment funds (save to the extent that those closed-ended investment funds have stated investment policies to invest no more than 15 per cent. of their gross assets in other closed-ended investment funds).

In the event of any material breach of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Manager through an announcement via a Regulatory Information Service.

## **11. Material contracts**

Save as described below, the Company has not (i) entered into any material contracts (other than contracts in the ordinary course of business) within the two years immediately preceding the publication of this document; or (ii) entered into any contracts that contain provisions under which the Company has any obligation or entitlement that is material to the Company as at the date of this document.

### **11.1 Management Agreement**

Under the terms of the Management Agreement, the Manager is responsible for the investment management of the Company's portfolio of assets on a discretionary basis, subject, *inter alia*, to the Company's investment objectives and restrictions and the overall supervision of the Directors, and for the provision of all services of a secretarial, accounting and administrative nature (excluding registration services) to the Company (including the provision of periodic statements to the Company, setting out the value and composition of the Company).

The Management Agreement provides for the Manager to receive a management fee at the annual rate of 1.0 per cent. of the Company's total assets less current liabilities, calculated and paid monthly in arrears. Funds and similar schemes, both closed and open-ended, managed or advised by the Manager or any of its associated companies, on which a fee is already charged by the Manager or any of its associated companies, are excluded from the calculation and therefore attract no direct management fee.

The Management Agreement also provides for the manager to receive a performance fee. This is calculated as 15 per cent. of the out-performance of the Company's NAV return in sterling terms against the MSCI Golden Dragon Index during a financial year of the Company multiplied by the average net asset value of the Company during that year adjusted to exclude the effect of borrowings for a term of greater than one year.

The performance fee is calculated annually on the date of publication of the Company's annual report.

The Management Agreement may be terminated by either party giving to the other at least one year's notice in writing. It is a requirement of the Articles that a vote be put to shareholders at certain general meetings for the continuation of the Company as an investment trust. If such a vote is not passed the Management Agreement may be terminated at a date which could be less than the required one year's notice. In such circumstances the Manager will not be entitled to receive a management fee for a period which exceeds the termination date.

The Management Agreement contains an indemnity in favour of the Manager against claims by third parties, except insofar as the same may result from the negligence, wilful default or fraud of the Manager or its employees, or any party to whom the Manager has delegated any of its functions.

The Manager and any associate may effect transactions in which it or an associate has directly, or indirectly, a material interest or a relationship with another party, which may involve a potential conflict with its duty to the Company. The Manager will ensure that such transactions are effected on terms which are not materially less favourable to the Company than if the potential conflict had not existed. The Manager will normally act as the agent of the Company. Nevertheless none of the services to be provided to the Company will give rise to fiduciary or equitable duties which would prevent or hinder the Manager, or any associate, in transactions with or for the Company, from acting as both market maker and broker or principal and agent, or generally effecting transactions to which the Company consents accordingly.

## 11.2 *Custody Agreement*

JPMorgan Chase Bank, National Association, London Branch, acts as Custodian pursuant to the Custody Agreement. The Custodian is a company organised under the laws of the State of New York with limited liability. Its main office is in Ohio, USA and it was registered as a branch in England and Wales with registration number BR000746 on 11 April 1960. The Custodian is authorised and regulated by the FSA with firm reference number 124491. The telephone number of the Custodian is 020 7777 2000.

The fees of the Custodian are paid by the Company. The fees of the Custodian vary depending on the value of assets under custody and the countries in which those assets are located. In the year to 30 September 2007 the fees of the Custodian were £51,000. The Custody Agreement contains an indemnity in favour of the Custodian against claims by third parties except to the extent that the claim arises from the negligence, fraud or wilful default of the Custodian. The Custody Agreement may be terminated by either party giving to the other not less than 60 days' notice in writing or otherwise in circumstances where, *inter alia*, either party goes into liquidation or there is an un-remedied material breach.

Subject to exercising its duties of supervision and control as prescribed by the rules of the FSA, the Custodian is authorised to act through and hold the Company's investments with sub-custodians. The Custodian will use reasonable care in the selection and appointment of sub-custodians. The applicable sub-custodians who are appointed by the Custodian as at the date of this document and who might be relevant for the purposes of holding the Company's investments are:

<i>Country</i>	<i>Name of sub-custodian</i>	<i>Regulatory status of sub-custodian</i>
China	The Hong Kong and Shanghai Banking Corporation Limited	Regulated as a licensed bank by the Hong Kong Monetary Authority
Hong Kong	The Hong Kong and Shanghai Banking Corporation Limited	Regulated as a licensed bank by the Hong Kong Monetary Authority
Singapore	Standard Chartered Bank	Regulated as a bank by the Monetary Authority of Singapore
Taiwan	JPMorgan Chase Bank, N.A.*	Regulated as a local branch of a foreign bank by the Central Bank of China

(\* Sub-custodians which are branches or affiliates of the Custodian.)

## 11.3 *Winterflood Securities Engagement Letter*

By an engagement letter dated 12 February 2008, the Company and Winterflood Investment Trusts have agreed to Winterflood Investment Trusts acting as sponsor in connection with the Proposals. Under the terms of this engagement letter the Company will pay to Winterflood Investment Trusts a fee of £100,000 (plus VAT if applicable) and all reasonable costs and expenses of Winterflood Investment Trusts. The engagement letter may be terminated by the Company or Winterflood Investment Trusts in certain circumstances prior to Admission. The Company has given certain indemnities to Winterflood Investment Trusts (which is standard for this type of letter). The Issue has not been underwritten by Winterflood Investment Trusts.

## 12. UK Taxation

### 12.1 Introduction

The following statements are based upon current UK tax law and what is understood to be the current practice of HMRC, both of which are subject to change, possibly with retrospective effect. The statements are intended only as a general guide and may not apply to certain Shareholders, such as dealers in securities, insurance companies, collective investment schemes or shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment, who may be subject to special rules. They apply only to Shareholders resident and ordinarily resident for UK tax purposes in the UK (except in so far as express reference is made to the treatment of non-UK residents), who hold Shares as an investment rather than trading stock and who are the absolute beneficial owners of those Shares.

**The information contained in this Prospectus relating to taxation matters is a summary of the taxation matters which the Directors consider should be brought to the attention of prospective investors and is based upon the law and practice currently in force and is subject to changes therein. All potential investors, and in particular those who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers on the potential tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Shares or Subscription Shares under the laws of their country and/or state of citizenship, domicile or residence.**

### 12.2 The Company

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies and continues to satisfy the conditions necessary for it to be approved by HMRC as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. However, neither the Manager nor the Directors can guarantee that this approval will be maintained. One of the conditions for a company to qualify as an investment trust is that it is not a close company. The Directors consider that the Company should not be a close company immediately following the issue of Ordinary Shares or Subscription Shares pursuant to the Issue or the Bonus Issue. In respect of each accounting period for which the Company continues to be approved by HMRC as an investment trust the Company will be exempt from UK taxation on its capital gains. The Company will, however, be liable to UK corporation tax on its income in the normal way.

### 12.3 Shareholders

12.3.1 For the purposes of United Kingdom capital gains tax and corporation tax on chargeable gains (“CGT”), the receipt of the Subscription Shares arising from the Bonus Issue will be a re-organisation of the share capital of the Company. Accordingly, the Subscription Shares will be treated as the same asset as the Shareholder’s holding of Ordinary Shares and as having been acquired at the same time as the Shareholder’s holding of Ordinary Shares was acquired. As a result of the Bonus Issue the Shareholder’s original base cost in his or her Ordinary Shares will be apportioned between his or her Ordinary Shares and the Subscription Shares by reference to their respective market values on the day in which the Subscription Shares are admitted to trading on the London Stock Exchange’s Main List. That is to say, the base cost of such a Shareholder’s Ordinary Shares is deemed to be the actual base cost to the Shareholder of those Ordinary Shares multiplied by a fraction whose numerator is  $a$  and whose denominator is  $(a+b)$ , where  $a$  is the market value of the Ordinary Shares on the day on which the Subscription Shares are admitted to trading, and  $b$  is the market value of the Subscription Shares on the same date. The base cost of the Subscription Shares is deemed to be the actual base cost of the Ordinary Shares less the deemed base cost of the Ordinary Shares calculated as described above.

On the exercise of the right to convert any Subscription Shares into Ordinary Shares, the Ordinary Shares issued pursuant to the Subscription Rights will be treated as the same asset as the Subscription Shares in respect of which the Subscription Rights are exercised. The base cost of each such Ordinary Share will be the deemed base cost of the Subscription Share that it replaces, calculated as described above, plus the Conversion Price.

### 12.3.2 *Taxation of capital gains*

Individual Shareholders who are resident or ordinarily resident in the UK for tax purposes will generally be subject to capital gains tax in respect of any gain arising on a disposal of their Ordinary Shares or Subscription Shares. Taper relief (and indexation allowance, where Ordinary Shares were held by a Shareholder prior to April 1998) may reduce the amount of chargeable gain that is subject to capital gains tax but may not create or increase any allowable loss. In addition, each individual has an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £9,200 for the tax year 2007-2008 and £9,600 for the tax year 2008-2009.

As a result of proposed legislative changes announced in the pre-Budget Report on 9 October 2007, taper relief (and indexation allowance, where the relevant Ordinary Shares were held by a Shareholder prior to April 1998) will cease to be available to reduce the amount of any gain made on disposal by a Shareholder who is an individual or otherwise not within the charge to UK corporation tax in respect of any disposal of Shares after 5 April 2008. For disposals after that date, a flat rate of tax of 18 per cent. will be payable on any gain.

Shareholders who are individuals and who are temporarily non-resident in the UK may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief).

Corporate Shareholders who are resident in the UK for tax purposes will generally be subject to corporation tax on chargeable gains arising on a disposal of their shares. The indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

Capital losses realised on a disposal of Ordinary Shares or Subscription Shares must be set as far as possible against chargeable gains for the same tax year (or accounting period in the case of a Corporate Shareholder), even if this reduces an Individual Shareholder's total gain below the annual exemption. Any balance of losses is carried forward without time limit and set off against net chargeable gains (that is, after deducting the annual exemption) in the earliest later tax year. Losses cannot generally be carried back, with the exception of losses accruing to an Individual Shareholder in the year of his death.

### 12.3.3 *Taxation of dividends*

The Company will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company should generally be entitled to a tax credit which may be set off against the Shareholder's total income tax liability on the dividend. An individual UK resident shareholder will be liable to income tax on the sum of the tax credit and the dividend (the "gross dividend") which will be treated as the top slice of the individual's income for UK income tax purposes. The tax credit equals 10 per cent. of the gross dividend. The tax credit therefore also equals one-ninth of the cash dividend received.

A UK resident individual Shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy in full such a Shareholder's liability to income tax on the dividend.

The rate of income tax applied to dividends received by a UK resident individual liable to income tax at the higher rate will be 32.5 per cent. to the extent that such dividends, when treated as the top slice of the Shareholder's income, fall above the threshold for higher rate income tax. In the case of such Shareholder's liability, the tax credit will be set against, but will not fully match, their tax liability on the gross dividend. After taking account of

the 10 per cent. tax credit, such Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which equals 25 per cent. of the cash dividend received) to the extent that it falls above the threshold for higher rate income tax.

There will be no repayment of all or part of the tax credit to an individual Shareholder whose liability to income tax on all or part of the gross dividend is less than the amount of the tax credit. This will include a Shareholder who holds the Ordinary Shares or the Subscription Shares through a PEP or ISA.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim a repayment of the tax credit attaching to dividends paid by the Company.

UK resident corporate Shareholders will generally not be subject to corporation tax on dividends paid by the Company but will not be able to claim a repayment of the tax credit attaching to the dividends.

Non-UK resident Shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. **It is particularly important that shareholders who are not resident in the UK for tax purposes obtain their own tax advice concerning tax liabilities on dividends received from the Company.**

#### 12.3.4 *Stamp duty and stamp duty reserve tax*

Transfers on sale of Ordinary Shares or Subscription Shares will generally be subject to UK stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer. The purchaser normally pays the stamp duty.

An agreement to transfer Ordinary Shares or Subscription Shares will normally give rise to a charge to stamp duty reserve tax (“SDRT”) at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is repayable, generally with interest, and otherwise the SDRT charge is cancelled. SDRT is, in general, payable by the purchaser.

Paperless transfers of Ordinary Shares or Subscription Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT, unless the transfer into CREST is itself for consideration.

Where Ordinary Shares or Subscription Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the Ordinary Shares or the Subscription Shares. This liability for stamp duty or SDRT will strictly be payable by the clearance service or depositary receipt operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt scheme.

#### 12.3.5 *ISAs*

The Ordinary Shares or Subscription Shares should be eligible to be held in the stocks and shares component of an ISA, subject to applicable annual subscription limits (in the case of an ISA “maxi-account”, £7,000 in the 2007-2008 tax year. Changes to the rules governing ISAs will take effect from 6 April 2008, abolishing the distinction between

“mini-” and “maxi-” accounts and raising the annual subscription limit for a stocks and shares ISA to £7,200 per tax year). Investments held in ISAs will be free of UK tax on both capital gains and income. The opportunity to invest in Ordinary Shares or Subscription Shares through an ISA is restricted to certain UK resident individuals aged 18 or over. The Conversion Price paid upon any exercise of the right to convert Subscription Shares into Ordinary Shares would contribute towards the annual subscription limit in the year in which the Subscription Right was exercised, unless the Conversion Price were paid out of cash already within the Shareholder’s stocks and shares ISA, or (in accordance with rules due to come into effect from 6 April 2008) with cash subscribed in the same tax year to a cash ISA held by the Shareholder and transferred to the Shareholder’s stocks and shares ISA. Sums received by a Shareholder on a disposal of Ordinary Shares or Subscription Shares would not count towards the Shareholder’s annual limit; but a disposal of Ordinary Shares or Subscription Shares held in an ISA will not serve to make available again any part of the annual subscription limit that has already been used by the Shareholder in that tax year. **Individuals wishing to invest in Ordinary Shares or Subscription Shares through an ISA should contact their professional advisers regarding their eligibility.**

#### 12.3.6 PEPs

The Company’s intended portfolio will be such that the Ordinary Shares and the Subscription Shares should be eligible as qualifying investments for general PEP purposes.

No new PEPs may now be set up and no further subscriptions can be made to existing PEPs. However, a plan manager may use cash already contributed to a PEP to acquire Ordinary Shares or Subscription Shares in the market. Existing PEPs will be reclassified as stocks and shares ISAs from 6 April 2008.

### 13. Corporate governance

The Board, as constituted from time to time, is responsible for ensuring the appropriate level of corporate governance and considers that, apart from certain matters noted below which the Board believes are not relevant to the business of an investment trust company with only non-executive Directors, the Company complies with the best practice provisions of the 2003 Financial Reporting Council Combined Code and the AIC Code.

The Board consists of five non-executive Directors, all of whom are considered to be independent of the Manager, including the Chairman.

The Board does not feel that it would be appropriate to adopt a policy whereby Directors serve for a limited period of time, given the specialist nature of the Company’s investment universe. However, in order to achieve a balance of skills, experience, length of service and ages, it is the Board’s policy to induct new Directors to provide an orderly succession over time.

The Board does not consider it necessary to appoint a senior independent director as all of the current Directors are non-executives.

The Company’s Audit Committee is chaired by William Knight and consists of all the Directors and meets at least twice a year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Audit Committee. The audit committee reviews the actions and judgements of the Manager in relation to the interim and annual financial statements and the Company’s compliance with the 2003 Financial Reporting Council 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.

The Nomination and Remuneration Committee is chaired by Nigel Melville and consists of all the Directors. It ensures 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.

#### 14. Litigation

The Company has not at any time in the 12 months immediately preceding the date of this Document been engaged in any governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened by or against the Company, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this document in each case which may have, or have had in the recent past, a significant effect on the Company's financial position or profitability.

#### 15. Significant change

There has been no significant change in the financial or trading position of the Company since 30 September 2007, being the date to which the latest audited annual results of the Company were published.

#### 16. Third party information and consents

16.1 Winterflood Securities is acting as sponsor to the Bonus Issue and the Issue. Winterflood Securities has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

16.2 JPMorgan Asset Management (UK) Limited as Manager, has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

16.3 In relation to information provided by Fundamental Data, the Manager and Bloomberg, the Company confirms that that information has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.

#### 17. Investment portfolio

As at the close of business on 14 March 2008 (being the latest practicable date prior to the publication of this document), further details of the company's largest twenty investments are as follows:

##### *Top twenty investments*

<i>Security Issuer</i>	<i>Book Cost £'000</i>	<i>Market value £'000</i>	<i>% of issued shares held</i>	<i>Exchange</i>
China Mobile (Hong Kong) Limited	3,676	6,955	0.01	Hong Kong Collective
JF China Pioneer 'A' Share Fund	2,633	6,132	1.95	Investment
Cheung Kong Holdings Limited	3,822	3,904	0.03	Hong Kong
Cathay Financial Holdings Company	3,166	3,273	0.03	Taipei
CNOOC Limited	3,075	3,207	0.01	Hong Kong
China Construction Bank	2,954	3,088	0.00	Hong Kong
China Merchants Bank	3,008	2,892	0.07	Hong Kong
Taiwan Semiconductor Manufacturing Co Ltd	2,695	2,794	0.01	Taipei
China Shenhua Energy Co., Limited	2,586	2,660	0.03	Hong Kong
China Life Insurance Co., Limited	1,481	2,473	0.02	Hong Kong
Sun Hung Kai Properties Limited	2,788	2,253	0.01	Hong Kong
Hon Hai Precision Industry Co., Ltd	2,023	2,174	0.01	Taipei
Hong Kong Exchanges & Clearing	1,188	2,152	0.02	Hong Kong
Chinatrust Financial Holding Company Ltd	2,119	2,072	0.06	Taipei
Formosa Plastics Corp	1,972	1,965	0.02	Taipei
Nan Ya Plastics Corporation	1,976	1,868	0.02	Taipei
China Petroleum & Chemical Corporation	1,979	1,859	0.03	Hong Kong
AU Optronics Corporation	1,811	1,784	0.02	Taipei
Chunghwa Telecom Co., Ltd	1,771	1,716	0.01	Taipei
China Communications Construction Company Ltd.	1,983	1,527	0.03	Hong Kong

## **18. General**

- 18.1 The Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability.
- 18.2 The most recent annual fees of the auditors were £22,000. Apart from these fees and the fees payable to the Manager, the Custodian and Winterflood Securities as disclosed in paragraphs 11.1, 11.2 and 11.3 above there are no other material fees payable by the Company.
- 18.3 In accordance with the Prospectus Rules, the Company will file with the FSA, and make available for inspection by the public, details of the number of New Ordinary Shares issued under the Prospectus. The Company will also announce the issue of the Subscription Shares and any new Ordinary Shares via a Regulatory Information service.
- 18.4 The typical investors for whom the Shares are intended are professionally advised private investors, or institutional investors, seeking long-term capital growth by investment in Greater China companies. The Shares may also be suitable for financially sophisticated non-advised private investors who are capable of evaluating the risks and merits of an investment in the Company and who have sufficient resources to bear any loss that may result from such an investment. However, such investors should consider consulting an independent financial adviser authorised under FSMA before investing.
- 18.5 The effect of the Bonus Issue and the Issue will depend upon the number of Subscription Shares issued and converted and the number of New Ordinary Shares issued. By way of example only, based on the NAV per Ordinary Share as at the close of business on 14 March 2008 of 115.29 pence and assuming 14 million Subscription Shares were exercised on 15 May 2009 at the Conversion Price (assumed for this purpose to be a 1 per cent. premium to the NAV as at 14 March 2008), proceeds of the exercise of Subscription Share Rights would be approximately £16.30 million. Again, based on the NAV at the close of business on 14 March 2008 of 115.29 pence and assuming the New Ordinary Shares were issued at a 2 per cent. premium to the NAV per Ordinary Share at that date, if the 50 million New Ordinary Shares available under the Prospectus were issued, before expenses, the proceeds of the Issue would be approximately £58.80 million. The Company will not incur any liabilities as a result of the Bonus Issue or the Issue and earnings per Share are not expected to be materially affected.

## **19. Costs and Expenses**

The costs of the Bonus Issue, the Issue and the preparation of this Prospectus (including all advisers' fees, printing and other ancillary costs) are expected to be approximately £265,250 (excluding VAT), which will be borne by the Company.

## **20. Auditors**

The auditors to the Company for the three financial years ended 30 September 2005, 2006 and 2007 were PricewaterhouseCoopers LLP of Southwark Towers, 32 London Bridge Street, London SE1 9SY.

## **21. Documents on display**

The following documents will be available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL for so long as this document remains valid:

- 21.1 this Prospectus;
- 21.2 the Memorandum and Articles of Association of the Company together with the New Articles;
- 21.3 the audited accounts of the Company for the financial years ended 30 September 2005, 2006 and 2007 respectively;
- 21.4 the letters of appointment referred to in paragraph 8.3 above;
- 21.5 the material contracts referred to in paragraph 11 above; and
- 21.6 the letters of consent referred to in paragraph 16 above.

Dated: 18 March 2008

## DEFINITIONS

In this document the words and expressions listed below have the meanings set out opposite them, except where the context otherwise requires:

<b>2006 Act</b>	the Companies Act 2006
<b>the Act</b>	the Companies Act 1985, as amended, modified, consolidated, re-enacted or replaced from time to time
<b>Admission</b>	the admission, as the context requires, of the New Ordinary Shares and the Subscription Shares (i) to the Official List and (ii) to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with the Listing Rules and the Admission and Disclosure standards
<b>AGM</b>	annual general meeting of the Company
<b>AIC Code</b>	the Association of Investment Companies Code of Corporate Governance, as amended from time to time
<b>Articles</b>	the articles of association of the Company, as amended from time to time
<b>Benchmark</b>	the MSCI Golden Dragon Index
<b>Board</b>	the board of Directors of the Company
<b>Bonus Issue</b>	the issue without cost to Qualifying Shareholders on the Register at the Bonus Record Date of new Subscription Shares on the basis of 1 new Subscription Share for every 5 Ordinary Shares
<b>Chairman</b>	the chairman of the Company
<b>Circular</b>	the circular of the Company dated 18 March 2008 containing the Notice of General Meeting
<b>Company</b>	JPMorgan Chinese Investment Trust plc
<b>Conversion Price</b>	the price at which the Subscription Share Rights are exercised in accordance with the terms of the Subscription Shares
<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear Limited in accordance with the Uncertificated Securities Regulations 2001
<b>Custodian</b>	JPMorgan Chase Bank, National Association
<b>Custody Agreement</b>	the agreement between the Custodian and the Company regarding the custody of the assets of the Company
<b>Directors</b>	the directors of the Company
<b>EEA States</b>	has the meaning set out in the Prospectus Rules
<b>Existing Articles</b>	the articles of association of the Company as at the date of this document
<b>Financial Services Authority or FSA</b>	the single regulatory authority for the UK financial services industry

<b>FSMA</b>	the Financial Services and Markets Act 2000
<b>General Meeting</b>	the general meeting of the Company convened for 14 April 2008 at 12.30 p.m., or any adjournment thereof
<b>Greater China</b>	China, Hong Kong and Taiwan
<b>HMRC</b>	HM Revenue & Customs
<b>ISA</b>	an individual savings account maintained in accordance with the UK Individual Savings Account Regulations 1998 (as amended from time to time)
<b>Issue</b>	the issue of up to 50,000,000 New Ordinary Shares under the Prospectus
<b>Listing Rules</b>	the listing rules issued by the UK Listing Authority
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Management Agreement</b>	the agreement dated 27 April 2004 between the Manager and the Company
<b>Manager</b>	JPMorgan Asset Management (UK) Limited
<b>Memorandum of Association</b>	the memorandum of association of the Company, as amended from time to time
<b>MSCI Golden Dragon Index</b>	Morgan Stanley Capital International Golden Dragon Index
<b>NAV or Net Asset Value</b>	net asset value as calculated in accordance with the Company's accounting policies and the Articles or the value of the net assets per share, as the context requires
<b>New Articles</b>	the articles of association of the Company which will be adopted if the resolution numbered 1 set out in the notice convening the General Meeting is passed at the General Meeting and becomes unconditional
<b>New Ordinary Shares</b>	up to 50,000,000 new Ordinary Shares to be issued from time to time under the Prospectus with the same characteristics as Ordinary Shares
<b>Notice of General Meeting</b>	the notice of General Meeting as set out in the Circular
<b>Official List</b>	the Official List maintained by the UK Listing Authority
<b>Ordinary Share or Shares</b>	an ordinary share or ordinary shares in the Company of 25 pence each with TIDM: JMC and ISIN: GB0003435012
<b>Overseas Shareholders</b>	Shareholders who are resident in, or who are citizens of, or who have registered addresses in, territories other than the United Kingdom
<b>PEP</b>	a personal equity plan maintained in accordance with the UK Personal Equity Plan Regulations 1989 (as amended from time to time)
<b>Plans</b>	together, the JPMorgan Investment Trust Individual Savings Account, the JPMorgan Investment Trust Personal Equity Plan, and the JPMorgan Personal Pension Plan the JPMorgan Investment Trust Share Plan
<b>Proposals</b>	the proposals and the Resolutions described in this document for the Bonus Issue, the Issue, changes to the Articles and all ancillary matters
<b>Prospectus</b>	this document

<b>Prospectus Rules</b>	the rules and regulations made by the FSA under Part V of the Financial Services and Markets Act 2000 (as amended from time to time)
<b>Qualifying Shareholders</b>	Shareholders whose names are entered on the Register at the close of business on the Record Date
<b>Record Date</b>	the date on which Qualifying Shareholders entitlements to the Bonus Issue will be assessed against the register of members, expected to be 5 pm on 15 April 2008
<b>Registrars</b>	Equiniti Limited
<b>Regulatory Information Service</b>	a service authorised by the UK Listing Authority to release regulatory announcements to the London Stock Exchange
<b>Resolutions</b>	the resolutions to be proposed at the General Meeting details of which are contained in notice to General Meeting
<b>SARS</b>	Severe Acute Respiratory Syndrome
<b>Shares</b>	the New Ordinary Shares and the Subscription Shares
<b>Shareholder</b>	a holder of Ordinary Shares
<b>Subscription Shareholders</b>	holders of Subscription Shares
<b>Subscription Shares</b>	the subscription shares of one penny each with ISIN GB00B2PNJ662 to be issued pursuant to the Bonus Issue and this Prospectus
<b>Subscription Share Rights</b>	the right conferred by each Subscription Share to subscribe for one Ordinary Share as detailed in Part IV of this Prospectus
<b>UK Listing Authority</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of admissions to the Official List
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>VAT</b>	UK value added tax
<b>Voting Instruction Form</b>	the voting instruction form provided with this document for use in connection with the General Meeting by shareholders who hold shares through any of the JPMorgan Savings Plans
<b>Winterflood Securities or Winterflood Investment Trusts</b>	Winterflood Securities Limited acting through its division Winterflood Investment Trusts





