

Annual Report 09  
JPMorgan Chinese  
Investment Trust plc

Annual Report & Accounts for the Year Ended 30th September 2009

# Features

## Contents

### About the Company

- 1 Financial Results
- 2 Chairman's Statement

### Investment Review

- 5 Investment Managers' Report
- 8 Summary of Results
- 9 Performance
- 10 Ten Year Financial Record
- 11 Ten Largest Investments
- 12 Portfolio Analyses
- 13 Investment Activity
- 14 List of Investments

### Directors' Report

- 16 Board of Directors
- 17 Directors' Report
- 24 Corporate Governance
- 28 Directors' Remuneration Report

### Accounts

- 29 Directors' Responsibilities in Respect of the Accounts
- 30 Independent Auditors' Report
- 32 Income Statement
- 33 Reconciliation of Movements in Shareholders' Funds
- 34 Balance Sheet
- 35 Cash Flow Statement
- 36 Notes to the Accounts

### Shareholder Information

- 54 Shareholder Analyses
- 55 Notice of Meeting
- 58 Glossary of Terms
- 61 Information about the Company

### Objective

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

### Investment Policies

- To invest in companies which are quoted on the stock exchanges of Hong Kong, China and Taiwan or which derive a substantial part of their revenues or profits from these territories.
- To use gearing up to a maximum level of 15% of shareholders' funds to increase potential returns to shareholders.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

### Benchmark

MSCI Golden Dragon Index in sterling terms.

### Risk

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

### Capital Structure

The Company has an authorised share capital of 175,000,000 Ordinary shares of 25p each (of which 75,541,461 were in issue as at 30th September 2009, including 2,904,000 shares held in Treasury) and 14,136,600 Subscription shares of 1p each (of which 14,056,947 were in issue as at 30th September 2009).

### Continuation Vote

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

### Management Company

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

# Financial Results

Total Returns (capital plus income)

## 53.1%

Unit return to shareholders<sup>1,2</sup>  
(2008: -33.8%)

## 50.8%

Return to Ordinary  
shareholders<sup>3</sup>  
(2008: -34.7%)

## 44.9%

Return on net assets<sup>2</sup>  
(2008: -36.3%)

## 43.4%

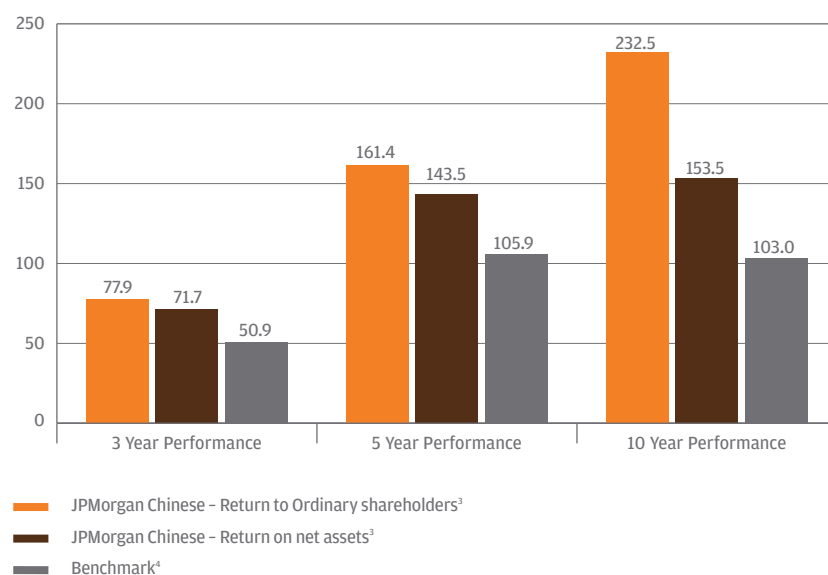
Benchmark return<sup>4</sup>  
(2008: -32.3%)

## 1.5p

Dividend  
(2008: 0.5p)

### Long Term Performance

for periods ended 30th September 2009



A glossary of terms and definitions is provided on pages 58 and 59.

<sup>1</sup>A 'Unit' comprises 5 Ordinary shares and 1 Subscription share.

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

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

<sup>4</sup>Source: Datastream. The benchmark is a composite based on 40% Hang Seng Index, 40% Taiwan Weighted Index and 20% Prime Peregrine China Index from 1st October 1999 to 1st October 2001, and the MSCI Golden Dragon Index thereafter. The benchmark return is calculated on a total return basis in sterling terms.

# Chairman's Statement



## Performance

During the year to 30th September 2009, the Greater China equity markets were at the forefront of the global economic recovery, as they staged a strong and faster than expected rebound from the previous year's downturn. It is pleasing to report that the Company's total return on net assets, which comprises the change in net asset value ('NAV') with the dividend reinvested, was +44.9% during the year, outperforming the Company's benchmark, the MSCI Golden Dragon Index (in sterling terms), which returned +43.4%. The Company's Ordinary share price total return was +50.8%, reflecting a narrowing of the discount from 4.8% to 1.6%. Over the same period, the Company's Subscription share price return was +190.7% and the 'Unit' share price total return, which comprises the total return from 5 Ordinary shares and 1 Subscription share (as issued to shareholders on 16th April 2008), was +53.1%.

## Revenue and Dividends

Revenue for the year, after taxation, was £1,094,000 (2008: £364,000) and earnings per share, calculated on the average number of shares in issue during the year, were 1.53 pence (2008: 0.51 pence).

Given the Company's surplus on its revenue account, the Board is recommending a dividend of 1.5 pence (2008: 0.5 pence) per share in respect of the financial year ended 30th September 2009. Subject to shareholders' approval at the forthcoming Annual General Meeting, this dividend will be paid on 18th December 2009 to shareholders on the register at close of business on 27th November 2009.

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

## Gearing

The Company has an £8 million revolving credit facility with Lloyds TSB Bank which gives the Investment Managers the ability to gear tactically. The facility matures at the end of January 2010 and is in the process of being renewed. The Board has given the Investment Managers the flexibility to gear the portfolio up to 115% invested. At the time of writing, the Company was 105% geared.

## Subscription Shares

On 16th April 2008 the Company issued Subscription shares to qualifying shareholders on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on 15th May in each year until 15th May 2013, whereupon the rights under the Subscription shares will lapse.

On 29th May 2009 the Company issued 79,460 Ordinary shares following valid applications to exercise Subscription shares on 15th May 2009. Future exercise prices have been determined as follows: 143 pence if Subscription share rights are exercised on 15th May 2010; and 168 pence if Subscription share rights are exercised on 15th May 2011, 2012 or 2013. The bonus cost for the calculation of taxation on capital gains is shown on page 19.

## Share Issues and Repurchases

The Directors consider it to be in the interests of shareholders that the Company's share price reflects, as closely as possible, the NAV per share. The Company has

authority to issue new Ordinary shares for cash and to repurchase shares in the market for cancellation or to hold in Treasury.

As previously stated, repurchases will only be made in the market at prices below the prevailing net asset value per share and the Company will re-issue shares held in Treasury only at a premium to NAV.

During the year and up to the time of writing, the Company has issued 2,675,000 Ordinary shares out of Treasury for a total consideration of £3,317,000 at a weighted average premium to NAV of 2.80%. The Company did not repurchase any shares during this period.

The Board believes that its policy of share issuance and repurchases has helped to reduce discount volatility and recommends that the authorities be kept in place. Accordingly, it is seeking approval from shareholders to renew the share issue and repurchase authorities at the forthcoming Annual General Meeting. Details of the resolutions can be found on pages 22 and 23 of this report and the full text of the resolutions can be found on pages 55 and 56.

### **Corporate Governance**

The Company operates in accordance with corporate governance best practice and the Board is committed to the highest standards of corporate governance applicable under the Combined Code and the 'Association of Investment Companies' ('AIC') Code of Corporate Governance for Investment Trusts. Comprehensive compliance statements can be found in the Corporate Governance section of this report on pages 24 to 27.

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

During the year the Board carried out a thorough review of the services provided by the Manager, noting in particular the performance against the benchmark in both the past year and over the longer term. Following this review, the Board has concluded that the continued appointment of the Manager on the terms agreed is in the interests of the shareholders as a whole.

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

The outperformance in this financial year has earned the Manager a performance fee of £340,000 which is added to the performance fee of £2,037,000 brought forward from the previous year. In accordance with the terms of the arrangement, a performance fee of £2,377,000 is payable, which, under the cap arrangement, £842,000 is payable now and £1,535,000 is carried forward.

The Company's Total Expense Ratio for the financial year, as a percentage of the average of the opening and closing net assets, was 1.39% before accounting for the performance fee and 2.40% after doing so. These ratios compare favourably against the previous year and those of similar funds.

### **Board of Directors**

In August 2009, the Nomination Committee of the Board met and carried out an evaluation of the Chairman, the Board and its committees. I am pleased to report that

# Chairman's Statement continued

no concerns were raised in these appraisals. However, having considered appropriate succession planning and the requirements of the Combined Code to refresh the Board, I have decided that it is appropriate for me to retire from the Board and, in order to provide sufficient time for the Committee to consider and recommend my successor, have agreed with my fellow Directors that I shall step down from the Board at the AGM to be held in 2011.

In accordance with the Company's Articles of Association, William Knight will retire by rotation at the forthcoming Annual General Meeting. In addition, having served as a Director for more than nine years, I offer myself for re-election on an annual basis. Your Board does not believe that length of service in itself should disqualify a Director from seeking re-election and, in proposing my re-election, it has taken into account the ongoing requirements of the Combined Code. The Nomination Committee has considered the attributes and contributions of William and myself and, following this review, has no hesitation in recommending our re-elections at the Annual General Meeting.

## **Investment Managers**

The Greater China Team, headed by Howard Wang, continues to adopt a team-based approach and remains well supported. Shortly after the year end, Kevin Chan decided to leave the Greater China Investment Management team in order to explore alternative opportunities.

## **Annual General Meeting**

This year's Annual General Meeting will be held on Tuesday 15th December 2009 at 11.00 a.m. at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ. In addition to the formal proceedings, there will be a presentation by a representative of the Investment Management team, who will also be available to respond to questions on the Company's portfolio and investment strategy. I look forward to seeing as many of you as possible at the meeting. Shareholders who are unable to attend the Annual General Meeting in person are encouraged to use their proxy votes.

## **Outlook**

On 1st October 2009, China held a military parade to commemorate the sixtieth anniversary of the People's Republic and to celebrate and reflect on its achievements during this period. In economic terms, the People's Republic has come a long way, particularly since the economic reforms introduced by Deng Xiaoping in 1978.

It is significant to note that China is now playing an integral role in the recovery from the global economic fallout. The large scale stimulus policies announced by the Chinese Government at the start of the year have proved successful to date with encouraging results. It is evident that China is emerging from the economic fallout relatively stronger than when it entered it and it seems likely that the Greater China Region as a whole will benefit as a result.

The growth opportunities in the Greater China Region remain clear to see. The expectation of continued low interest rates, stabilising growth and inventory re-stocking in the developed world will provide a supportive environment for Greater China equity markets.

**Nigel Melville**  
Chairman

11th November 2009

# Investment Managers' Report



Howard Wang



Emerson Yip



Shumin Huang

In the twelve months ended 30th September 2009, the Company produced a total return on net assets of +44.9% against a benchmark return of +43.4%, an outperformance of 1.5%. Over the year, stock selection in all three markets contributed positively with the largest contribution from China followed by Taiwan and Hong Kong. An overweight position in China and underweight position in Hong Kong also contributed to returns.

## China

### Market Performance

Despite the large stimulus packages announced by the Chinese Government and falling interest rates, Chinese equities faced a challenging last quarter in 2008 due to rising concerns about much slower than expected global growth. The much publicised 4 trillion renminbi ('RMB') fiscal stimulus package was designed to support GDP growth, with a focus on infrastructure, social welfare, rural reform as well as credit easing.

Chinese equities began to move up strongly in late March, supported by falling interest rates and expectations of the large scale stimulus packages showing signs of traction. This rally continued against a backdrop of rising global equities triggered by the "green shoots" observed in the global economy and an increased risk appetite amid the low interest rate environments. Buoyant liquidity and a weak US dollar led to reflationary expectations. Despite capital raising activities, property stocks were well supported on the back of strong transaction volumes, stabilised property prices and increasing land acquisitions.

While the rally continued into the third quarter of 2009 alongside the global markets, there was a temporary pull back caused by a panic sell-off in the domestic A-Share market. This reflected concerns over "policy tightening" due to much lower loan growth in July and August, relatively stagnant property sales during the summer and the Government's suspension of capacity expansion for selective industries.

### Market Outlook

With an expectation of low interest rates, stabilising growth and inventory re-stocking in the developed world, the environment should remain supportive for China equities. We anticipate, however, that market volatility could remain high as mixed macro numbers in the developed economies and increasing capital raising activities impact short term sentiment.

China's year on year loan growth to 31st July 2009 had reached 34%, so a slowdown in liquidity growth, not shrinkage, should be viewed as a prudent move. Furthermore, efforts to control capacity increases should help support China's economic growth at a more sustainable level in the longer term. We remain confident about the Government's strong commitment in supporting economic growth but would be concerned about the leverage to global growth should the policies fail to boost private investment/consumption.

In our view, "China tightening" will most likely materialise only with a recovery of export growth coupled with sustained growth of fixed-asset investment and consumption (as the multiplier effect of the Government stimulus kicks in) and/or faster-than-expected inflation.

# Investment Managers' Report continued

## Performance attribution for the year ended 30th September 2009

	%	%
<b>Contributions to Total Returns</b>		
<b>Benchmark Total Return</b>		<b>43.4</b>
Asset Allocation	0.7	
Stock Selection	2.6	
Currency Effect	-0.1	
Gearing/Cash	0.1	
Dividends	0.4	
<b>Investment Manager Contribution</b>		<b>3.7</b>
<b>Portfolio Total Return</b>		<b>47.1</b>
Management Fees/ Other Expenses	-1.9	
Treasury Issuance	0.1	
Performance Fee Accrual	-0.4	
<b>Other Effects</b>		<b>-2.2</b>
<b>Net Asset Value Total Return</b>		<b>44.9</b>
<b>Ordinary Share Price Total Return</b>		<b>50.8</b>
<b>'Unit' Share Price Total Return<sup>1</sup></b>		<b>53.1</b>

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

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark index. The Xamin attribution system accounts for income on a received (on the xd date) basis whereas Morningstar calculates the Company's NAV Total Return using the actual dividend(s) paid by the Company (on the xd date).

<sup>1</sup>A 'Unit' comprises 5 Ordinary shares and 1 Subscription share

A glossary of terms and definitions is provided on pages 58 and 59.

## Hong Kong

### Market Performance

In the last quarter of 2008, Hong Kong shares underperformed their China counterparts with the MSCI Hong Kong Index losing almost 19%. This underperformance was primarily due to Hong Kong's greater sensitivity to external conditions.

In the first quarter of 2009, worsening economic data both in the US and mainland China weighed on the equity market, with the Hang Seng Index almost reaching its October 2008 low on 9th March 2009 before staging a sharp 20% rally to the end of the quarter. Corporate results were on average slightly behind expectations. In particular, property companies' earnings were adversely affected by booking delays but write-downs, due to property revaluations, were largely within expectations.

Contrary to the previous six months, the second quarter of 2009 witnessed one of the strongest rallies in the Hong Kong market with the Hang Seng Index up 37.7%, building on top of the 20% end-of-quarter rally in mid-March. The primary driver for this rally was a recovery in risk appetite on the back of capital inflows into Hong Kong due to loose global monetary conditions coupled with reinforced confidence in the strength of the economic recovery in China.

Over the third quarter of 2009, the Hang Seng Index extended its rally achieving a return of 14.8%, despite worries over credit tightening in China. Residential property sales and volumes continued to show strength, including some record-setting transactions, and even the hardest hit office rental segment began to show signs of a turnaround.

### Market Outlook

Taking account of the stabilising unemployment situation and retail sales coming in ahead of expectations, we are beginning to see early signs of a domestic economic recovery. With the external economic environment likely to remain weak, this should prolong the loose monetary conditions which are conducive to further asset reflation and equity market performance. Despite short-term pullbacks and negative sentiment, owing to tightening concerns and poor initial public offering ('IPO') performances in late September, we believe that buoyant liquidity conditions will sustain and underpin stock market performance.

## Taiwan

### Market Performance

In the last quarter of 2008, Taiwanese equities saw a sharp synchronised sell down alongside global markets with the MSCI Taiwan Index falling 24%. The concerns over both the global and domestic economies were overwhelming and redemption selling pressures dampened sentiment.

The trend for Taiwanese equities reversed in the first quarter of 2009, as it was the best performing Asian market despite the still uncertain economic backdrop. The rally was mainly driven by retail participants due to the large repatriation of capital

into Taiwan amidst global uncertainty. The rally was also backed by an improved revenue outlook and company restocking after overly aggressive order cuts in late 2008.

The Taiwan market continued on this trend into the second quarter of 2009 closing up 23.4% quarter on quarter. This performance was primarily fueled by continuing technology demand and further momentum on improving cross-straits relations.

In the third quarter of 2009, the Technology sector outperformed, aided by strong second quarter earnings reports and positive third quarter guidance, backed by generally improving economic data. The main setback for the quarter was in August, in part due to weakness in the Chinese markets, but also due to the public relations disaster caused by the Government's slow response to damage from Typhoon Morakot.

#### **Market Outlook**

After several strong quarters, some consolidation could take place. Companies will have to deliver strong earnings growth and forward guidance to sustain performance. All eyes will now turn to year end sales in China and globally. A strong outcome could boost orders for Taiwan technology stocks due to the tightness in the supply chain.

On the political front, the reshuffling of the cabinet with a new Premier Wu and Vice Premier Chu should be seen as positive. However, the Kuomintang's (KMT) recent setback in the by-elections and the upcoming elections in December could bring back political ambiguity. With low interest rates and increasing confidence, the asset reflation theme could continue to be of focus.

#### **Greater China Region**

##### **Market Outlook**

While corrections and consolidation periods are inevitable due to the strength and speed of the recovery in global asset markets, we are happy to buy on dips in core holdings. On the margin, we have trimmed our positions in Chinese property stocks due to the substantially lower valuation benchmarks set by new offerings and the increased competitiveness in auctions for raw land. We have increased our weightings in Chinese consumption as a result of the economic recovery and the imminent return of positive CPI inflation. In addition, we have retained our core portfolio biases, including an overweight position in China anchored in financial stocks, a positive position in asset reflation in Hong Kong and a constructive view on the technology cycle.

**Howard Wang**

**Emerson Yip**

**Shumin Huang**

Investment Managers

11th November 2009

# Summary of Results

	2009	2008	
<b>Total Returns</b> for the year ended 30th September			
Return to 'Unit' shareholders <sup>1,2</sup>	<b>+53.1%</b>	-33.8%	
Return to shareholders <sup>3</sup>	<b>+50.8%</b>	-34.7%	
Return on net assets <sup>2</sup>	<b>+44.9%</b>	-36.3%	
Benchmark return <sup>4</sup>	<b>+43.4%</b>	-32.3%	
<b>Net Asset Value, Share Price and Discount</b> at 30th September			
			<b>% change</b>
Shareholders' funds (£'000)	<b>100,374</b>	67,435	+48.8
Net asset value per share	<b>138.2p</b>	95.4p	+44.9
Ordinary share price	<b>136.0p</b>	90.8p	+49.8
Ordinary share price discount to net asset value	<b>1.6%</b>	4.8%	
Ordinary shares in issue <sup>5</sup>	<b>72,637,461</b>	70,683,001	+2.8
Subscription share price	<b>21.8p</b>	7.5p	+190.7
Subscription shares in issue	<b>14,056,947</b>	14,136,407	-0.6
<b>Revenue</b> for the year ended 30th September			
Gross revenue return (£'000)	<b>2,471</b>	2,336	+5.8
Net revenue attributable to shareholders (£'000)	<b>1,094</b>	364	+200.5
Revenue return per share	<b>1.53p</b>	0.51p	+200.0
Dividend per share	<b>1.5p</b>	0.5p	+200.0
<b>Actual Gearing Factor</b> at 30th September	<b>103.8%</b>	99.6%	
<b>Total Expense Ratio ('TER')</b> (excluding performance fee and Subscription issuance share costs)	<b>1.39%</b>	1.59%	

A glossary of terms and definitions is provided on pages 58 and 59.

<sup>1</sup>A 'Unit' comprises 5 Ordinary shares and 1 Subscription share.

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

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

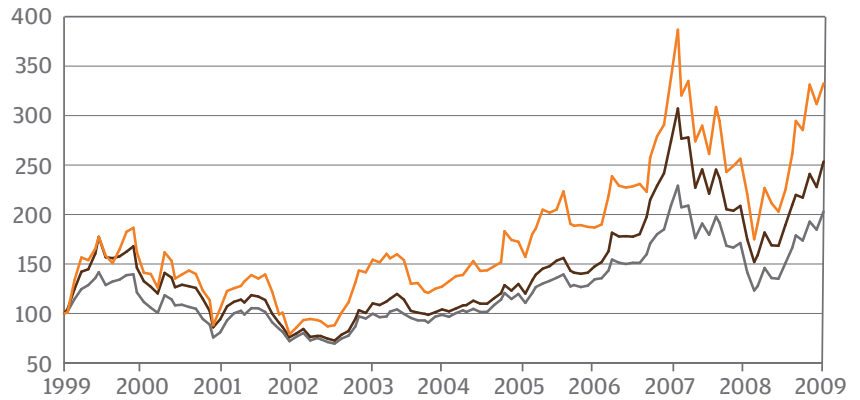
<sup>4</sup>Source: Datastream. The benchmark is the MSCI Golden Dragon Index in sterling terms.

<sup>5</sup>Excluding shares held in Treasury.

# Performance

## Ten Year Performance

Figures have been rebased to 100 at 30th September 1999

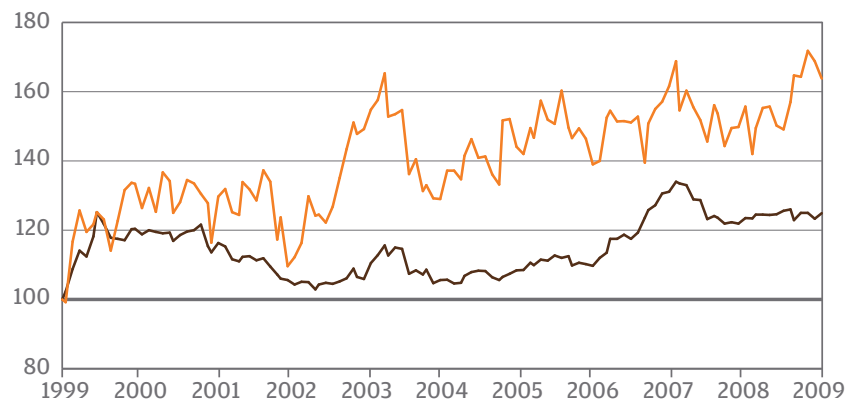


Source: Morningstar/Datastream

- JPMorgan Chinese - Ordinary share price
- JPMorgan Chinese - Net asset value
- Benchmark

## Performance Relative to Benchmark

Figures have been rebased to 100 at 30th September 1999



Source: Morningstar/Datastream

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

# Ten Year Financial Record

<b>At 30th September</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005<sup>1</sup></b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Shareholders' funds (£'m)	34.6	49.1	28.6	25.3	33.9	39.0	50.2	60.5	107.0	67.4	<b>100.4</b>
Net asset value per share (p)	57.3	83.6	49.2	43.5	57.5	59.0	73.3	81.8	149.9	95.4	<b>138.2</b>
Ordinary share price (p)	43.5	70.3	38.3	34.3	61.5	54.8	73.0	78.0	139.8	90.8	<b>136.0</b>
(Discount)/Premium of Ordinary shares (%)	(24.1)	(15.9)	(22.2)	(21.1)	7.0	(7.1)	(0.4)	(4.6)	(6.7)	(4.8)	<b>(1.6)</b>
Actual gearing factor (%)	104.2	102.4	98.2	87.0	94.7	93.6	98.2	102.7	106.6	99.6	<b>103.8</b>
Subscription share price (p)	–	–	–	–	–	–	–	–	–	7.5	<b>21.8</b>
<b>Year ended 30th September</b>											
Revenue attributable to shareholders (£'000)	82	(102)	(140)	171	399	664	641	535	386	364	<b>1,094</b>
Revenue per share (p)	0.14	(0.17)	(0.24)	0.30	0.69	1.03	0.96	0.74	0.52	0.51	<b>1.53</b>
Dividend per share (p)	0.10	nil	nil	0.25	0.60	1.00	0.90	0.70	0.50	0.50	<b>1.50</b>
Total expense ratio ('TER') % (excluding performance fee and Subscription share issuance costs)	2.10	2.15	2.02	2.42	2.05	1.80	1.60	1.55	1.34	1.59	<b>1.39</b>
Total expense ratio ('TER') % (including performance fee paid)	2.10	2.15	2.02	2.42	2.05	1.80	2.07	1.66	2.39	2.74	<b>2.40</b>
<b>Rebased to 100 at 30th September 1999</b>											
Ordinary share price total return <sup>2</sup>	100.0	161.8	88.1	78.9	141.6	127.2	172.5	186.9	337.9	220.5	<b>332.5</b>
Net asset value total return <sup>2</sup>	100.0	146.1	86.0	76.0	100.5	104.1	129.8	147.6	274.1	174.9	<b>253.5</b>
Benchmark <sup>3</sup>	100.0	121.3	75.7	72.0	94.9	98.6	119.7	134.5	209.1	141.6	<b>203.0</b>

A glossary of terms and definitions is provided on pages 58 and 59.

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

<sup>2</sup>Source: Morningstar.

<sup>3</sup>Source: Datastream. The benchmark is a composite based on 40% Hang Seng Index, 40% Taiwan Weighted Index and 20% Prime Peregrine China Index from 1st October 1999 to 1st October 2001, and the MSCI Golden Dragon Index thereafter. The benchmark return is calculated on a total return basis in sterling terms.

# Ten Largest Investments

at 30th September

Company	Country of Listing/ Classification*	2009 Valuation		2008 Valuation	
		£'000	% <sup>1</sup>	£'000	% <sup>1</sup>
<b>China Mobile</b> China Mobile provides cellular telecommunications and related services in the People's Republic of China and Hong Kong.	Hong Kong Red Chips	5,761	5.7	5,753	8.3
<b>Taiwan Semiconductor Manufacturing</b> Taiwan Semiconductor Manufacturing manufactures and markets integrated circuits. The Company provides the following services: wafer manufacturing, wafer probing, assembly and testing, mask production and design services. The Company's integrated circuits are used in computer, communication, consumer electronics, automotive and industrial equipment industries.	Taiwan	4,947	4.9	3,385	4.9
<b>Industrial &amp; Commercial Bank of China</b> Industrial and Commercial Bank of China provides a broad range of personal and corporate commercial banking services all over China. The bank's businesses include deposit, loan, credit card, fund underwriting and trust and foreign currency settlement and trading.	Hong Kong H-Shares	4,635	4.6	2,532	3.6
<b>China Construction Bank</b> China Construction Bank provides a complete range of banking services and other financial services to individual and corporate customers. The bank's services include retail banking, international settlement, project finance and credit card services.	Hong Kong H-Shares	4,596	4.5	2,739	3.9
<b>China Life Insurance</b> China Life Insurance offers a wide range of life, accident, and health insurance products and services.	Hong Kong H-Shares	4,204	4.1	3,933	5.7
<b>Hon Hai Precision Industry</b> Hon Hai Precision Industry provides electronic manufacturing services for computer, communications, and consumer electronic products. The Company's business operations include desktop and notebook PC assembly, connector production, cable assembly, PCB assembly, handset manufacturing, networking equipments and other consumer electronic devices manufacturing.	Taiwan	3,907	3.8	2,576	3.7
<b>JF China Pioneer 'A' Share Fund</b> JF China Pioneer 'A' Share Fund is an open-end unit trust incorporated in Hong Kong. The Fund's objective is to achieve long-term capital growth by investing primarily in Chinese securities, including but not limited to A-Shares. The Fund may invest in derivatives such as forward contracts, options, warrants and futures for investment and hedging purposes.	China A-Shares	3,681	3.6	2,606	3.7
<b>CNOOC</b> CNOOC explores, develops, produces and sells crude oil and natural gas.	Hong Kong Red Chips	3,361	3.3	3,456	5.0
<b>Bank of China<sup>2</sup></b> Bank of China provides a complete range of banking and other financial services to individual and corporation customers worldwide. The bank's services include retail banking, Great Wall credit card and debit card services, consumer credit, foreign currency transaction, corporate banking, settlement and clearing, investment banking and fund management businesses.	Hong Kong H-Shares	3,287	3.2	–	–
<b>China Shenhua Energy<sup>3</sup></b> China Shenhua Energy is an integrated coal-based energy company focusing on the coal and power businesses in China. The Company also owns and operates an integrated coal transportation network consisting of dedicated rail lines and port facilities.	Hong Kong H-Shares	2,888	2.8	1,134	1.6
<b>Total<sup>4</sup></b>		41,267	40.5		

\*A glossary of terms and definitions is provided on pages 58 and 59.

<sup>1</sup>Based on total assets less current liabilities of £101.9m (2008: £69.5m).

<sup>2</sup>Not held in portfolio at 30th September 2008.

<sup>3</sup>Not Included in the ten largest Investment at 30th September 2008.

<sup>4</sup>At 30th September 2008, the value of the ten largest investments amounted to £31.9m representing 46.0% of total assets less current liabilities.

# Portfolio Analyses

## Geographical

	30th September 2009		30th September 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Hong Kong H-Shares	29.6	27.9	25.3	24.8
Hong Kong Red Chips	11.9	13.9	14.2	18.3
Hong Kong Others	7.5	–	–	–
China A-Shares	3.6	–	3.8	–
China B-Shares	–	–	–	0.5
<b>China Total</b>	<b>52.6</b>	<b>41.8</b>	43.3	43.6
Taiwan	29.0	31.5	28.0	31.3
Hong Kong	19.6	26.7	25.4	25.1
Singapore	1.0	–	–	–
Net current (liabilities)/assets	(2.2)	–	3.3	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

Based on total assets less current liabilities of £101.9m (2008: £69.5m).

## Sector

	30th September 2009		30th September 2008	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials (including property)	44.8	36.5	38.8	33.8
Information Technology	22.8	21.5	19.6	19.5
Energy	8.6	8.5	10.4	9.1
Materials	7.5	6.6	1.8	5.9
Industrials	6.9	7.4	5.8	8.6
Telecommunication Services	5.6	8.3	13.8	11.7
Consumer Discretionary	2.7	4.9	2.4	4.4
Consumer Staples	2.6	2.3	–	1.6
Utilities	0.7	3.9	4.1	5.4
Healthcare	–	0.1	–	–
Net current (liabilities)/assets	(2.2)	–	3.3	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

Based on total assets less current liabilities of £101.9m (2008: £69.5m).

# Investment Activity

during the year ended 30th September 2009

	Value at 30th September 2008		Purchases £'000	Sales £'000	Changes in value £'000	Value at 30th September 2009	
	£'000	% of portfolio				£'000	% of portfolio
Hong Kong H-Shares	17,609	26.2	27,097	24,664	10,113	30,155	29.0
Hong Kong Red Chips	9,852	14.7	10,722	12,292	3,896	12,178	11.7
Hong Kong Others	–	–	15,017	9,507	2,119	7,629	7.3
China A-Shares	2,606	3.9	896	3,111	3,290	3,681	3.5
China Total	30,067	44.8	53,732	49,574	19,418	<b>53,643</b>	<b>51.5</b>
Taiwan	19,448	28.9	32,008	30,144	8,290	<b>29,602</b>	<b>28.4</b>
Hong Kong	17,664	26.3	16,526	15,608	1,349	<b>19,931</b>	<b>19.1</b>
Singapore	–	–	1,058	1,173	1,119	<b>1,004</b>	<b>1.0</b>
<b>Total Portfolio</b>	<b>67,179</b>	<b>100.0</b>	<b>103,324</b>	<b>96,499</b>	<b>30,176</b>	<b>104,180</b>	<b>100.0</b>

# List of Investments

at 30th September 2009

Company	Valuation £'000	Company	Valuation £'000
<b>China</b>		<b>Hong Kong Others:</b>	
<b>Hong Kong H-Shares:</b>		Tingyi	1,185
Industrial & Commercial Bank of China	4,635	China Yurun Food	1,100
China Construction Bank	4,596	Poly (Hong Kong) Investments	1,035
China Life Insurance	4,204	Li Ning	958
Bank of China	3,287	Orient Overseas	900
China Shenhua Energy	2,888	Parkson Retail	659
China Petroleum & Chemical	1,931	China Oilfield Services	619
Ping An Insurance	1,447	Kingboard Laminates	358
Jiangxi Copper	1,412	China Railway	292
China Vanke	1,341	Ausnutria Dairy Hunan	286
Bank of Communications	1,106	China Resources Cement	237
China National Building Material	1,087		
Angang Steel	887		<b>7,629</b>
China Shipping Development	500		
Maanshan Iron & Steel	441	<b>China A-Shares:</b>	
Aluminium Corporation of China	393	JF China Pioneer 'A' Share Fund <sup>1</sup>	3,681
	<b>30,155</b>		<b>3,681</b>
		<b>Total China</b>	<b>53,643</b>
<b>Hong Kong Red Chips:</b>			
China Mobile	5,761		
CNOOC	3,361		
China Resources Land	1,314		
China Overseas Land & Investments	764		
China Resources Gas	475		
China Resources Power	258		
Sinotrans Shipping	245		
	<b>12,178</b>		

Company	Valuation £'000	Company	Valuation £'000
<b>Taiwan</b>		<b>Hong Kong</b>	
Taiwan Semiconductor Manufacturing	4,947	Sun Hung Kai Properties	2,847
Hon Hai Precision Industry	3,907	Tencent	2,607
Media Tek	2,177	Cheung Kong	2,376
Formosa Plastic	1,890	Hong Kong Exchanges & Clearing	2,289
Fubon Financial	1,692	Wharf	2,161
Acer	1,629	Hang Lung Properties	1,944
United Microelectronics	1,575	Hutchison Whampoa	1,757
AU Optronics	1,460	Kerry Properties	1,473
Advanced Semiconductor Engineering	1,437	Hang Seng Bank	1,376
KGI Securities	1,371	Wynn Macau	423
Far Eastern Textile	1,055	Li & Fung	361
Taishin Financial	996	SJM	317
Taiwan Fertilizer	811	<b>Total Hong Kong</b>	<b>19,931</b>
Compal Electronics	799	<b>Singapore</b>	
Largan Precision	756	Jardine Matheson	1,004
Shin Kong Financial	724	<b>Total Singapore</b>	<b>1,004</b>
Richtek	638	<b>Total Portfolio</b>	<b>104,180</b>
Chi Mei Optoelectronics	598		
China Steel	456		
HTS	372		
Evergreen Marine	241		
President Chain Store	52		
HTC	19		
<b>Total Taiwan</b>	<b>29,602</b>		

<sup>1</sup>Unlisted investment.

There are no fixed interest holdings in the portfolio.

A glossary of terms and definitions is provided on pages 58 and 59.

# Board of Directors



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

A Director since February 1997. Appointed Chairman in December 2003.

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



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

A Director since April 2004.

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



## **Sir Andrew Burns, KCMG**

A Director since December 2003.

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



## **Irving Koo, OBE**

A Director since February 2005.

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



## **Madam Yujiang Zhao**

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 1980s, and also acted as Managing Director of a foreign investment bank responsible for operations in China for nine years.

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

# Directors' Report

The Directors present their report for the year ended 30th September 2009.

## Business Review

### Business of the Company

The Company (registered number 02853893) carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30th September 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year.

Approval for the year ended 30th September 2008 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

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

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

### Objective

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

### Investment Policies and Risk Management

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

Investment risks are managed by diversifying investment over a number of 'Greater China' companies. The number of investments in the Company will normally range between 40 and 70. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to the various countries, sectors and stocks covered by the benchmark index and, in some cases, to specific stocks. The maximum permitted active exposure to each of the countries is 25% above or below the benchmark index weighting.

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

The Company does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts), nor does it invest more than 10% of its gross assets in companies that themselves may invest more than 15% of their gross assets in UK listed investment companies.

### Investment Limits and Restrictions

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

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

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

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

### Performance

In the year to 30th September 2009, the Company produced a total return to Ordinary shareholders of +50.8% and a total

# Directors' Report continued

return on net assets of +44.9%. This compares with the return on the Company's benchmark index of +43.4%. As at 30th September 2009, the value of the Company's investment portfolio was £104.2 million. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

## Total Return, Revenue and Dividends

Gross return for the year amounted to £32,702,000 (2008: £36,975,000 loss) and net total return after deducting the management fee, performance fee, other administration expenses, finance costs and taxation amounted to £31,001,000 (2008: £38,320,000 loss).

The Directors recommend a final dividend of 1.5 pence (2008: 0.5 pence) per share payable on 18th December 2009 to holders on the register at the close of business on 27th November 2009. This distribution will amount to £1,090,000 (2008: £353,000). No other dividends were paid in respect of the year. The revenue reserve after transfer of the dividend will amount to £452,000 (2008: £450,000).

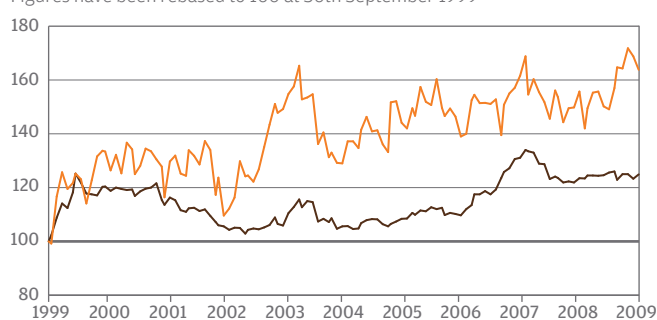
## Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

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

## Performance Relative to Benchmark Index

Figures have been rebased to 100 at 30th September 1999

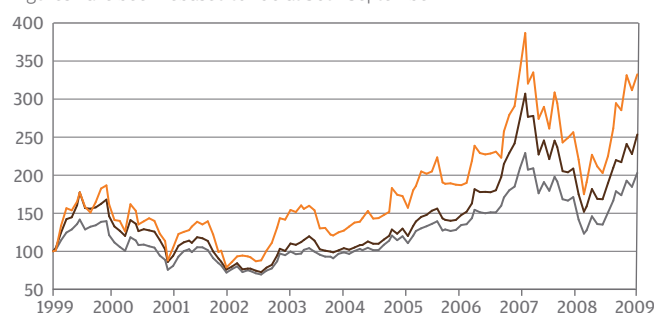


Source: Morningstar/Datastream

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

## Ten Year Performance

Figures have been rebased to 100 at 30th September 1999

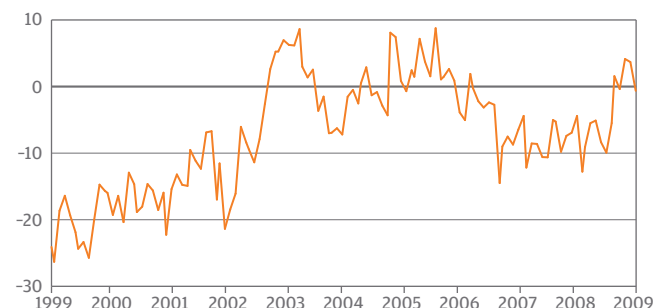


Source: Morningstar/Datastream

- JPMorgan Chinese - Ordinary share price
  - JPMorgan Chinese - Net asset value
  - Benchmark
- **Performance against the Company's peers**  
The Company's principal objective is to achieve capital growth and outperformance relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
  - **Performance attribution**  
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 30th September 2009 are given in the Investment Managers' Report on page 6.
  - **(Discount)/Premium to net asset value ('NAV')**  
The Board operates a share issuance and share repurchase programme which seeks to address imbalances in the supply of and demand for the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV at which the Company's Ordinary shares trade. In the year to 30th September 2009, the Company's Ordinary shares traded between a discount of 12.8% and a premium of 4.1%.

The Board also has the ability to purchase Ordinary shares into Treasury and to re-issue them at a later date at a premium to NAV. Further details of the Treasury shares can be found in this Directors' Report on page 19.

## Discount Performance



Source: Datastream (month end date)

— JPMorgan Chinese - Discount

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

The TER is an expression of the Company's management fees and all other operating expenses, excluding interest, performance fee payments and Subscription share issuance costs, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 30th September 2009 was 1.39% (2008: 1.59%). The Board reviews each year an analysis which shows a comparison of the Company's TER and its main expenses with those of its peers. The TER including the performance fee paid for 2009 was 2.40% (2008: 2.74%).

### Share Capital

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

During the year the Company re-issued 1,875,000 Ordinary shares out of Treasury for a total consideration of £2,189,000 at a weighted average premium to NAV of 2.91%.

At 30th September 2009, the Company held 2,904,000 Ordinary shares in Treasury representing 3.8% of the Company's issued Ordinary share capital at the beginning of the financial year. Since the year end and at the time of writing, the Company has re-issued a further 800,000 Ordinary shares out of Treasury for a total consideration of £1,130,000. The average price of Ordinary shares repurchased into Treasury is 103.2 pence at an average discount to NAV of 11.8%.

On 29th May 2009 the Company issued 79,460 new Ordinary shares for a total consideration of £104,000 following the first opportunity to exercise Subscription shares. Further details

of the Company's Subscription shares are set out below. The Company did not repurchase any Ordinary or Subscription shares during the year.

### Bonus Issue of Subscription Shares

On 16th April 2008 the Company issued Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on 15th May in each year until 2013, whereupon the rights under the Subscription shares will lapse.

On 29th May 2009 the Company issued new 79,460 Ordinary shares following valid applications to exercise Subscription shares on 15th May 2009.

Future exercise prices, calculated at the close of business on 11th April 2008 and based on the Company's net asset value of 129.19 pence, have been determined as follows:

- if exercised on 15 May 2010 - 143 pence
- if exercised on 15 May 2011, 2012 or 2013 - 168 pence

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

At the close of business on 16th April 2008 the middle market prices of the Company's Ordinary shares and Subscription shares were as follows:

Ordinary shares:	116p
Subscription shares:	22p

Accordingly, an individual investor who on 15th April 2008 (the record date for the Subscription share issue) held five Ordinary shares (or a multiple thereof) would have received a bonus issue of one Subscription share (or the relevant multiple thereof) and should apportion the base cost of such holding 96.35% to the five Ordinary shares and 3.65% to the Subscription shares.

### Principal Risks

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

# Directors' Report continued

- **Investment Underperformance:** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMorgan Asset Management (UK) Limited ('JPMAM') provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, transaction reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the investment managers, who attend all Board meetings, and review data which show statistical measures of the Company's risk profile. The investment managers employ the Company's gearing within a strategic range set by the Board. The Board holds a separate Board meeting devoted to strategy each year.
- **Loss of Investment Team:** A sudden departure of several members of the investment management team could result in a short-term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team-based approach.
- **Discount:** A disproportionate widening of the discount relative to the Company's peers could result in a loss of value for Shareholders. In order to manage the Company's discount, which can be volatile, the Company operates a share issuance and repurchase programme.
- **Market:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implementation and results of the investment process with the Manager.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under "Business of the Company" above. Were the Company to breach Section 842, it may lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM, to ensure compliance with the Companies Act 2006 and the UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 24 to 27.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included with the Internal Control section of the Corporate Governance Report on page 26.
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to daily credit analysis by the Manager. Further details are disclosed in note 21 on pages 47 to 53.
- **Political and Economic:** Changes in financial or tax legislation, including in the European Union, may adversely affect the Company. The Manager makes recommendations to the Board on accounting, dividend and tax policies and the Board seeks external advice where appropriate. In addition, the Company is subject to administrative risks, such as the imposition of restrictions on the free movement of capital.

## Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The investment managers discuss the outlook in their report on pages 5 to 7.

## Management of the Company

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

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

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

## Management and Performance Fees

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

In addition to the basic annual management fee, there is a performance related fee calculated at 15% of outperformance of the Company's net asset value total return over the benchmark. The maximum total fee payable in any one year in respect of the fixed management fee and any performance fee is capped at 2% of the Company's average total assets less current liabilities. In effect, this caps the potential performance fee paid in any one year to 1%. Any performance fee earned in any one year in excess of the 1% cap will be carried forward until paid in full or absorbed by any underperformance in a subsequent year. The performance fee is calculated annually on 30th September, based on average total assets less current liabilities, and paid within three months of that date. An estimate is accrued monthly and reflected in the Company's published net asset value per share. The period of the performance fee calculation commenced on 1st October 2003 and restarts when outperformance of the benchmark has been achieved and a performance fee earned.

The results for the year ended 30th September 2009 gave rise to a performance fee earned of £340,000. The cumulative performance fee was £2,377,000 of which £842,000 is payable at the end of the current year. The balance of £1,535,000 has been carried forward until paid in full or absorbed by any underperformance in subsequent years.

## Going Concern

The Directors believe that having considered the Company's investment objective (see page 17), risk management policies (see pages 47 to 53), capital management policies and procedures (see page 53), the nature of the portfolio and expenditure projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

## Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 30th September 2009, the Company had no outstanding trade creditors (2008: none).

## Directors

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

Directors	30th September 2009		1st October 2008
	Ordinary Shares	Subscription Shares	Ordinary Shares
Sir Andrew Burns	4,682	936	4,682
William Knight	4,300	860	4,300
Irving Koo	–	–	–
Nigel Melville	50,000	10,000	50,000
Madam Yujiang Zhao	–	–	–

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

In accordance with the Company's Articles of Association and Combined Code on Corporate Governance, the Directors retiring at the Annual General Meeting are Nigel Melville and William Knight who, being eligible, offer themselves for re-election by shareholders.

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

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain

# Directors' Report continued

liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

## Disclosure of information to Auditors

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

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

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

## Section 992 Companies Act 2006

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

### Capital Structure

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

### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 15 to the Notice of Meeting on page 57.

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

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

Shareholders	Number of voting rights	%
<b>Ordinary Shares</b>		
Chase Nominees <sup>1</sup>	19,168,199	26.1
Barclays plc	3,672,414	5.0

<sup>1</sup>Non-beneficial. Held on behalf of JPMAM ISA and Share Plan participants.

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

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

## Independent Auditors

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

## Annual General Meeting

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

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

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

The Directors will seek renewal of the authority at the AGM to issue up to 7,554,146 new Ordinary shares for cash up to an aggregate nominal amount of £1,888,537 such amount being equivalent to 10% of the present issued Ordinary share capital as at the last practicable date before the publication of this document. The full text of the resolutions is set out in the Notice of Meeting on page 55. This authority will expire at the conclusion of the Company's AGM in 2010 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares (or to re-issue Treasury shares) to participants purchasing shares through the J.P. Morgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value (the 'NAV'), they increase the NAV per share and spread the

Company's administrative expenses, other than the management fee (and any performance fee) which is charged on the value of the Company's assets, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

The Company currently holds 2,104,000 shares in Treasury.

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

The authority to repurchase (i) up to 14.99% of the Company's issued Ordinary shares and Subscription shares, granted by shareholders at the 2008 AGM, will expire on 15th June 2010 unless renewed at the forthcoming AGM. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as, in the case of the Ordinary shares, the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining Ordinary shares. The repurchase of Subscription shares reduces the potential dilutive impact.

Resolution 9 gives the Company authority to repurchase its own issued Ordinary shares and Subscription shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of (i) 11,008,275 Ordinary shares, and (ii) 2,107,136 Subscription shares, representing approximately 14.99% of the Company's issued Ordinary shares (less Treasury shares) and issued Subscription shares respectively, as at 10th November 2009 (being the latest practicable date prior to the publication of this document). The authority also sets minimum and maximum prices and will expire at the conclusion of the Company's AGM in 2010 unless renewed at a prior general meeting.

If resolution 9 is passed at the AGM the Company will only re-issue shares held in Treasury at a premium to NAV.

As at 10th November 2009 (being the latest practicable date prior to the publication of this document), there were no warrants or options over Ordinary shares in the capital of the Company, other than the 14,056,947 Subscription shares in issue (each of which gives the holder thereof the right to subscribe for one new Ordinary share) which represent 18.6% of the Company's issued Ordinary share capital. If the authority to purchase the Company's Ordinary shares was exercised in full (and the authority to purchase Subscription shares not exercised at all) then the Subscription shares would represent 21.8% of the Company's issued Ordinary share capital.

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

**Recommendation**

The Board considers that resolutions 7 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which amount in aggregate to 58,982 Ordinary shares representing approximately 0.08% of the voting rights of the Company.

By order of the Board  
Christopher Legg, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
11th November 2009

# Corporate Governance

## Compliance

The Company is committed to high standards of Corporate Governance. This statement, together with the Statement of Directors' Responsibilities on page 29, indicates how the Company has applied the principles of good governance of the Financial Reporting Council Combined Code 2008<sup>1</sup> (the 'Combined Code') and the AIC's Code of Corporate Governance<sup>1</sup>, (the 'AIC Code'), which complements the Combined Code and provides a framework of best practice for investment trusts.

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

## Role of the Board

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

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

On an annual basis each Director submits a list of potential conflicts of interest for approval. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year. During the year the potential conflicts of interest were reviewed and considered by the Board. However, in future years they will be reviewed by the Nomination Committee which will then make a recommendation to the Board on whether or not the potential conflicts should be authorised.

The Board considers there were no actual or indirect interests of a Director which conflicted with the interests of the Company which arose during the year.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

## Board Composition

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

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a Senior Independent Director should be appointed and has concluded that, as the Board comprises entirely of Non-Executive Directors, this is unnecessary. The Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

## Tenure

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

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

<sup>1</sup>Copies of the Combined Code and the AIC code may be found on the respective organisations' websites: [www.frc.org.uk](http://www.frc.org.uk) and [www.theaic.co.uk](http://www.theaic.co.uk)

The Board confirms that Nigel Melville, who stands for annual re-election as he has served as a Director for a period in excess of nine years, and William Knight, who retires by rotation at this year's Annual General Meeting, continue to be effective Directors and demonstrate commitment to their role and therefore recommends their re-election.

### Meetings and Committees

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

The table below details the number of Board and Committee meetings attended by each Director. During the year there were 6 Board meetings, 2 Audit Committee meetings and 1 Nomination Committee meeting.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Nigel Melville	6	2	1
Sir Andrew Burns	6	2	1
William Knight	5	2	1
Irving Koo	6	2	1
Madam Yujiang Zhao	6	2	1

### Training and Appraisal

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

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

### Board Committees

#### Nomination Committee

The Nomination Committee, chaired by Nigel Melville, consists of all the Directors and meets at least annually to ensure that

the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. A variety of sources, including the use of external search consultants, may be used to ensure that a wide range of candidates are considered.

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

#### Audit Committee

The Audit Committee, chaired by William Knight, consists of all the Directors and meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee and are satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

The Committee reviews the actions and judgements of the Manager in relation to the Half Year and Annual Report & Accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's Compliance department and also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. In the Directors' opinion, the Auditors are considered independent. The Audit Committee also has a primary responsibility for making recommendations to the Board on the re-appointment and removal of external auditors. Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered.

The Directors' statement on the Company's system of internal control is set out on page 26.

#### Terms of Reference

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

### Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance

# Corporate Governance continued

and reports formally to shareholders quarterly each year by way of the Annual Report & Accounts, the Half Year Report and two Interim Management Statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet shareholders and answer their questions. In addition, a presentation is given by the investment managers who review the Company's performance. The Company's brokers, the investment managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 61.

The Company's Annual Report & Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 61.

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

## Internal Control

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

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

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal

control mainly comprises monitoring the services provided by JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the Internal Audit department of JPMAM which reports any material failings or weaknesses. This arrangement is kept under review.

The key elements designed to provide effective internal control are as follows:

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

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

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

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

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

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

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 30th September 2009 and to the date of approval of this Annual Report & Accounts.

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

### **Corporate Governance and Voting Policy**

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

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

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

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

### **Corporate Social Responsibility**

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

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

# Directors' Remuneration Report

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

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 30 and 31.

Directors' fees were last adjusted on 1st October 2007 and for the year under review Directors' fees were paid at the following rates: Chairman £24,000 per annum; Audit Committee Chairman £21,000; and other Directors £18,000 per annum.

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

Directors Name	2009 £	2008 £
Nigel Melville	24,000	24,000
Sir Andrew Burns	18,000	18,000
William Knight	21,000	21,000
Irving Koo	18,000	18,000
Madam Yujiang Zhao	18,000	18,000
<b>Total</b>	<b>99,000</b>	<b>99,000</b>

<sup>1</sup>Audited information.

The total Directors' fees of £99,000 (2008: £99,000) comprise £99,000 (2008: £64,000) in respect of aggregate emoluments paid to Directors and £nil (2008: £35,000) paid to third parties for making available the services of Directors.

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

As all Directors are Non-Executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM, and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance related and

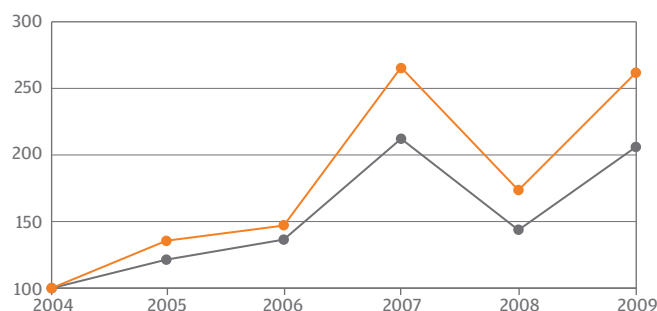
the Directors do not have service contracts with the Company. The terms and conditions of Directors' appointments are set out in formal letters of appointment. The Articles stipulate that aggregate fees must not exceed £150,000 per annum. Any increase in the maximum aggregate amount requires both Board and shareholder approval.

The terms and conditions of Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on pages 24 and 25.

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

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

## Five Year Ordinary Share Price and Benchmark Total Return to 30th September 2009



Source: Morningstar/Datastream

— Ordinary share price total return  
— Benchmark total return

By order of the Board  
Christopher Legg, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
11th November 2009

# Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors have elected to prepare the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounts are required by law to give a true and fair view of the state of affairs of the Company as at the end of the year and of the total return for the year. In preparing those accounts, the Directors are required to:

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

The Directors confirm that they comply with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Statement under the Disclosure & Transparency Rules 4.1.12

The Directors each confirm to the best of their knowledge that:

- (a) the Accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- (b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board  
Nigel Melville  
Chairman  
11th November 2009

# Independent Auditors' Report

## To the members of JPMorgan Chinese Investment Trust plc

We have audited the accounts of JPMorgan Chinese Investment Trust plc for the year ended 30th September 2009 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the accounts

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

## Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs as at 30th September 2009 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion:

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

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 21, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

**Ian Armfield** (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors, London

11th November 2009

**Notes:**

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

# Income Statement

for the year ended 30th September 2009

	Notes	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>Gains/(losses) on investments held at fair value through profit or loss</b>							
	2	–	30,065	30,065	–	(39,414)	(39,414)
Net foreign currency gains		–	166	166	–	103	103
Income from investments	3	2,445	–	2,445	2,306	–	2,306
Other interest receivable and similar income	3	26	–	26	30	–	30
<b>Gross return/(loss)</b>		<b>2,471</b>	<b>30,231</b>	<b>32,702</b>	2,336	(39,311)	(36,975)
Management fee	4	(741)	–	(741)	(933)	–	(933)
Performance fee (charge)/writeback	4	–	(324)	(324)	–	627	627
Other administrative expenses	5	(426)	–	(426)	(705)	–	(705)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		<b>1,304</b>	<b>29,907</b>	<b>31,211</b>	698	(38,684)	(37,986)
Finance costs	6	(35)	–	(35)	(150)	–	(150)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>1,269</b>	<b>29,907</b>	<b>31,176</b>	548	(38,684)	(38,136)
Taxation	7	(175)	–	(175)	(184)	–	(184)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>1,094</b>	<b>29,907</b>	<b>31,001</b>	364	(38,684)	(38,320)
<b>Return/(loss) per share (basic and diluted)</b>	9	<b>1.53p</b>	<b>41.88p</b>	<b>43.41p</b>	0.51p	(54.64)p	(54.13)p

A final dividend of 1.5p (2008: 0.5p) per share is proposed in respect of the year ended 30th September 2009, costing £1,090,000 (2008: £355,000). Further details are given in note 8(a) on page 41.

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

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

The notes on pages 36 to 53 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium £'000	Exercised warrant reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 30th September 2007</b>	18,866	8,712	3	581	33,364	44,647	796	<b>106,969</b>
Bonus issue of Subscription shares	141	(141)	–	–	–	–	–	–
Repurchase of Ordinary shares into Treasury	–	–	–	–	(857)	–	–	<b>(857)</b>
Net (loss)/return on ordinary activities	–	–	–	–	–	(38,684)	364	<b>(38,320)</b>
Dividends appropriated in the year	–	–	–	–	–	–	(357)	<b>(357)</b>
<b>At 30th September 2008</b>	19,007	8,571	3	581	32,507	5,963	803	<b>67,435</b>
Re-issue of Ordinary shares from Treasury	–	333	–	–	1,856	–	–	<b>2,189</b>
Exercise of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	20	84	–	–	–	–	–	<b>104</b>
Net return on ordinary activities	–	–	–	–	–	29,907	1,094	<b>31,001</b>
Dividends appropriated in the year	–	–	–	–	–	–	(355)	<b>(355)</b>
<b>At 30th September 2009</b>	19,026	8,989	3	581	34,363	35,870	1,542	<b>100,374</b>

The notes on pages 36 to 53 form an integral part of these accounts.

# Balance Sheet

at 30th September 2009

	Notes	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	104,180	67,179
<b>Current assets</b>			
Debtors	11	643	685
Cash and short term deposits		947	3,478
		1,590	4,163
<b>Creditors:</b> amounts falling due within one year	12	(3,861)	(1,870)
<b>Net current (liabilities)/assets</b>		(2,271)	2,293
<b>Total assets less current liabilities</b>		101,909	69,472
<b>Provisions for liabilities and charges</b>			
Deferred tax	7	–	–
Performance fee	13	(1,535)	(2,037)
<b>Total net assets</b>		100,374	67,435
<b>Capital and reserves</b>			
Called up share capital	14	19,026	19,007
Share premium	15	8,989	8,571
Exercised warrant reserve	15	3	3
Capital redemption reserve	15	581	581
Other reserve	15	34,363	32,507
Capital reserves	15	35,870	5,963
Revenue reserve	15	1,542	803
<b>Shareholders' funds</b>		100,374	67,435
<b>Net asset value per share</b>	16	138.2p	95.4p

The accounts on pages 32 to 53 were approved and authorised for issue by the Directors on 11th November 2009 and were signed on their behalf by:

**Nigel Melville**  
Chairman

The notes on pages 36 to 53 form an integral part of these accounts.

# Cash Flow Statement

for the year ended 30th September 2009

	Notes	2009 £'000	2008 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	17	45	(386)
<b>Net cash outflow from returns on investments and servicing of finance</b>			
Interest		(35)	(159)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(102,581)	(126,382)
Sales of investments		96,471	134,215
Settlement of futures contracts		–	221
Other capital charges		(98)	(75)
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		<b>(6,208)</b>	7,979
<b>Dividend paid</b>		<b>(355)</b>	(357)
<b>Net cash (outflow)/inflow before financing</b>		<b>(6,553)</b>	7,077
<b>Financing</b>			
Drawdown/(repayment) of short term loans		1,529	(3,776)
Issue of Ordinary shares on exercise of Subscription shares		104	–
Re-issue of Ordinary shares from Treasury		2,189	–
Repurchase of Ordinary shares into Treasury		–	(857)
<b>Net cash inflow/(outflow) from financing</b>		<b>3,822</b>	(4,633)
<b>(Decrease)/increase in cash in the year</b>	18	<b>(2,731)</b>	2,444

The notes on pages 36 to 53 form an integral part of these accounts.

# Notes to the Accounts

for the year ended 30th September 2009

## 1. Accounting policies

### (a) Basis of accounting

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

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

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and derivative financial instruments at fair value.

### (b) Valuation of investments

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

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

Gains and losses on sales of investments including the related foreign exchange gains and losses of a capital nature, performance fees realised and other capital receipts and payments, are dealt with in capital reserves within 'Gains and losses on sales of investments and derivatives'. Increases and decreases in the valuation of investments held at the year end, provisions for performance fees and unrealised foreign exchange gains and losses are dealt with in capital reserves within 'Holding gains and losses on investments and derivatives'.

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

### (c) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

Overseas dividends are shown gross of any withholding tax.

Interest receivable is taken to revenue on an accruals basis.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

### (d) Expenses

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

- performance fees are allocated 100% to capital;
- expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commissions. Details of transaction costs are given in note 10 on page 42.

### (e) Finance costs

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

Finance costs are allocated wholly to revenue.

**(f) Financial instruments**

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

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

Derivative financial instruments are valued at fair value and are included in current assets or current liabilities in the balance sheet in accordance with FRS 26: 'Financial Instruments: Measurement'.

**(g) Foreign currency**

In accordance with FRS23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined the functional currency to be sterling. Sterling is also the currency in which the accounts are presented.

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

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

**(h) Taxation**

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

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date.

Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

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

**(i) Dividends**

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

**(j) VAT**

Irrecoverable VAT is included in the expense on which it has been suffered. The basis on which it has been calculated is the partial exemption method using the proportion of taxable supplies to non taxable supplies. Further information regarding VAT on management fees is given in note 4 on page 39.

**(k) Repurchases of Ordinary shares for cancellation or to hold in Treasury**

The cost of repurchasing Ordinary shares including related stamp duty and transactions costs charged to 'Other reserve' and dealt with in the Reconciliation of Movement in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of Ordinary share capital repurchased and cancelled is transferred out of called up share capital and into the capital redemption reserve. Where shares are repurchased and held in Treasury, the transfer to capital redemption reserve is made if and when such shares are subsequently cancelled.

Where shares held in Treasury are sold, the sales proceeds are treated as a realised profit up to the amount of the purchase price of those shares and are transferred to 'Other reserve'. The excess of the sales proceeds over the purchase price is transferred to 'Share premium'.

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>2. Gains/(losses) on investments held at fair value through profit or loss</b>		
Gains on investments held at fair value through profit or loss based on historical cost	1,056	12,971
Amounts recognised as revaluation losses/(gains) in the previous year	4,948	(33,224)
Realised gains/(losses) on sales of investments based on carrying value at previous balance sheet date	6,004	(20,253)
Net movement in investment holding gains and losses	24,172	(19,303)
Realised gain on futures contracts	–	221
Other capital charges	(111)	(79)
<b>Total capital gains/(losses) on investments held at fair value through profit or loss</b>	<b>30,065</b>	<b>(39,414)</b>
<b>3. Income</b>		
<b>Income from listed investments</b>		
Overseas dividends	2,269	2,219
Scrip dividends	176	87
	<b>2,445</b>	<b>2,306</b>
<b>Other interest receivable and similar income</b>		
Deposit interest	23	30
Interest on VAT recovered <sup>1</sup>	3	–
<b>Total income</b>	<b>2,471</b>	<b>2,336</b>

<sup>1</sup>This represents interest on VAT recovered relating to management fees paid in the past. Further details are given in note 4 on page 39.

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>4. Management fee</b>						
Management fee <sup>1</sup>	744	–	744	933	–	933
VAT recoverable	(3)	–	(3)	–	–	–
	741	–	741	933	–	933
<b>Performance fee</b>						
Performance fee charge/(writeback)	–	340	340	–	(579)	(579)
VAT recoverable <sup>2</sup>	–	(16)	(16)	–	(48)	(48)
	–	324	324	–	(627)	(627)
	741	324	1,065	933	(627)	306

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

<sup>2</sup>No VAT has been charged on management fees since November 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on investment trust management fees. The Company has since recovered VAT amounting to £19,000 in respect of VAT paid in the past. The amounts have been allocated between revenue and capital in the same proportions as it was originally expensed to revenue and capital. Interest amounting to £3,000 has also been received and allocated wholly to revenue in this year and is included within 'other interest receivable and similar income' in note 3 above.

	2009 £'000	2008 £'000
<b>5. Other administrative expenses</b>		
Other administration expenses	305	335
Directors' fees <sup>1</sup>	99	99
Subscription share costs	–	249
Auditors' remuneration for audit services	22	22
Auditors' remuneration for all other services	–	–
	426	705

<sup>1</sup>Full disclosure is given in the Directors' Remuneration Report on page 28.

	2009 £'000	2008 £'000
<b>6. Finance costs</b>		
Interest on bank loans and overdrafts	35	150

# Notes to the Accounts continued

## 7. Taxation

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
<b>(a) Analysis of tax charge in the year</b>						
UK corporation tax at 28% (2008: 29%)	–	–	–	–	–	–
Overseas withholding tax	175	–	175	184	–	184
Current tax charge for the year	175	–	175	184	–	184
<b>(b) Factors affecting current tax charge for the year</b>						
Net return/(loss) on ordinary activities before taxation	1,269	29,907	31,176	548	(38,684)	(38,136)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2008: 29%)	355	8,374	8,729	159	(11,218)	(11,059)
Effects of:						
Non taxable capital returns	–	(8,465)	(8,465)	–	11,400	11,400
Non taxable dividends	(379)	–	(379)	–	–	–
Non taxable scrip dividends	(49)	–	(49)	(25)	–	(25)
Income taxed in different periods	28	–	28	21	–	21
Tax relief on capitalised expenses	(91)	91	–	182	(182)	–
Overseas withholding tax	175	–	175	184	–	184
Brought forward excess expenses utilised	–	–	–	(337)	–	(337)
Unrelieved expenses and charges	136	–	136	–	–	–
Current tax charge for the year	175	–	175	184	–	184

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

The Company has an unrecognised deferred taxation asset of £1,347,000 (2008: £1,145,000). This has arisen from deductible expenses exceeding taxable income. It is not anticipated that this asset will be utilised in the foreseeable future.

## 8. Dividends

	2009 £'000	2008 £'000
<b>(a) Dividends paid and proposed</b>		
2008 Final dividend paid of 0.5p (2007: 0.5p)	355	357
Final dividend proposed of 1.5p (2008: 0.5p)	1,090	353

For the year ended 30th September 2008, the Company declared a dividend of £353,000 but the final dividend paid amounted to £355,000 due to share issues after the balance sheet date but prior to the share register record date.

The final dividend proposed in respect of the year ended 30th September 2009 is subject to shareholder approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 30th September 2010.

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

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

	2009 £'000	2008 £'000
Dividends proposed		
Final dividend proposed of 1.5p (2008: 0.5p)	1,090	353

The revenue available for distribution by way of dividend for the year is £1,094,000 (2008: £364,000).

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

The revenue return per share is based on the revenue earnings attributable to the Ordinary shares of £1,094,000 (2008: £364,000) and on the weighted average number of shares in issue during the year of 71,418,199 (2008: 70,791,482) excluding shares held in Treasury.

The capital return per share is based on the capital earnings attributable to the Ordinary shares of £29,907,000 (2008: losses of £38,684,000) and on the weighted average number of shares in issue during the year of 71,418,199 (2008: 70,791,482) excluding shares held in Treasury.

The total return per share is based on the total earnings attributable to the Ordinary shares of £31,001,000 (2008: loss of £38,320,000) and on the weighted average number of shares in issue during the year of 71,418,199 (2008: 70,791,482) excluding shares held in Treasury.

The Company has in issue 14,056,947 Subscription shares which are convertible into Ordinary shares on 15th May 2010 and at the end of each 12 month period thereafter until 15th May 2013. The Subscription shares were issued on 16th April 2008. Further details of the exercise prices are given on page 19 and in note 14 on page 44. There was no dilution of the return per Ordinary share in respect of the conversion rights attaching to the Subscription shares (year ended 30th September 2008: no dilution).

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>10. Investments</b>		
Investments listed on a recognised investment exchange <sup>1</sup>	100,499	64,573
Unlisted investments	3,681	2,606
	<b>104,180</b>	<b>67,179</b>

	2009		
	Listed overseas <sup>1</sup> £'000	Unlisted £'000	Total £'000
Opening book cost	70,316	2,089	72,405
Opening investment holding (losses)/gains	(5,743)	517	(5,226)
Opening valuation	64,573	2,606	67,179
Movements in the year:			
Purchases at cost	102,428	896	103,324
Sales - proceeds	(95,819)	(680)	(96,499)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	6,016	(12)	6,004
Net movement in investment holding gains and losses	23,301	871	24,172
	100,499	3,681	104,180
Closing book cost	77,856	2,430	80,286
Closing investment holding gains	22,643	1,251	23,894
Total investments held at fair value	100,499	3,681	104,180

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

Transaction costs on purchases during the year amounted to £352,000 (2008: £330,000) and on sales during the year amounted to £297,000 (2008: £383,000). These costs comprise mainly brokerage commission.

During the year, prior year revaluation losses amounting to £4,948,000 have been transferred to gains and losses on sales of investments and derivatives as disclosed in note 15 on page 45.

	2009 £'000	2008 £'000
<b>11. Current assets</b>		
<b>Debtors</b>		
Securities sold for future settlement	557	529
Dividends and interest receivable	70	93
Other debtors	16	63
	<b>643</b>	<b>685</b>

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

### Cash and short term deposits

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

	2009 £'000	2008 £'000
<b>12. Creditors: amounts falling due within one year</b>		
Securities purchased for future settlement	1,315	748
Short term loan	1,563	–
Performance fee payable	842	997
Other creditors and accruals	141	125
	<b>3,861</b>	1,870

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

	2009 £'000	2008 £'000
<b>13. Provision for liabilities and charges</b>		
<b>Performance fee payable<sup>1</sup></b>		
Opening balance	2,037	3,613
Performance fee provision/(writeback) for the year	340	(579)
Amount realised during the year	(842)	(997)
Closing balance <sup>2</sup>	<b>1,535</b>	2,037

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

<sup>2</sup>The balance of £1,535,000 will be carried forward until paid in full or absorbed by any under performance in subsequent years. The payment in any one year is effectively capped at 2% of the Company's average net assets less current liabilities and accordingly payment of this outstanding balance will be determined by the under/out performance of the Company in future periods but it is unlikely to take more than 3 years. The provision is not discounted.

	2009 £'000	2008 £'000
<b>Irrecoverable VAT on performance fee payable</b>		
Opening balance	–	39
Writeback of VAT	–	(39)
Closing balance	–	–

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>14. Called up share capital</b>		
Authorised		
175,000,000 (2008: 175,000,000) Ordinary shares of 25p each	43,750	43,750
14,136,600 (2008: 14,136,600) Subscription shares of 1p each	141	141
Issued and fully paid		
Ordinary shares of 25p each		
Opening balance of 70,683,001 (2008: 71,346,001) Ordinary shares excluding shares held in Treasury	17,671	17,837
Issue of 79,460 (2008: nil) Ordinary shares on exercise of Subscription shares	20	–
Re-issue of 1,875,000 (2008: nil) Ordinary shares from Treasury	469	–
Repurchase of nil (2008: 663,000) Ordinary shares into Treasury	–	(166)
Closing balance of 72,637,461 (2008: 70,683,001) Ordinary shares	18,160	17,671
2,904,000 (2008: 4,779,000) shares held in Treasury	726	1,195
Closing balance <sup>1</sup>	18,886	18,866
Subscription shares of 1p each		
Opening balance of 14,136,407 (2008: nil) Subscription shares	141	–
Bonus issue of nil (2008: 14,136,407) Subscription shares	–	141
Conversion of 79,460 (2008: nil) Subscription shares into Ordinary shares	(1)	–
Closing balance <sup>2</sup>	140	141

<sup>1</sup>Comprises 75,541,461 (2008: 75,462,001) Ordinary shares of 25p each including 2,904,000 (2008: 4,779,000) Ordinary shares held in Treasury.

<sup>2</sup>Comprises 14,056,947 (2008: 14,136,407) Subscription shares of 1p each. The Subscription shares were issued as a bonus issue to the Ordinary shareholders on 16th April 2008 on the basis of one Subscription share for every five Ordinary shares. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on 15th May 2009 and at the end of each 12 month period thereafter until 15th May 2013 when the rights under the Subscription shares will lapse. During the year, holders of 79,460 Subscription shares exercised their right to convert those shares into Ordinary shares at a price of 131 pence, giving a total consideration received of £104,000.

Future conversion prices have been determined as follows:

(a) If exercised in May 2010 – 143 pence.

(b) If exercised in May 2011, 2012 or 2013 – 168 pence.

	Share premium £'000	Exercised warrant reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves		Revenue reserve £'000
					Gains and losses on sales of investments and derivatives £'000	Holding gains and losses on investments and derivatives £'000	
<b>15. Reserves</b>							
Opening balance	8,571	3	581	32,507	13,226	(7,263)	803
Currency gains on cash and short term deposits	–	–	–	–	200	–	–
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	6,004	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	24,172	–
Transfer on disposal of investments	–	–	–	–	(4,948)	4,948	–
Performance fee provision for the year	–	–	–	–	–	(340)	–
Performance fee realised	–	–	–	–	(842)	842	–
Other capital charges	–	–	–	–	(111)	–	–
Re-issue of Ordinary shares from Treasury	333	–	–	1,856	–	–	–
Exercise of Subscription shares into Ordinary shares	1	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	84	–	–	–	–	–	–
Unrealised exchange loss on foreign currency loan	–	–	–	–	–	(34)	–
VAT recoverable	–	–	–	–	16	–	–
Dividends appropriated in the year	–	–	–	–	–	–	(355)
Net revenue for the year	–	–	–	–	–	–	1,094
Closing balance	8,989	3	581	34,363	13,545	22,325	1,542

#### 16. Net asset value per share

The net asset value per share is based on the net assets attributable to the Ordinary shareholders of £100,374,000 (2008: £67,435,000) and on the 72,637,461 (2008: 70,683,001) shares in issue at the year end, excluding shares held in Treasury.

# Notes to the Accounts continued

	2009 £'000	2008 £'000
<b>17. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash (outflow)/inflow from operating activities</b>		
Total return/(loss) on ordinary activities before finance costs and taxation	31,211	(37,986)
Less capital (return)/loss on ordinary activities before taxation	(29,907)	38,684
Scrip dividends received as income	(176)	(87)
Decrease in accrued income	23	76
Decrease/(increase) in other debtors	47	(22)
Increase in accrued expenses	3	5
Performance fee paid	(997)	(872)
VAT recoverable credited to capital	16	–
Overseas taxation	(175)	(184)
Net cash inflow/(outflow) from operating activities	45	(386)

	2008 £'000	Cash flow £'000	Exchange movements £'000	2009 £'000
<b>18. Analysis of changes in net funds/(debt)</b>				
Cash and short term deposits	3,478	(2,731)	200	947
Bank loans falling due within one year	–	(1,529)	(34)	(1,563)
Net funds/(debt)	3,478	(4,260)	166	(616)

## 19. Contingent liabilities and capital commitments

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

## 20. Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 21. The terms make allowance for the exclusion of management charges on investments held in funds managed by J.P. Morgan Asset Management ('JPMAM'). The fee payable to JPMAM for the year was £744,000 (2008: £933,000) of which £nil (2008: £nil) was outstanding at the year end.

Details of the performance fee are set out in the Directors' Report on page 21. There is a performance fee payable to JPMAM for the year of £842,000 (2008: £997,000) and the whole of this amount was outstanding at the year end (2008: £997,000).

Included in other management expenses in note 5 on page 39 are safe custody fees amounting to £35,000 (2008: £61,000) of which £10,000 (2008: £15,000) was outstanding at the year end. These fees were paid to third party custodians by JPMAM on behalf of the Company.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to JPMorgan Securities for the year was £31,000 (2008: £39,000) of which £nil (2008: £nil) was outstanding at the year end.

Handling charges, incurred on dealing transactions undertaken by overseas custodians during the year, amounting to £111,000 (2008: £79,000) were payable to JPMorgan Chase of which £32,000 (2008: £20,000) was outstanding at the year end.

The Company holds an investment in JF China Pioneer 'A' Share Fund which is managed by JPMAM. At 30th September 2009 this was valued at £3.7 million (2008: £2.6 million) and represented 3.5% (2008: 3.9%) of the Company's investment portfolio. During the year the Company made purchases of this investment with a total value of £0.9 million (2008: £1.9 million) and sales with a total value of £0.7 million (2008: £6.3 million). No income was received from this investment in the current or comparative year.

At the year end, a bank balance of £947,000 (2008: £3,478,000) was held with JPMorgan Chase. A net amount of interest of £23,000 (2008: £16,000) was receivable by the Company during the year from JPMorgan Chase.

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

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

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

The Company's financial instruments may comprise:

- investments in equity shares, participatory notes and an open ended investment company, with exposure to 'Greater China' companies, which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations;
- derivative transactions including index futures and short term forward currency contracts for the purpose of settling short term liabilities; and
- a floating rate loan facility with Lloyds TSB.

### (a) Market risk

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

#### (i) Currency risk

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

# Notes to the Accounts continued

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

### Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. Income denominated in foreign currencies is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

### Foreign currency exposure

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

	2009				Total £'000
	US Dollar £'000	Hong Kong Dollar £'000	Taiwan Dollar £'000	Other £'000	
Current assets	40	1,093	398	41	1,572
Creditors	(1,593)	(1,076)	(209)	(4)	(2,882)
Foreign currency exposure on net monetary items	(1,553)	17	189	37	(1,310)
Investments held at fair value through profit or loss that are equities	5,719	69,892	28,569	–	104,180
Total net foreign currency exposure	4,166	69,909	28,758	37	102,870

	2008				Total £'000
	US Dollar £'000	Hong Kong Dollar £'000	Taiwan Dollar £'000	Other £'000	
Current assets	898	1,076	298	–	2,272
Creditors	–	(642)	(106)	–	(748)
Foreign currency exposure on net monetary items	898	434	192	–	1,524
Investments held at fair value through profit or loss that are equities	3,244	44,494	19,440	–	67,178
Total net foreign currency exposure	4,142	44,928	19,632	–	68,702

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

### Foreign currency sensitivity

The following tables illustrate the sensitivity of profit after taxation for the year and equity with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2008: 10%) appreciation or depreciation in sterling against the US dollar, Hong Kong dollar, Taiwan dollar and the other currencies to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened this would have had the following effect:

	2009 £'000	2008 £'000
Income statement return after taxation		
Revenue return	227	222
Capital return	(131)	152
Total return after taxation for the year	96	374
Net assets	96	374

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

	2009 £'000	2008 £'000
Income statement return after taxation		
Revenue return	(227)	(222)
Capital return	131	(152)
Total return after taxation for the year	(96)	(374)
Net assets	(96)	(374)

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

### (ii) Interest rate risk

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

#### Management of interest rate risk

The Company does not normally hold significant cash balances. Short term borrowings are used when required. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board. The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

# Notes to the Accounts continued

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

### Interest rate exposure

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

	2009 £'000	2008 £'000
Exposure to floating interest rates		
Cash and short term deposits	947	3,478
Creditors: amounts falling due within one year - borrowings on the loan facility	(1,563)	-
Total exposure	(616)	3,478

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

The Company has an £8 million loan facility with Lloyds TSB which expires in January 2010. Under the terms of this agreement the Company may draw down up to £8 million in sterling or other major currency at an interest rate of the relevant currency LIBOR for the loan period plus a margin of 0.70% plus the 'Associated Costs Rate', which is the lender's cost of complying with certain regulatory requirements. At 30th September 2009, the Company had drawn down US\$2.5 million (£1.6 million) on this facility at an interest rate of 0.95%, repayable on 20th October 2009. At 30th September 2008 the Company had not drawn on this facility.

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

	2009 £'000	2008 £'000
Minimum credit/maximum debit interest rate exposure to floating rates - net cash/(loan) balances	(988)	(5,080)
Maximum credit interest rate exposure to floating rates - net cash balances	5,188	3,478

### Interest rate sensitivity

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

	2009		2008	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation				
Revenue return	(6)	6	35	(35)
Capital return	-	-	-	-
Total return after taxation for the year	(6)	6	35	(35)
Net assets	(6)	6	35	(35)

In the opinion of the Directors, the above sensitivity analysis may not be representative of the whole year as the level of exposure to floating interest rates may fluctuate between net loan balances and net cash balances. The highest amount drawn down on the loan facility during the year amounted to £1.6 million (2008: £6.8 million) and the interest rate on these drawings fluctuated between 0.95% and 0.97%.

**(iii) Other price risk**

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

**Management of other price risk**

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

**Other price risk exposure**

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

	2009 £'000	2008 £'000
Equity investments held at fair value through profit or loss	104,180	67,179

**Concentration of exposure to other price risk**

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

**Other price risk sensitivity**

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

	2009		2008	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(104)	104	(67)	67
Capital return	10,418	(10,418)	6,718	(6,718)
Total return after taxation for the year and net assets	10,314	(10,314)	6,651	(6,651)

# Notes to the Accounts continued

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

### (b) Liquidity risk

This is the risk that the Company will encounter difficulty in settling financial liabilities as they fall due.

#### Management of the risk

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

#### Liquidity risk exposure

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

	2009			2008		
	Three months or less £'000	More than one year £'000	Total £'000	Three months or less £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year						
Securities purchased for future settlement	1,315	–	1,315	748	–	748
Short term loan	1,563	–	1,563	–	–	–
Performance fee payable	842	–	842	997	–	997
Other creditors and accruals	141	–	141	125	–	125
Provision for liabilities and charges						
Performance fee provision	–	1,535	1,535	–	2,037	2,037
	<b>3,861</b>	<b>1,535</b>	<b>5,396</b>	1,870	2,037	3,907

### (c) Credit risk

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

#### Management of credit risk

##### Portfolio dealing

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

##### Cash

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

##### Exposure to JPMorgan Chase

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

### Credit risk exposure

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

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

### (d) Fair values of financial assets and financial liabilities

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

## 22. Capital management policies and procedures

Company's capital comprises the following:

	2009 £'000	2008 £'000
Debt:		
Short term loan	1,563	–
	1,563	–
Equity:		
Share capital	19,026	19,007
Reserves	81,348	48,428
	100,374	67,435
<b>Total debt and equity</b>	<b>101,937</b>	<b>67,435</b>

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

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

	2009 £'000	2008 £'000
Investments	104,180	67,179
Net assets	100,374	67,434
Gearing	103.8%	99.6%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium; and
- the need for issues of new shares, including issues from Treasury.

# Shareholder Analyses

at 30th September 2009

Ordinary Shares	Number of Shares	% Holding
Retail Investors holding shares directly or through nominee accounts <sup>1</sup>	21,084,941	27.9
Private Client Brokers	20,095,712	26.6
Individuals in the Investment Trust Share Plan <sup>2</sup>	15,643,624	20.7
Individuals in the Investment Trust Individual Savings Account <sup>2</sup>	4,670,353	6.2
Individuals in the Investment Trust Pension Account <sup>2</sup>	2,104,173	2.8
<b>Total Retail Holdings</b>	<b>63,598,803</b>	<b>84.2</b>
Unit Trusts	3,489,332	4.6
Other Institutions	2,296,302	3.0
Pension Funds	1,608,407	2.2
Investment Trusts <sup>3</sup>	1,118,713	1.5
Insurance Companies	420,904	0.6
Charities	105,000	0.1
<b>Total Institutions</b>	<b>9,038,658</b>	<b>12.0</b>
Treasury Shares <sup>4</sup>	2,904,000	3.8
<b>Total Shares in Issue</b>	<b>75,541,461</b>	<b>100.0</b>

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

<sup>2</sup>Savings product managed by J.P. Morgan.

<sup>3</sup>Includes 770,000 shares held by JPMorgan Elect plc.

<sup>4</sup>Shares held in Treasury do not carry any voting rights.

Source: Thomson Reuters.

Subscription Shares	Number of Shares	% Holding
Retail Investors holding shares directly or through nominee accounts <sup>1</sup>	4,748,944	33.8
Private Client Brokers	3,944,757	28.1
Individuals in the Investment Trust Share Plan <sup>2</sup>	3,075,758	21.9
Individuals in the Investment Trust Individual Savings Account <sup>2</sup>	734,095	5.2
Individuals in the Investment Trust Pension Account <sup>2</sup>	374,503	2.6
<b>Total Retail Holdings</b>	<b>12,878,057</b>	<b>91.6</b>
Unit Trusts	410,576	2.9
Investment Trusts <sup>3</sup>	292,892	2.1
Other Institutions	286,096	2.0
Pension Funds	92,420	0.7
Insurance Companies	81,906	0.6
Charities	15,000	0.1
<b>Total Institutions</b>	<b>1,178,890</b>	<b>8.4</b>
<b>Total Shares in Issue</b>	<b>14,056,947</b>	<b>100.0</b>

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

<sup>2</sup>Savings product managed by J.P. Morgan.

<sup>3</sup>Includes 164,000 shares held by JPMorgan Elect plc.

Source: Thomson Reuters.

# Notice of Meeting

Notice is hereby given that the sixteenth Annual General Meeting of JPMorgan Chinese Investment Trust plc will be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Tuesday 15th December 2009 at 11.00 a.m. for the following purposes:

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 30th September 2009.
- 2 To approve the Directors' Remuneration Report for the year ended 30th September 2009.
- 3 To approve a final dividend of 1.5p per share.
- 4 To re-elect Nigel Melville as a Director of the Company.
- 5 To re-elect William Knight as a Director of the Company.
- 6 To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

## Special Business

To consider the following resolutions:

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

- 7 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot Ordinary shares in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary shares in the Company ('Rights') up to an aggregate nominal amount of £1,888,537, representing approximately 10% of the Company's issued Ordinary share capital (including shares held in Treasury) as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require Ordinary shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot Ordinary

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

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

- 8 THAT subject to the passing of Resolution 7 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 7 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,888,536 representing approximately 10% of the issued Ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 7 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

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

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

PROVIDED ALWAYS THAT

- (i) the maximum number of Ordinary shares and Subscription shares hereby authorised to be purchased shall be 11,008,275 and 2,107,136 respectively, or if less, that number of Ordinary shares or Subscription shares which is equal to 14.99% of the issued share capital of the relevant share class (less shares held in Treasury) as at the date of the passing of this Resolution;

# Notice of Meeting continued

- (ii) the minimum price which may be paid for an Ordinary share or Subscription share shall be 25 pence and 1 pence respectively;
- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for a share of that class of share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors);
- (v) the authority hereby conferred shall expire at the Company's Annual General Meeting in 2010 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares pursuant to any such contract.

By order of the Board  
Christopher Legg, for and on behalf of  
JPMorgan Asset Management (UK) Limited,  
Secretary  
11th November 2009

## Notes

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

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

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
- Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.jpchinse.co.uk](http://www.jpchinse.co.uk).
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As at 10th November 2009 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 75,541,461 Ordinary shares (of which 2,104,000 are held in Treasury), carrying one vote each and 14,056,947 Subscription shares with no voting rights. Therefore the total voting rights in the Company are 73,437,461. The shares held in Treasury do not carry voting rights.

#### Electronic appointment – CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

# Glossary of Terms

## **Return to Ordinary Shareholders**

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

## **Return on Net Assets**

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

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

## **Benchmark Return**

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

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

## **Share Price Discount/Premium to Net Asset Value**

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

## **Revenue per share**

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

## **Actual Gearing Factor**

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

## **Total Expense Ratio (excluding performance fee)**

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

## **Total Expense Ratio (including performance fee paid)**

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

## **Hong Kong H-Shares**

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

## **Hong Kong Red Chips**

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

## **Hong Kong Others**

Companies incorporated in mainland China and listed in Hong Kong and included in the Hang Seng Composite Index.

## **China A-Shares**

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

## **China B-Shares**

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

## **Performance Attribution**

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

## **Performance Attribution Definitions:**

### **Asset Allocation**

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

### **Stock Selection**

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

### **Currency Effect**

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

### **Gearing/Cash**

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

### **Dividends**

Arises principally from timing differences in the treatment of income flows.

### **Management Fees/Other Expenses**

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

### **Treasury Issuance**

Measures the effect on relative performance of issuing shares out of Treasury.

### **Performance Fee Accrual**

The outperformance of the Company against the benchmark leads to an increase in performance fees accrued. The increase in this accrual has a negative impact on relative performance.

# Notes

# Information about the Company

## Financial Calendar

Financial year end	30th September
Final results announced	November
Half year end	31st March
Half year results announced	May
Interim Management Statements announced	January/July
Dividend on Ordinary shares paid	December
Subscription shares exercise dates	15th May 2010/2011/2012/2013
Annual General Meeting	December

## History

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

## Company Numbers

Company registration number: 02853893

## Ordinary Shares

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

## Subscription Shares

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

## Market Information

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

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

## Website

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

## Share Transactions

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

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

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

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

## Registrars

Equiniti  
Reference 1078  
Aspect House  
Spencer Road  
West Sussex BN99 6DA  
Telephone number: 0871 384 2317

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

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

## Auditors

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

## Brokers

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

## Savings Product Administrators

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

**aic**

The Association of  
Investment Companies

A member of the AIC

JPMorgan Helpline  
Freephone 0800 20 40 20 or 020 7742 9999  
9.00 am to 5.30 pm Monday to Friday

Your telephone call may be recorded for your security

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