JPMorgan Chinese Inv Tst PLC - JMC Half Yearly Report
Released 15:13 22-May-2015

RNS Number : 1022O
JPMorgan Chinese Inv Tst PLC
22 May 2015

LONDON STOCK EXCHANGE ANNOUNCEMENT

JPMORGAN CHINESE INVESTMENT TRUST PLC

UNAUDITED HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH 2015

Chairman's Statement

Performance

I am pleased to report that for the six months to 31st March 2015 the Company's total return on net assets (with net dividends reinvested) increased by 23.0%. This compares favourably to the return of the Company's benchmark, the MSCI Golden Dragon Index (in sterling terms) which increased by 21.6%. Over the same period, the total return to shareholders was +22.2%. A detailed review of the Company's performance, portfolio and market developments is provided in the Investment Managers' Report.

Loan Facility and Gearing

On 22nd January 2015 the Company renewed its £20 million credit facility with Scotiabank for a further 364 days at a reduced margin, and £16.8 million was drawn down on this facility as at 31st March 2015. The Board has given the Investment Managers the flexibility to manage the gearing tactically within a range set by the Board of 10% net cash to 15% geared. During the period the Company's month end gearing ranged from 7.4% to 9.4% geared, ending the half year at 7.4% geared. On 5th May 2015 the Board agreed to further extend the credit facility to £30 million to keep up with the increased value of assets.

Share Repurchases and Issues in the Period

At the time of writing, the Company's issued share capital consists of 75,531,426 Ordinary shares, excluding shares held in Treasury. During the six month reporting period the Company did not repurchase or issue any Ordinary shares.

Board of Directors

As part of the Board's succession plan, Irving Koo retired from the Board at the conclusion of the 2015 Annual General Meeting ('AGM') and shareholders approved the appointment of Oscar Wong. The Board has also agreed that another one of the longer serving Directors will retire at the next AGM in January 2016 and the Board is currently in the process of interviewing candidates with the intention to recruit a new Director this summer.

Outlook

China is focusing on improving the quality of its growth with a concerted effort to enhance consumerism across the country. Improving the property sector outlook and ensuring that there is no let-up in essential infrastructure development are the key priorities linked to job creation that will prevail. These policies are underpinned by monetary and fiscal easing with additional rate cuts and liquidity support to minimise any downside risks.

In our view, 2015 will be a critical year for the implementation of these anticipated structural forms planned for initially in 2014. Fiscal reforms and those for state-owned industries are underway and it is noticeable that many changes of personnel are taking place at provincial and municipal levels as part of a wider shake up.

The economic fundamentals for the economy in our view remain strong despite the modest valuations in so many cases which leads us to believe that the recent rally in the shares of listed Chinese companies is sustainable. The market should continue therefore to re-rate. With the substantial increase in interest in share ownership by mainland investors as evidenced by the full utilisation the Hong Kong bound quota under the Shanghai-Hong Kong connect programme for the first time, we expect strong near-term momentum in Hong Kong equities. However, domestic Hong Kong is likely to lag this liquidity-driven rally due to the structural slowdown in retail spending and Macau gaming. In addition, the spectre of rising interest rates in the US remains a dampener, even if the pace of rate increases is very gradual. Meanwhile, Taiwan may have a chance to catch up with its peers in 2015, given an improved macroeconomic backdrop. Strong fundamentals and continuous positive earnings revisions should be supportive for re-ratings, with the technology sector remaining the key driver.

William Knight
Chairman
22 May 2015

Investment Managers' Report

Over the six month period ended 31st March 2015, the Company achieved a total return on net assets of +23.0% (in sterling terms), outperforming the Company's benchmark return of +21.6% by +1.4%.

Country allocation, more specifically the overweight in China, contributed most to the outperformance during the six month period, with Chinese equities rallying in both offshore-listed and domestic A-shares markets. Positive stock selection in Taiwan also helped returns, though somewhat offset by weaker stock picks in China. Overweight positions in Taiwan technology stocks geared towards the Apple supply chain such as Catcher Technology, Largan Precision and Taiwan Semiconductor added to performance on the back of strong iPhone-related sales. Meanwhile, overweight positions in Chinese financials, which retreated this year from some profit-taking, and the underweight position in the solar power name Hanergy Thin Film, which rose sharply in the first quarter albeit without much fundamental catalysts, detracted from performance. Additionally, an average of 8.4% leveraged position added to returns over this period.

China Review

Chinese equities rallied in the fourth quarter of 2014, with offshore-listed equities up 7% and domestic A-shares (CSI 300) rising sharply, up 44%, accounting for the bulk of the full-year gains for both markets. The key catalysts were the rate cut in late November - the first cut since 2012 - coupled with a steady recovery in property transactions and further progress on structural reforms (such as local government financing vehicle ('LGFV') debt). The rise was led almost solely by financial sectors, which benefited from the avoidance of a hard landing, rate sensitivity and attractive valuations.

The Chinese market continued to advance in the first quarter of 2015, with offshore-listed equities up 8% and domestic A-shares (CSI 300) up 15%, continuing the rally of the final quarter of 2014. The key catalysts were accommodative policy in terms of both cyclical stimulus (easing monetary/fiscal policies) and structural reforms (relating to LGFV debt swaps and deposit insurance, for example), despite the macroeconomic backdrop remaining weak. The gains have been led by both cyclical names (beneficiaries of policy easing) as well as growth sectors. Earnings revisions remained negative, led by energy (due to the global oil price declines), materials, and staples, as a result of to demand headwinds. Sectors seeing positive earnings revisions included non-bank financials (benefiting from underlying equity market strength) and transportation (also a beneficiary of oil price weakness).

China Outlook

We expect the macroeconomic environment in China to gradually recover from the post-financial crisis lows, underpinned by an improving property sector outlook and continued government support on infrastructure projects. We believe there should be further interest rate and reserve ratio requirement ('RRR') cuts as real interest rates are still too high to ensure a smooth deleveraging process. We do not expect any major stimulus policy as the government continues its structural reforms. The market's valuation at 9.2x forward one-year price to earnings, versus mid-cycle 12x, with earnings growth in the high single digits, is undemanding. We believe the market will continue to re-rate as the macroeconomic environment stabilises and as there is further evidence of structural reform being carried out.

Hong Kong Review

Despite a massive rally in the domestic Chinese equity market, Hong Kong equities managed only a modest gain in the last quarter of 2014, held back by substantial weakness in the Macau gaming sector. The highly-anticipated Shanghai-Hong Kong stock connect scheme commenced with disappointing volumes, especially on the southbound route. Institutional investors were likely not ready to participate in the scheme, while retail investors were more interested in their own domestic market. Meanwhile, the student-led pro-democracy protests were cleared up without much further incident due to waning public support. However, the aftermath of these protests may result in further political gridlock, affecting the ability of the government to move forward with its economic policy initiatives.

During the first quarter of 2015, most of the equity gains in Hong Kong happened during January, driven by proposed corporate restructuring. The market witnessed explosive growth in turnover towards the end of the quarter, spurred by the clarification of rules designed to make things easier for mainland-based mutual funds in the Stock Connect programme. However, it mainly benefitted China-related counters, rather than Hong Kong equities. In addition, despite the announcement from the Hong Kong Monetary Authority on further tightening measures, subsequent new property launches were positively received. Meanwhile, retail sales appear to be in structural decline and Hong Kong seems to be losing its share of mainland tourists to Japan, Korea, and Taiwan, owing in part to relative currency strength. Gaming revenues also continued their recent downward spiral.

Hong Kong Outlook

With the pro-democracy protests having wound down peacefully and interest rate rise expectations being dampened, the prospects for equities have turned more positive for the medium term. Moreover, as the Shanghai-Hong Kong stock connect programme matures, with potential scope for expansion, this could spur further buying interest in Hong Kong equities. On the property front, we prefer the residential market, which looks stable in the near term, since the supply situation remains attractive relative to growing demand. While the risk of further government policy tightening remains present, this is likely only if price growth becomes excessive, which is not currently expected. Office property is also benefiting from an attractive demand-supply balance, while retail property is facing more challenging conditions given slowing retail sales growth.

Taiwan Review

The TWSE Index ended the fourth quarter of 2014 with an almost 4% quarter-on-quarter gain, with a late year-end rally. The quarter was initially hampered by weak sentiment ahead of the 9-in-1 election. There were a number of negative factors, such as technology seasonality, unhappiness over the government's plan to implement a tax on large retail investors, concerns over Ebola, and the Kuomintang's potential weak showing in the November election. Another overriding influence for the period was the decline in the oil price, which led to airlines and shipping names outperforming massively. Concurrently, the currency weakened, following the continued quantitative easing attempts in Japan and Europe and the general US dollar strength versus Asian currencies.

The TWSE Index advanced 3% in the first quarter of 2015. The market saw profit taking in the technology sector at the start of 2015, particularly in stocks that are part of the Apple supply chain, following a very strong iPhone 6 launch late in the third quarter of last year, as well as concerns that the consumer technology product cycle will be much more moderate in 2015. However, the selling reversed quickly, with qualified foreign institutional investors ('QFII's) becoming strong net buyers of Taiwanese stocks again. However, there was a shift in technology sentiment again in the final two weeks of the quarter after softer guidance from Taiwan Semiconductor Manufacturing Company as well as concerns about Mediatek's margins. Foreign investors led the selling in upstream technology stocks in late March.

Taiwan Outlook

With Taiwan's municipal elections out of the way and the presidential election not due until 2016, President Ma Ying-Jeou could use this window wisely to win back confidence for the Kuomintang party. Several factors should support a decent first half to 2015, as the positive impact from the success of iPhone 6 carries over and the cheaper oil price bolsters disposable incomes, lending a boost to retailers. Tourism will also be a bright spot, further supporting domestic consumption. The three-year delay to the big player tax should help retail sentiment and participation. However, macroeconomic uncertainty, especially from Europe, and a weak New Taiwan dollar could weigh on the market. Overall, the market's risk/reward prospects continue to look favourable given sustained growth into 2015. Fundamentals remain strong and valuations still modest.

Summary

Overall, our top-down assumptions remain unchanged and we remain broadly optimistic on our principal portfolio themes, given China's policy easing, reasonable equity valuations and ample global liquidity. The surging mainland domestic markets - a product of these conditions - along with a multi-year bear market and excessive household savings, will help to equitise balance sheets in a heavily leveraged economy. As the monetary easing cycle is now in full swing, with several cuts in interest rate and in the Required Reserve Ratio, we expect liquidity conditions to be very supportive into both A and H-shares. Although H-shares continue to be better valued, we do own very stock specific A-share holdings and can access such through P-notes, but do so only where we have comfort in the fundamentals, business model, corporate governance, growth prospects and valuations. As the A-share market correct, we would look to opportunistically enter. Overall, we continue to find opportunities in Greater China's environmental, healthcare and technology spaces, as well as in nascent consumer sectors and Chinese financials that are benefiting from policy easing.

Howard Wang
Emerson Yip
William Tong
Shumin Huang
Investment Managers
22 May 2015

Interim Management Report

The Company is required to make the following disclosures in its half year report:

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company have not changed and fall into the following broad categories: investment underperformance; loss of investment team; discount; market; political and economic; accounting, legal and regulatory; corporate governance and shareholder relations; operational; going concern and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 30th September 2014.

Related Parties Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company during the period.

Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future and, more specifically, that there are no material uncertainties pertaining to the Company that would prevent its ability to continue in such operational existence for at least twelve months from the date of the approval of this half yearly financial report. For these reasons, they consider there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities

The Board of Directors confirms that, to the best of its knowledge:

(i) the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half Yearly Financial Reports' and gives a true and fair view of the state of affairs of the Company and of the assets, liabilities, financial position and net return of the Company, as at 31st March 2015, as required by the UK Listing Authority Disclosure and Transparency Rules 4.2.4R; and

(ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

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

and the Directors confirm that they have done so.

For and on behalf of the Board

William Knight
Chairman
22 May 2015

Income Statement

for the six months ended 31st March 2015

	(Unaudited) Six months ended 31st March 2015			(Unaudited) Six months ended 31st March 2014			(Audited) Year ended 30th September 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	**-**	**33,906**	**33,906**	-	900	900	-	9,138	9,138
Net foreign currency (losses)/gains	**-**	**(1,295)**	**(1,295)**	-	346	346	-	(72)	(72)
Income from investments	**365**	**-**	**365**	215	-	215	3,585	-	3,585
Gross return	**365**	**32,611**	**32,976**	215	1,246	1,461	3,585	9,066	12,651
Management fee	**(828)**	**-**	**(828)**	(717)	-	(717)	(1,417)	-	(1,417)
Performance fee	**-**	**(378)**	**(378)**	-	(536)	(536)	-	(254)	(254)
Other administrative expenses	**(226)**	**-**	**(226)**	(204)	-	(204)	(454)	-	(454)
Net (loss)/return on ordinary activities before finance costs and taxation	**(689)**	**32,233**	**31,544**	(706)	710	4	1,714	8,812	10,526
Finance costs	**(92)**	**-**	**(92)**	(116)	-	(116)	(178)	-	(178)
Net (loss)/return on ordinary activities before taxation	**(781)**	**32,233**	**31,452**	(822)	710	(112)	1,536	8,812	10,348
Taxation	**(8)**	**-**	**(8)**	(7)	-	(7)	(255)	-	(255)
Net (loss)/return on ordinary activities after taxation	**(789)**	**32,233**	**31,444**	(829)	710	(119)	1,281	8,812	10,093
(Loss)/return per ordinary share (note 4)	**(1.04)p**	**42.67p**	**41.63p**	(1.10)p	0.94p	(0.16)p	1.70p	11.66p	13.36p

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

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.

Reconciliation of Movements in Shareholders' Funds

Six months ended 31st March 2015 (Unaudited)	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
At 30th September 2014	19,481	13,321	3	581	37,392	65,125	1,899	**137,802**
Net return/(loss) on ordinary activities	-	-	-	-	-	32,233	(789)	**31,444**
Dividends appropriated in the period	-	-	-	-	-	-	(1,209)	**(1,209)**
At 31st March 2015	19,481	13,321	3	581	37,392	97,358	(99)	**168,037**

Six months ended 31st March 2014 (Unaudited)	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
At 30th September 2013	19,481	13,321	3	581	37,392	56,313	1,827	**128,918**
Net return/(loss) on ordinary activities	-	-	-	-	-	710	(829)	**(119)**
Dividends appropriated in the period	-	-	-	-	-	-	(1,209)	**(1,209)**
At 31st March 2014	19,481	13,321	3	581	37,392	57,023	(211)	**127,590**

Year ended 30th September 2014 (Audited)	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
At 30th September 2013	19,481	13,321	3	581	37,392	56,313	1,827	**128,918**
Net return on ordinary activities	-	-	-	-	-	8,812	1,281	**10,093**
Dividends appropriated in the year	-	-	-	-	-	-	(1,209)	**(1,209)**
At 30th September 2014	19,481	13,321	3	581	37,392	65,125	1,899	**137,802**

Balance Sheet

at 31st March 2015

	(Unaudited) 31st March 2015 £'000	(Unaudited) 31st March 2014 £'000	(Audited) 30th September 2014 £'000
Fixed assets			
Investments held at fair value through profit or loss:			
China	**105,750**	74,115	85,188
Taiwan	**43,566**	38,191	40,139
Hong Kong	**32,025**	23,047	25,857
Investments in liquidity fund held at fair value through profit or loss	**1,010**	-	-
Total investments	**182,351**	135,353	151,184
Current assets			
Debtors	**3,478**	2,192	301
Cash and short term deposits	**3,472**	3,770	1,071
	6,950	5,962	1,372
Creditors: amounts falling due within one year	**(21,264)**	(13,725)	(14,754)
Net current liabilities	**(14,314)**	(7,763)	(13,382)
Total assets less current liabilities	**168,037**	127,590	137,802
Net assets	**168,037**	127,590	137,802
Capital and reserves			
Called up share capital	**19,481**	19,481	19,481
Share premium	**13,321**	13,321	13,321
Exercised warrant reserve	**3**	3	3
Capital redemption reserve	**581**	581	581
Other reserve	**37,392**	37,392	37,392
Capital reserves	**97,358**	57,023	65,125
Revenue reserve	**(99)**	(211)	1,899
Total equity shareholders' funds	**168,037**	127,590	137,802
Net asset value per ordinary share (note 5)	**222.5p**	168.9p	182.4p

Company registration number: 02853893

Cash Flow Statement

for the six months ended 31st March 2015

	(Unaudited) Six months ended 31st March 2015 £'000	(Unaudited) Six months ended 31st March 2014[1] £'000	(Audited) Year ended 30th September 2014 £'000

Net cash (outflow)/inflow from operating activities (note 6)	**(1,325)**	(1,896)	106
Net cash outflow from returns on investments and servicing of finance	**(96)**	(107)	(172)
Net cash inflow from capital expenditure and financial investment	**2,750**	9,299	3,226
Dividend paid	**(1,209)**	(1,209)	(1,209)
Net cash inflow/(outflow) from financing	**2,144**	(4,811)	(3,300)
Increase/(decrease) in cash for the period	**2,264**	1,276	(1,349)
Reconciliation of net cash flow to movement in net debt			
Net cash movement	**2,264**	1,276	(1,349)
Loans (drawn down)/repaid in the period	**(2,144)**	4,811	3,300
Exchange rate movements	**(1,298)**	356	(72)
Movement in net debt in the period	**(1,178)**	6,443	1,879
Net debt at the beginning of the period	**(12,191)**	(14,070)	(14,070)
Net debt at the end of the period	**(13,369)**	(7,627)	(12,191)
Represented by:			
Cash and short term deposits	**3,472**	3,770	1,071
Debt falling due within one year	**(16,841)**	(11,397)	(13,262)
Net debt at the end of the period	**(13,369)**	(7,627)	(12,191)

[1]The loans (drawn down)/repaid in the period has been restated for the six months ended 31st March 2014 as it was incorrectly included as loans drawn down rather than repaid, in the 2014 interim accounts.

Notes to the Financial Statements

for the six months ended 31st March 2015

1. **Financial statements**

The information contained within the Financial Statements in this half year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 30th September 2014 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. **Accounting policies**

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009.

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

The accounting policies applied to these half year financial statements are consistent with those applied in the financial statements for the year ended 30th September 2014.

3. **Dividend**

	(Unaudited) Six months ended 31st March 2015 £'000	(Unaudited) Six months ended 31st March 2014 £'000	(Audited) Year ended 30th September 2014 £'000
Final dividend paid in respect of the year ended 30th September 2014 of 1.6p (2014: 1.6p)	**1,209**	1,209	1,209

No interim dividend has been declared in respect of the six months ended 31st March 2015 (2014: nil).

4. **(Loss)/return per ordinary share**

	(Unaudited) Six months ended 31st March 2015 £'000	(Unaudited) Six months ended 31st March 2014 £'000	(Audited) Year ended 30th September 2014 £'000
(Loss)/return per ordinary share is based on the following:			
Revenue (loss)/return	**(789)**	(829)	1,281
Capital return	**32,233**	710	8,812
Total return/(loss)	**31,444**	(119)	10,093
Weighted average number of ordinary shares in issue during the period	**75,531,426**	75,531,426	75,531,426
Revenue (loss)/return per ordinary share	**(1.04)p**	(1.10)p	1.70p
Capital return per ordinary share	**42.67p**	0.94p	11.66p
Total return/(loss) per ordinary share	**41.63p**	(0.16)p	13.36p

5. **Net asset value per ordinary share**

	(Unaudited) Six months ended 31st March 2015	(Unaudited) Six months ended 31st March 2014	(Audited) Year ended 30th September 2014
Ordinary shareholders funds (£'000)	**168,037**	127,590	137,802

Number of ordinary shares in issue	**75,531,426**	75,531,426	75,531,426
Net asset value per ordinary share (pence)	**222.5**	168.9	182.4

6. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash (outflow)/inflow from operating activities

	(Unaudited) Six months ended 31st March 2015 £'000	(Unaudited) Six months ended 31st March 2014 £'000	(Audited) Year ended 30th September 2014 £'000
Net return on ordinary activities before finance costs and taxation	**31,544**	4	10,526
Less capital return before finance costs and taxation	**(32,233)**	(710)	(8,812)
Scrip dividends received as income	**-**	-	(117)
(Increase)/decrease in accrued income	**(25)**	105	(37)
(Increase)/decrease in other debtors	**(19)**	4	8
(Decrease)/increase in accrued expenses	**(74)**	(81)	5
Performance fee paid	**(509)**	(1,212)	(1,212)
Overseas taxation	**(9)**	(6)	(255)
Net cash (outflow)/inflow from operating activities	**(1,325)**	(1,896)	106

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement

JPMORGAN FUNDS LIMITED

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A copy of the half year report will be submitted to the National Storage Mechanism and will be available shortly for inspection at www.morningstar.co.uk/uk/NSM

The half year will also shortly be available on the Company's website at www.jpmchinese.co.uk where up to date information on the Company, including daily NAV and share prices, factsheets and portfolio information can also be found.

This information is provided by RNS
The company news service from the London Stock Exchange

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