

# Fidelity China Special Situations PLC

**Annual Report**

**For the year ended 31 March 2013**



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# The Investment Objective and Performance

The investment objective of the Company is to achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies listed in China or Hong Kong and Chinese companies listed elsewhere. The Company may also invest in listed companies with significant interests in China and Hong Kong.

## Investment Performance (year to 31 March 2013)

Net Asset Value ("NAV") per Share total return	+15.7%
Share Price total return	+15.0%
MSCI China Index total return	+12.2%

## As at 31 March 2013

Equity Shareholders' Funds	£634.2m
Market Capitalisation	£601.0m
Capital Structure: Ordinary Shares of 1 penny	653,229,480

## Standardised Performance Total Return %

	01/04/2012 to 31/03/2013	01/04/2011 to 31/03/2012	19/04/2010* to 31/03/2011	Since launch
NAV	+15.7	-18.5	+5.2	-0.7
Share Price	+15.0	-26.4	+10.0	-6.8
MSCI China Index	+12.2	-12.5	+3.3	+1.3

\* Date of launch

Sources: Fidelity and Datastream  
Past performance is not a guide to future returns

# Summary of Results

	2013	2012
<b>Assets at 31 March</b>		
Gross Asset Exposure	£774.2m	£628.5m
Net Assets	£634.2m	£559.0m
Gearing	22.1%	12.4%
Net Asset Value per Ordinary Share	97.09p	84.72p
Number of Ordinary Shares in issue	653,229,480	659,754,480
<b>Stock market data at 31 March</b>		
Share Price at year end	92.00p	80.80p
Share Price year high	99.00p	114.00p
Share Price year low	70.00p	70.00p
(Discount) at year end	(5.2%)	(4.6%)
(Discount) year high	(9.1%)	(8.8%)
Premium year high	3.8%	8.8%
<b>Earnings/(losses) for the year ended 31 March</b>		
Revenue return per Ordinary Share <sup>1</sup>	1.25p	0.99p
Capital return/(loss) per Ordinary Share <sup>1</sup>	11.76p	(20.33p)
Total return/(loss) per Ordinary Share <sup>1</sup>	13.01p	(19.34p)
<b>Dividend for the year ended 31 March</b>		
Final dividend proposed per Ordinary Share	1.00p	0.75p
<b>Ongoing charges for the year to 31 March<sup>2</sup></b>		
	1.80%	1.70%

<sup>1</sup> Based on the weighted average number of Ordinary Shares in issue during the year

<sup>2</sup> Ongoing charges (excluding finance costs and taxation) as a percentage of average Net Asset Values for the year (prepared in accordance with methodology recommended by the Association of Investment Companies).

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Chairman's Statement



**John Owen**  
Chairman

I have pleasure in presenting the Annual Report of Fidelity China Special Situations PLC for the year ended 31 March 2013.

## PERFORMANCE REVIEW

During the year under review, the Net Asset Value ("NAV") of the Company increased by 15.7% outperforming the MSCI China Benchmark Index by 3.5%. The Company's share price increased by 15.0% (all figures on a total return basis). These results are encouraging for shareholders and mark a clear improvement compared to the previous year.

Although the Company has underperformed the MSCI China Index by 2.0% since launch, it has outperformed the MSCI China Mid Cap Index by 17.3% and the MSCI China Small Cap Index by 11.1% in the same period. It is the view of the Board and the Manager that over a longer period the advantage of investing in smaller and mid cap stocks will be reflected in outperformance of the Benchmark.

Concerns about the hard landing for the Chinese economy have receded following the relatively smooth leadership transition during the year and the maintenance of relatively healthy GDP growth. Government-supported domestic wage increases should boost consumer confidence, validating the consumption and services focus of the portfolio.

Investors should not underestimate the challenges facing the Chinese Government in rebalancing an economy the size of China's from an export-driven to a domestic consumption-focused one. However, the Board remains convinced of three things:

- that no investor should ignore an economy of China's importance and every portfolio should consider dedicating a portion of funds to investing in China;
- that the growth in China should now come from the increase in wealth of the growing middle class which would be evidenced by growth in domestic consumption; and
- that over time an investment in Chinese equities should generate a good return for shareholders.

## SHARE ISSUES AND SHARE REPURCHASES

The Board believes it is in the best interests of shareholders if the share price of the Company tracks closely to the underlying NAV,

which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy back shares at a discount to NAV for cancellation. During the reporting year, in furtherance of this policy, the Board authorised the repurchase and cancellation at a discount of 6,525,000 Ordinary Shares. Since the year end, the Company has repurchased a further 15,250,000 Ordinary Shares for cancellation. The Board is seeking shareholder consent at the forthcoming Annual General Meeting to continue exercising these powers.

## GEARING

On 17 February 2012, the Company entered into a revolving credit facility agreement with Scotiabank Europe PLC for US\$150,000,000, which has been fully drawn down.

To achieve further gearing, the Company uses Contracts For Difference on a number of holdings in its portfolio. Further details are in Note 19 on page 54.

At 31 March 2013, the Company's gearing, defined as the excess of Gross Asset Exposure over Net Assets, was 22.1% (2012: 12.4%).

## MANAGEMENT FEE

With effect from 1 April 2013, the annual management fee payable to the Managers was reduced from 1.5% to 1.2% of the Net Asset Value. The performance fee remains unchanged. Further details are included in the Directors' Report on page 21.

## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ("AIFMD")

The implementation date for the AIFMD is expected to be July 2014, the scope of which will require all UK investment trusts to revise their current operational framework and ultimately lead to increased operational expenses.

The Company will fall under the full scope of the Directive. Therefore, it is the intention of the Board to become fully compliant with the Directive ahead of the implementation date.

## THE BOARD

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, the entire Board is subject to annual re-election at the forthcoming Annual General Meeting. The Directors' biographies can be found on page 15. The Directors have a wide range of appropriate skills and experience to form a balanced board for the Company.

## THE MANAGER

Anthony Bolton, our Portfolio Manager, undertook to manage the portfolio up until the Company's next year end, in March 2014, four years from the launch. As this date approaches, the Board has considered carefully the appointment of a suitable successor.

I am delighted to say that we have now agreed that Dale Nicholls will succeed Mr Bolton in 2014. He has an excellent track record and has been investing in China successfully for ten years. He will start to work with Mr Bolton in the latter part of 2013 to ensure an orderly handover in 2014.

# Chairman's Statement

Mr Nicholls's investment style is similar to Mr Bolton's, being based on a bottom up analysis of individual stocks. The Directors are confident that he will position the portfolio to take best advantage of China's continuing growth. Mr Nicholls will attend the Annual General Meeting on 24 July which will give shareholders an opportunity to meet him.

## DIVIDEND

As the Company's objective is to achieve long-term capital growth, the Board does not expect that dividends will constitute a material element of the total return to shareholders. However, in order to continue to qualify as an investment trust, the Company is required under Section 1159 of the Corporation Tax Act 2010 not to retain more than 15% of its total income.

The Board recommends a final dividend of 1.00 pence per Ordinary Share to be approved by shareholders at the forthcoming Annual General Meeting.

The dividend will be payable on 2 August 2013 to shareholders on the register on 19 July 2013 (ex dividend date 17 July 2013).

Shareholders may choose to reinvest their dividends to purchase more shares in the Company. Details of the Dividend Reinvestment Plan are set out on page 65.

## THE ANNUAL GENERAL MEETING – 24 JULY 2013

The Annual General Meeting of the Company will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on Tuesday 24 July 2013 at 12 noon.

The Board is looking forward to having the opportunity to speak to shareholders. The Portfolio Manager, Anthony Bolton, will also be attending in order to give his yearly presentation and to meet shareholders.



**John Owen CMG MBE DL**

Chairman

17 June 2013

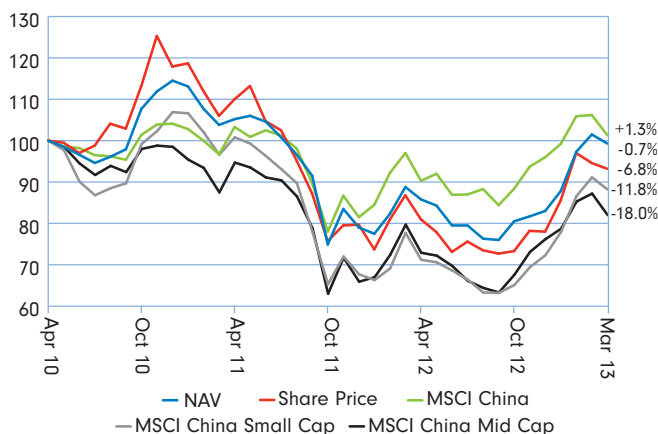
# Manager's Report



Anthony Bolton has more than 30 years' experience of managing equity funds and began investing in Chinese equities in 2004. He previously acted as portfolio manager for a number of Fidelity funds, including Fidelity Special Situations Fund, which he managed from 1979 until 2007. He also managed the portfolios of two listed investment trusts, Fidelity Special Values PLC (from 1994 to 2007) and Fidelity European Values PLC (from 1991 to 2001).

## PERFORMANCE REVIEW

I am pleased to be able to report some better figures for the 2012/13 financial year. Both the Net Asset Value and share price recovered over the last six months or so of the year. Over the year the Net Asset Value and share price rose by 15.7% and 15.0% respectively while the MSCI China index was up 12.2%. The year under review was very much one of two halves; the first six months broadly followed the trend of much of 2011 but since September 2012 Chinese markets have been recovering. The factors that have hurt the Company in the past – being both geared and exposed to medium and smaller sized companies, which tend to be more volatile than the market overall – are now working in investors' favour. Below is a chart showing the share price and NAV against the Benchmark Index as well as the MSCI China Small Cap and MSCI China Mid Cap Indices.



As I did last year, let me first outline the four main elements of my investment strategy:

1. Exposure to consumption and services, both of which largely depend on the strength of the domestic economy in China. These are the sectors that I believe have the best growth prospects. The leaders of the new administration have reinforced the policy of their predecessors – shifting Chinese economic growth more towards consumption.
2. A focus on private medium and small sized businesses rather than large state owned enterprises. These are the entrepreneur-run businesses on which I believe China's long-term prospects are based. An extra attraction is that the new administration is committed to increasing the role

of private enterprise in the economy and reducing the role of the state.

3. Concentration, wherever possible, on business models that are similar to those I used to invest in when I ran funds focused on the UK and Continental Europe. These are the models that I am familiar with and I know work well. In China they are at an early stage of their development which means that, if successful, they should have a long period of growth ahead of them.
4. Buying shares in these companies on reasonable and, if possible, cheap valuations. There are still many bargains available today, particularly in smaller Hong Kong and American-listed Chinese businesses. Some of them sell at discounts to their international peers despite, in many cases, having better growth prospects.

At the end of this report I have described a number of the companies held in the portfolio which I hope will give readers a better flavour of the types of business I invest in. All but one of these are considered medium and small-sized companies (with a market capitalisation under £5bn) – these account for about 75% of the portfolio. Many are less well known and poorly covered by sell-side analysts. I have picked twelve companies, a different selection from last year's, even though all but one of the fourteen mentioned then are still held in the portfolio.

## INVESTMENT REVIEW

2011 and the first half of 2012 witnessed a big slowdown in the rate of growth of the Chinese economy – nominal growth (after adding back inflation) dropped from nearly 20% p.a. to a probable actual figure of around 8%. However, in the third quarter of 2012 growth started to pick up again, helped by easier credit and investment spending. I had originally expected markets to start recovering ahead of this turn but in the "risk-off" environment of the time investors needed to see evidence of the improvement before they believed it. The turn in Hong Kong-listed shares occurred in September while the domestic "A" shares market started to recover a few months later. Although markets have paused and consolidated over the last few months, I remain optimistic for reasons I will mention later, although I monitor the short-term threats relating to the situation in North Korea, the state of relations between China and Japan and the possible spread of bird flu.

Real GDP growth in the first quarter of 2013 was 7.7%. Much focus has been put on this figure being below the 7.9% seen in the last quarter of 2012 and below some expectations. I am not too fazed by this number as this was held back by some one-off factors, although I do acknowledge that not all economic data coming out of China at the moment is positive. I believe the slow but steady recovery of the economy continues, although there are definite challenges for certain areas such as industrial exporters who are suffering from the combined effects of rising wage costs and an appreciating currency. It seems likely that the authorities will ensure that growth in the first year of the new administration will be good and above the target figure of 7.5%. However, as I have argued in previous reports, in the

# Manager's Report

medium-term China must accept a lower level of growth than in the past due to the shift of the economy towards consumption and away from investment. Many commentators suggest consumption-led growth is more sustainable and therefore of better quality. I agree with this view and note that the Politburo has talked about focusing on the quality and profitability of growth. In some ways I am disappointed that the current recovery is once again based on credit and investment and there was also a stronger recovery in the residential property market than I had expected. That said, I do recognise that the shift of the economy towards consumption is something that will take a number of years to complete.

Again, investors have been focusing on the financial environment in China. The recent growth in credit has been led by a pick-up in what is termed "social finance" products. These include trust company funds, bonds and wealth management products rather than traditional bank debt. Some of the wealth management products have been investing in questionable assets. The demand for these products has been high as investors have sought higher yields than those available on bank deposits, while banks have preferred to sell products with a higher margin. For a long time the regulation of these products, often sold without a parent bank guarantee, has been relatively relaxed but at the end of March the banking regulator brought out a number of new rules. Although there are definitely risks with some of these products, these new rules should help reduce risks. As expected, many of the loans local government finance vehicles had taken on after the global financial crisis were extended rather than being repaid. This process will probably be repeated again in the future until the central government finds other ways to help local governments. One of the big debates about the economy in China is the extent that GDP growth has relied on the growth of credit, which cannot continue indefinitely. Larger amounts of credit growth appear to be producing less GDP growth although the lag between credit growth and GDP growth is often underestimated. However, it is inevitable that China's growth model will change.

I believe that the financial challenges that worry many investors, who often look at China through the prism of their Western experience, are surmountable, particularly with the help of the central government. In my view the bigger challenges China faces in the longer term are more to do with political and social reform.

In April, I attended the Boao Forum, a high level economic forum which some refer to as China's equivalent of Davos. It takes place on Hainan Island which is the most southerly part of China and a popular holiday destination. Many of China's top leaders as well as senior political figures from the rest of the world attend. One of the reasons I went was to hear Xi Jinping speak first hand. I was impressed by his speech which was definitely different from the typical speeches previous leaders had made – it was more down to earth and direct and not couched in the traditional political language that leaders have used in the past.

The process of political change in China is fascinating. It is nearly totally opaque to the outside world and the new leaders keep

their policies very close to their chests. As I suggested in the interim report, the new Standing Committee chosen in November was reduced from nine to seven members. Although Xi Jinping, the new president, was given more power, five of the seven members are considered conservative. Because of their age these five will be replaced in 5 years time but, in the meantime, they may act as a brake on radical reform. Early statements from the new leaders are promising in terms of reform, especially for private enterprise and financial companies, and tackling corruption is a major focus. Much of the detail surrounding new policies has still not been announced but we will get this as 2013 progresses and particularly during the Third Plenum in late October. There is always a risk that the new leadership disappoints the optimists. However, for financial markets the promise of reform can often be as much a stimulus as the measures themselves.

I favour companies with businesses in Hong Kong. Hong Kong remains the key gateway for many financial flows in and out of the PRC. Last year nearly thirty-five million mainland tourists visited Hong Kong, which has a population of only seven million people. This backcloth is positive for companies in the retail and hospitality area. Most of the portfolio's exposure to banks and property companies is via companies based in Hong Kong. In the property area, the Company holds a number of smaller real estate firms selling at substantial discounts to their net asset values. Several of these have exposure to the middle market hotels favoured by PRC tourists. Despite the property cooling measures in Hong Kong, I still think this is an attractive area and I prefer Hong Kong companies to mainland based ones where the Company's exposure remains low. In the long run, I expect a number of Hong Kong-focused businesses to be bought out by mainland companies.

In terms of listings, roughly 55% of the portfolio is in Chinese businesses listed in Hong Kong, 20% in 'A' & 'B' shares listed on the mainland, another 20% in US-listed Chinese companies and 5% in businesses listed elsewhere but making the majority of their profits in China. Regarding US-listed companies, in general their share prices have lagged the recovery in Hong Kong. Sentiment has been adversely affected by negative short selling reports, worries about variable interest entity structures and reports that the US Justice Department is reviewing allegations of accounting irregularities at various firms operating out of China. In my view this has presented the opportunity to purchase a number of these companies' shares at very attractive valuations, which compensates for the risks associated with them. I believe the accounting dispute will be settled at a Government to Government level and some progress has been announced recently.

I still see the Hong Kong-listed Chinese companies as the most attractive. Over time, I expect mainland investors to be allowed to invest more freely in Hong Kong-listed shares. In a similar way to how mainlanders have transformed the shopping environment in Hong Kong, I think they could also transform the stock market, where valuations in general are still well below those on the mainland. Moreover, it is an interesting anomaly that on the "A" share market smaller companies are generally more popular

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than large companies and they get higher valuations, but in Hong Kong the reverse is the case. As money flows more freely between the two markets I expect this valuation gap to close.

## OUTLOOK

In summary, and without wishing to sound like a stuck record, I remain very optimistic with regards to the outlook for the shares of Chinese companies aside from the short-term risks mentioned earlier. In general, I expect 2013 to be a good year for equities globally and so far the US and, more recently, Japan have been the leading stock markets. A number of ASEAN markets have performed well and I expect China to catch up. Despite the market rise since September, China valuations are still about 25% below their 10 year averages. The outlook for earnings growth, even with a lower level of GDP growth, is good and well above what is generally available in developed markets, while wage increases running near double figures continue to underwrite a favourable consumer environment. Sentiment is cautious, both among local and international investors, but this is normally a good contrary indicator. I expect investment flows into equities to rise. The "A" share market, where over the past few years investors have typically been redeeming their equity holdings, is ripe for a change of sentiment. I am very hopeful that my strategy will see both the share price and Net Asset Value return permanently to positive territory.

At the Company's inception I gave a commitment to run the portfolio for at least two years and I subsequently extended this on two occasions, each time for a further period of one year. It has always been my intention to step down as Portfolio Manager at some stage having been closely involved in the process of identifying my successor. I have now decided to retire on 31 March 2014 at the end of the Company's current financial year. I am delighted that my colleague Dale Nicholls will take over from me then. He has a similar investment approach to my own with a focus on medium and smaller sized companies and has been investing most successfully in Chinese companies for the last ten years. I believe he has the right combination of talents to see the portfolio through the next chapter of its life. We will work closely together until I hand over the portfolio to him on 1 April 2014 but I will still make the final decision on all investments until then. Although I will be sorry to end my involvement with the Company that was set up at my instigation I know it will be in good hands and I will be retaining my personal investment in the Company's shares.

**Anthony Bolton**  
Portfolio Manager  
17 June 2013

## COMPANY COMMENTARY (all data as at 31 March 2013)

### Wing Hang Bank (Market Capitalisation: £2,116m) (Portfolio Weighting: 3.0%)

Wing Hang Bank is one of the smaller Hong Kong Banks. The Fung family and directors own about 22% of the shares and Bank of New York Mellon 20%. The majority of its operations are in Hong Kong but it has a growing presence in the PRC and Macau. Its conservative and prudent management has guided the bank well through various cycles. In the long run I expect a number of the smaller Hong Kong Banks to be acquired. It sells on only one point three times book value whilst having a normalised return on equity of 10%.

### SAIC (£17,300m) (2.1%)

Shanghai Auto owns its own automobile brands in China but also has significant interests in two key Chinese joint ventures – one with General Motors and one with VW (although VW also has a second joint venture in China with another local company). Many consider these two joint ventures to be leaders in one mass market. The shares, which are "A" shares listed in Shanghai, sell at about seven times our estimate of 2013 earnings. In many cases, "A" shares sell at premium valuations to the "H" shares of companies in the same industry, but with SAIC the reverse has been the case.

### Ports Design (£305m) (2.0%)

Ports, a company I first met in 2005, is a unique business that has developed one of the few Chinese-originated luxury fashion brands. It has about three hundred and fifty stores in China and also owns fifty stores selling BMW-labelled apparel and accessories. For many years it grew very quickly, but recently the growth has slowed down. There have also been some governance-related issues within the group which now appear to have been resolved. However, selling at only about eight times this year's earnings, I believe the shares to be a bargain.

### 21Vianet Group (£358m) (1.6%)

21Vianet is the leading independent data centre owner in China. The growth of internet businesses in China and the demand for hosting by cloud services is rapidly increasing demand for data storage. It is a similar business to Telecity in the UK or Equinix in the US which have both been very good stock market performers over the last few years. 21Vianet sells on a lower valuation of enterprise value relative to earnings before interest, amortisation, depreciation and tax (the most common valuation yardstick used in this industry) than these two companies despite the fact that its growth is significantly higher.

### Lee's Pharmaceutical (£239m) (1.4%)

Lee's Pharmaceutical is a Chinese pharmaceutical company that licenses products from medium-sized global pharmaceutical companies that do not have a presence in China. It also develops its own drugs. Lee's Pharmaceutical focuses on cardiovascular, oncology, ophthalmology, dermatological and gynaecological diseases. When I first met the company the shares were exceptionally cheap. Although they have performed well today they sell at about seventeen times 2013 earnings

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while growth is about 30% p.a. Morgan Stanley has recently valued the company's drug pipeline alone (over thirty drugs at different stages of development) at over three-quarters of the company's market valuation.

## **Bitauto (£271m) (1.1%)**

Bitauto operates one of the leading new car listing websites in China and the leading used car listing website. It also provides car dealers with marketing software and services. The dealer network in China is expanding rapidly as more car brands compete in the world's largest car market. Last autumn, Autotrader.com, the US company with a similar line of business, bought a 22% stake in the company. Revenue is growing at about 30% p.a. and the shares sell at about thirteen times 2013 earnings.

## **China International Travel Services (£3,077m) (1.2%)**

This "A" share listed company owns a major travel agency business and is one of the two main duty-free shop operators in China. The majority of profits come from its duty-free business. In duty-free it has a dominant position on the holiday island of Hainan where visitor numbers are increasing rapidly and where it is building a new mega-store. Chinese travellers are spending an increasing amount of money overseas but the government has a strong incentive to keep more consumption in the country, which means potentially more favourable policies for the duty-free industry. The shares sell at about nineteen times 2013 earnings, not a giveaway valuation, but considerably cheaper than many "A" shares that have much less attractive prospects.

## **SPT Energy (£472m) (1.2%)**

SPT is one of the largest non-state-owned oil service companies in China. It offers a wide range of integrated and specialised drilling services including turnkey drilling, vertical drilling, directional drilling, fluids and fracking. China is very keen to build up more onshore oil and gas resources. Indeed it has ambitious production targets for shale gas which involve a considerable increase in the number of onshore wells being drilled in China, which should benefit companies like SPT. The shares sell at about fourteen times 2013 estimated earnings, a discount to its listed competitors despite similar growth prospects.

## **Changyou.com (£1,008m) (1.0%)**

Changyou is one of the leading P.C. games developers in China. Its core product is a martial arts game called 'Tian Long Ba Bu'. It is also a leader in the web games sector via its subsidiary 7Road and it owns a games portal, 17173.com. Changyou is one of the cheapest companies in China, selling at under five times 2013 estimated earnings and with half its market capitalisation in net cash.

## **Global Logistic Properties (£6,621m) (1.0%)**

Global Logistics Properties owns one of the largest estates of logistics warehouses in China. Its network covers twenty nine cities and it has operations in seven cities in Japan as well as a small business in Brazil. China accounts for just over half of its assets. With the expansion of the domestic economy in China, the demand for modern, high-standard distribution facilities is growing strongly and there are few national chains. Although the shares only sell at a small discount to their estimated net asset value, the outlook for growth in capital values is very good.

## **Alibaba (unlisted) (2.1%)**

Alibaba, the largest unlisted holding in the portfolio, is the leading e-commerce company in China. Over 75% of e-commerce transactions in China go through one of its two main portals, which handled over US\$170bn of sales last year – more than eBay and Amazon combined. Alibaba has a clever business model; it is a platform for other retailers rather than handling goods itself. This means it is much less capital-intensive than other e-commerce companies and much more profitable. The Company holds a convertible which was issued on a valuation of the company around US\$48bn. The listing which could take place in Hong Kong later this year is likely to be at a significant premium to this. If it is, it will be one of the biggest IPOs in Hong Kong.

# Forty Largest Holdings as at 31 March 2013

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% <sup>1</sup>
<a href="#">Tencent Holdings Limited*</a> Provides internet, mobile and telecommunications value-added services	24,681	36,117	4.7
<a href="#">Ping An Insurance (Group) Company of China</a> Insurance company	32,462	32,462	4.2
<a href="#">AIA Group*</a> Insurance company based in Hong Kong	19,462	26,775	3.5
<a href="#">Wing Hang Bank Limited</a> Provider of commercial banking and related financial services	23,589	23,589	3.0
<a href="#">CITIC Securities Company Limited</a> Broker and asset manager	21,607	21,607	2.8
<a href="#">AsialInfo-Linkage</a> Telecommunications software solutions provider in China	19,820	19,820	2.6
<a href="#">HSBC Holdings plc (Hong Kong listed)*</a> Global banking and financial services company	15,270	19,648	2.5
<a href="#">Alibaba Group<sup>2</sup></a> China's major e-commerce group	16,457	16,457	2.1
<a href="#">SAIC Motor Corporation Limited</a> Automobile manufacture and distribution company	16,374	16,374	2.1
<a href="#">REXLot Holdings Limited</a> Lottery related systems, machines and services for the Chinese lottery market	15,995	15,995	2.1
<a href="#">WuXi Pharma Tech</a> Pharmaceutical, biotechnology and medical device research company	15,891	15,891	2.1
<a href="#">Ports Design Limited*</a> Designs, manufactures and retails ladies and mens fashion garments	12,560	15,807	2.0
<a href="#">Air China Limited*</a> Largest Chinese airline	13,612	15,770	2.0
<a href="#">SouFun Holdings Limited</a> Real estate internet website operator	14,056	14,056	1.8
<a href="#">Sina China</a> Owns Weibo social network	14,029	14,029	1.8
<a href="#">Hutchison China MediTech Limited<sup>3</sup></a> Pharmaceutical and healthcare group operating primarily in China	12,975	12,975	1.7
<a href="#">21Vianet Group</a> Largest carrier-neutral internet data centre services provider in China	12,410	12,410	1.6
<a href="#">Haitong Securities</a> Chinese broker	11,931	11,931	1.5
<a href="#">3SBio</a> Chinese biopharmaceutical company	11,110	11,110	1.4
<a href="#">Lee's Pharmaceutical Holdings Limited</a> Operator in the pharmaceutical preparations sector	10,741	10,741	1.4
<a href="#">CSI Properties Limited*</a> Hong Kong property company	9,822	10,181	1.3

# Forty Largest Holdings as at 31 March 2013

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% <sup>1</sup>
<b>China Medical Systems Holdings Limited*</b> A leading China-based pharmaceutical services company	7,253	9,602	1.2
<b>China Lodging Group</b> Operates a chain of economy hotels	9,598	9,598	1.2
<b>China International Travel Services</b> A leading tour operator in China and duty free operator	9,274	9,274	1.2
<b>SPT Energy Group</b> Operates in the oil and gas field services sector	9,039	9,039	1.2
<b>New Oriental Education &amp; Technology Group</b> A provider of private educational services in China	8,853	8,853	1.1
<b>China Southern Airlines*</b> Chinese airline	6,600	8,853	1.1
<b>Bitauto Holdings Limited</b> China's leading auto internet company	8,532	8,532	1.1
<b>BioSensors International</b> A medical device company	8,482	8,482	1.1
<b>Kingsoft</b> Chinese software company	8,231	8,231	1.1
<b>Chow Sang Sang Holdings International Limited</b> Jewellery retailer in Hong Kong and China	8,216	8,216	1.1
<b>Kunlun Energy Company*</b> Developer and gas distributor	5,719	8,074	1.1
<b>Asia Satellite Telecommunications Company Limited</b> Asia's premier regional satellite operator	7,855	7,855	1.0
<b>Changyou.com</b> A leading developer and operator of online games in China	7,783	7,783	1.0
<b>TVB</b> Hong Kong television broadcaster	7,708	7,708	1.0
<b>Huaneng Power International*</b> Power plant company	5,921	7,699	1.0
<b>China Longyuan Power Group</b> The largest wind power producer in China	7,626	7,626	1.0
<b>Global Logistic Properties</b> Asia's largest industrial and logistics infrastructure provider	7,618	7,618	1.0
<b>Modern Media Holdings Limited</b> Magazine and online company	6,801	6,801	0.9
<b>Magnificent Estates</b> Developer and owner of Hong Kong's mid-market hotels	6,796	6,796	0.9
<b>Forty Largest Holdings (2012: 72.0%)</b>	<b>492,759</b>	<b>530,385</b>	<b>68.5</b>

\* Includes investment via CFDs

<sup>1</sup> % of total Gross Asset Exposure

<sup>2</sup> Unlisted investment (see Note 18 on page 52)

<sup>3</sup> Quoted on AIM

A full list of the Company's holdings as at 31 March 2013 is available on the Company's page on the Manager's website.

## Distribution of the Portfolio as at 31 March 2013

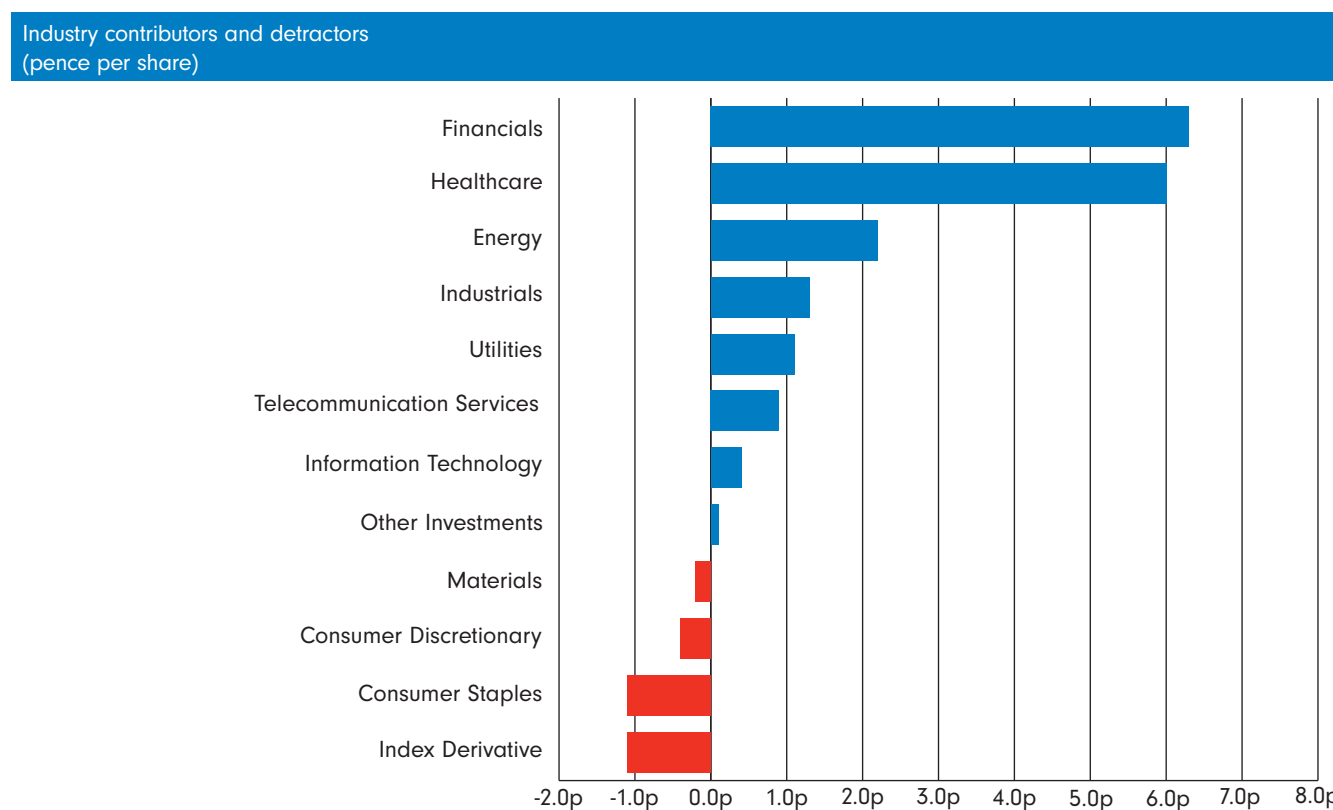
	% of Gross Asset Exposure	Benchmark %
<b>Industry</b>		
Consumer Discretionary	25.5	4.9
Financials	24.3	40.1
Information Technology	22.7	6.2
Healthcare	12.0	0.9
Industrials	5.5	6.2
Energy	3.9	17.0
Utilities	2.0	3.6
Consumer Staples	1.7	5.5
Telecommunication Services	1.5	11.4
Materials	0.9	4.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<b>Share Type</b>		
Listed in Hong Kong	46.7	25.0
Listed in the US	19.6	–
China "A" Shares	15.7	–
China "H" Shares	4.3	48.2
Red-Chips	3.2	25.9
Listed in Singapore	3.1	–
China "B" Shares	2.7	0.9
Unlisted stocks	2.4	–
Listed on AIM	1.7	–
Listed in Taiwan	0.6	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

	% of Gross Asset Exposure	Benchmark %
<b>Size of Company (Market Cap (UK £))</b>		
Large – above £5bn	28.0	83.2
Medium – between £1bn – £5bn	21.8	16.7
Small – below £1bn	47.8	0.1
Unlisted	2.4	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

# Attribution Analysis

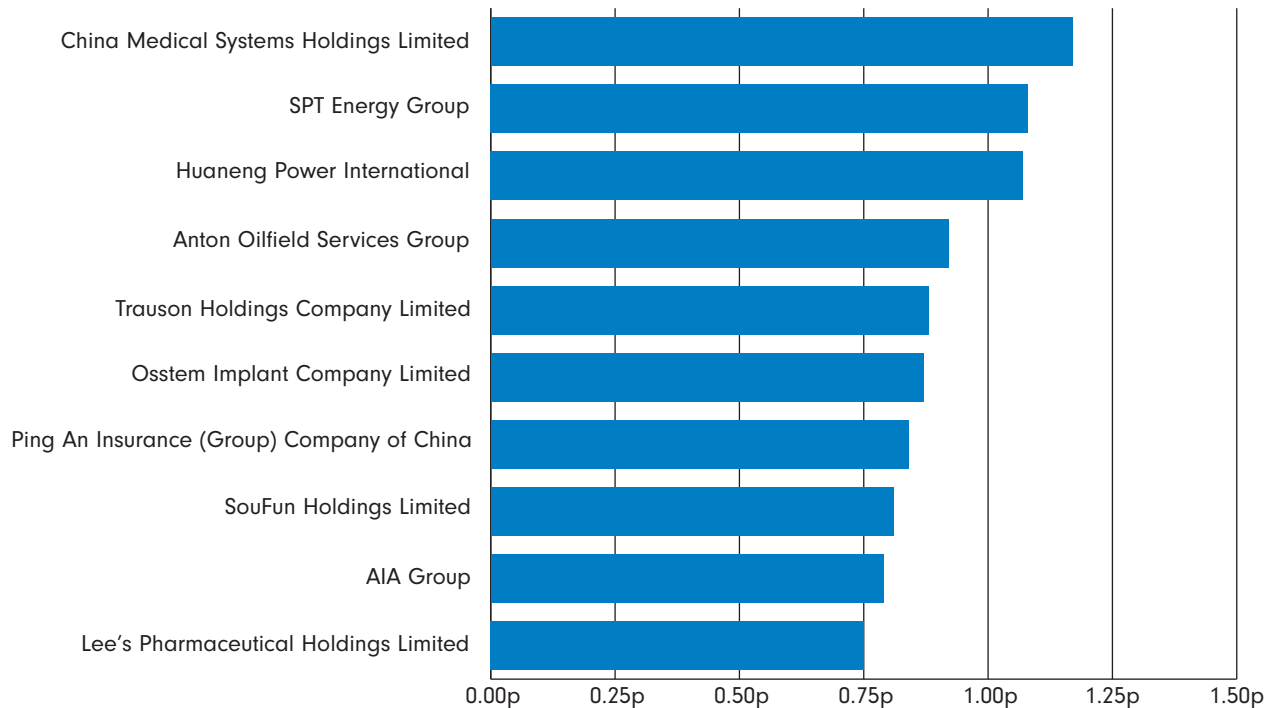
Analysis of change in NAV during the year ended 31 March 2013		Pence per share
<b>NAV at 31 March 2012</b>		<b>84.72</b>
Impact of MSCI China Index – UK sterling equivalent		+10.31
Impact of Portfolio Management		+3.64
Impact of Gearing		+1.69
Impact of Share Repurchases		+0.03
Impact of Dividend		-0.75
Impact of Other Costs		-1.68
Impact of Cash/Currency		-0.60
Residual		-0.27
<b>NAV at 31 March 2013</b>		<b>97.09</b>



Source: Fidelity

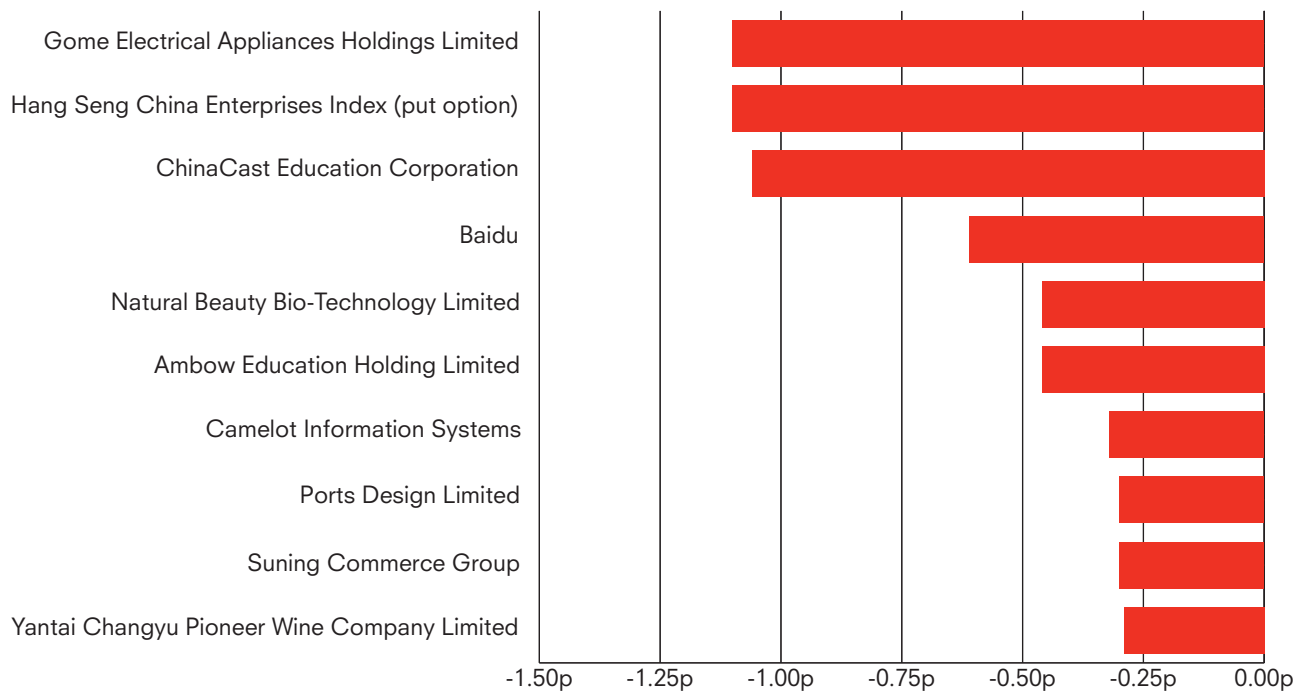
# Attribution Analysis

10 Highest contributors by investment positions  
(pence per share)



Source: Fidelity

10 Highest detractors by investment positions  
(pence per share)



Note: Derivative positions are included in the above investment positions.

Source: Fidelity

# Corporate Information

## INVESTMENT MANAGER

FIL Investment Management (Hong Kong) Limited  
Level 21  
Two Pacific Place  
88 Queensway  
Admiralty  
Hong Kong

## UNLISTED INVESTMENT MANAGER, SECRETARY AND REGISTERED OFFICE

FIL Investments International  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey  
KT20 6RP

## FINANCIAL ADVISERS AND STOCKBROKERS

Cenkos Securities plc  
6,7,8 Tokenhouse Yard  
London  
EC2R 7AS

## INDEPENDENT AUDITOR

Grant Thornton UK LLP  
Chartered Accountants and Registered Auditor  
30 Finsbury Square  
London  
EC2P 2YU

## CUSTODIAN AND BANKERS

JPMorgan Chase Bank  
125 London Wall  
London  
EC2Y 5AJ

## REGISTRARS

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## LAWYERS

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY

## COMPANY INFORMATION

The Company's initial public offering was on 19 April 2010. The original subscription price for each share was £1. The Company also issued "C" shares of £1 each on 1 March 2011 and these were subsequently converted into new Ordinary Shares.

The Company is a member of the Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning 020 7282 555 (email address: [enquiries@the.aic.co.uk](mailto:enquiries@the.aic.co.uk)).

## PRICE INFORMATION

The share price of Fidelity China Special Situations PLC is published daily in The Financial Times under the heading "Investment Companies". The share price is also published in the Times, The Daily Telegraph and the Independent. Price and performance information is also available at [fidelity.co.uk/its](http://fidelity.co.uk/its).

Investors can also obtain current share price information by telephoning Fidelity for free on 0800 41 41 10 or FT Cityline on 0905 817 1690 (voice activated service – calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters Code for Fidelity China Special Situations PLC is FCSS.

## NAV INFORMATION

The Net Asset Value of the Company is calculated on a daily basis and released to the London Stock Exchange.

## UK CAPITAL GAINS TAX

Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of Ordinary Shares, acquired at the time of the Company's launch, is 100.00 pence. All UK individuals under present legislation are permitted to have £10,900 of capital gains in the current tax year 2013/2014 (2012/2013: £10,600) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

# Board of Directors



**John Owen CMG MBE DL<sup>1,2,3</sup>**

(Chairman) (date of appointment: 4 February 2010). Mr Owen has enjoyed careers in both the diplomatic service and industry. He served in the diplomatic service for 30 years until his retirement in 1999, serving in Indonesia, Vietnam, France, El Salvador, Iran, Brazil, China and London. Mr Owen was

British Consul General in Boston, USA from 1992 to 1995, and Governor of the Cayman Islands from 1995 to 1999. He also worked in industry for seven years. Mr Owen is currently chairman of several companies including Iceman Capital Advisors Limited, an investment advisory company specialising in investment in the developing markets of Asia. He has a number of directorships including Queensgate Bank Limited and Queensgate Trust Company Limited. Mr Owen is also chairman of the Friends of Cayman in London. He is an Honorary Fellow of the University of Wales and also a Deputy Lieutenant of the County of Isle of Wight.



**Nicholas Bull FCA<sup>1,2,3</sup>**

(Senior Independent Director and Chairman of the Nomination and Remuneration Committee) (date of appointment: 4 February 2010). Mr Bull is chairman of hotel group De Vere and chairman of the Advisory Board of City stockbroker Westhouse Securities. He is also a Member of Council of the University

of Exeter, a trustee of the Design Museum and deputy chairman of the trustees of the Conran Foundation. Previously Mr Bull worked for 30 years as a corporate finance practitioner with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO in London, Sydney, Singapore and Hong Kong. He is a qualified chartered accountant.



**David Causer FCA<sup>1,2,3</sup>**

(Chairman of the Audit Committee) (date of appointment: 4 February 2010). Mr Causer is a non-executive director and audit committee chairman of Schroder Income Growth Fund plc, an investment company listed on the London Stock Exchange. He is a qualified chartered accountant and a

member of the Securities Institute. Mr Causer has held a number of senior positions within financial services organisations, including as finance director of Mercury Asset Management Group plc and as a managing director of Merrill Lynch Investment Managers until 2001. He was finance director of The British Red Cross Society until December 2007. He is a trustee of a number of charities and of a pension fund.



**The Hon. Peter Pleydell-Bouverie DL<sup>1,2,3</sup>**

(Chairman of the Investment Committee) (date of appointment: 4 February 2010). Mr Pleydell-Bouverie is an investment professional with over 30 years of investment experience, particularly in the Far East and emerging markets. His current non-executive

positions include acting as a trustee on investment committees for family and charitable trusts. He is also a Deputy Lieutenant of the County of Wiltshire. Previously, Mr Pleydell-Bouverie spent ten years with FIL where he was investment director until 1996, managing Japanese-focused unit trusts, offshore funds, pension funds and the Fidelity Emerging Markets Fund. Prior to this, he was an associate director at Kleinwort Grieveson Investment Management and fund manager at Grieveson, Grant and Co, where he also managed Asia-focused investment funds.



**Elisabeth Scott<sup>1,2,3</sup>**

(Date of appointment: 1 November 2011). Ms Scott worked in the asset management industry in Hong Kong from 1992 to 2008, where she was managing director and country head of Schroder Investment Management (Hong Kong) Limited and chair of the Hong Kong Investment Funds Association.

Ms Scott is also a non-executive director of Pacific Horizon Investment Trust PLC and Dunedin Income Growth Investment Trust PLC.



**Andrew Wells<sup>2,3</sup>**

(Date of appointment: 21 May 2012). Mr Wells is FIL's Global Chief Investment Officer, Fixed Income, leads FIL's Investment Solutions Group (ISG) and has been a member of FIL's Global Operating Committee since November 2010. Mr Wells has over 20 years of investment experience, particularly

in Asia, having worked as a portfolio manager in FIL's Hong Kong office from 2002 becoming FIL's Chief Investment Officer for Asian Fixed Income in 2005. In 2007, Mr Wells became Global CIO Fixed Income for FIL, responsible for developing the fixed income investment process, team and structure.

All the Directors are non-executive directors and all are independent, with the exception of Andrew Wells.

- 1 Member of the Audit Committee and the Management Engagement Committee
- 2 Member of the Nomination and Remuneration Committee
- 3 Member of the Investment Committee

# The Board's Policies

## INVESTMENT POLICY

The Company invests in a diversified portfolio consisting primarily of securities issued by companies listed in China or Hong Kong and China related companies listed on other stock exchanges. The Company may also obtain exposure to other listed companies which have significant interests in China or Hong Kong.

### Investment instruments

*During the year the Company invested in forward currency contracts, equity linked notes, call and put options, long and short contracts for difference and utilised the QFII licence of the Investment Manager.*

The Company may invest through equities, index linked, equity linked and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions, equity related securities, forward transactions and other interests including derivative instruments. Forward transactions and derivatives, including futures, options and contracts for difference, may be used to enhance portfolio performance as well as for efficient portfolio management and hedging.

In addition, the Company gains exposure to the China "A" Shares through the Investment Manager's QFII licence and through third parties who have a QFII facility.

### Borrowing and gearing policy

*During the year, the Gross Asset Exposure of the Company did not exceed the limit of 30% of Net Assets. As at 31 March 2013, Gross Asset Exposure in excess of Net Assets was 22.1%.*

The Company may borrow up to 25% of Net Assets and the Board has adopted the policy that the Gross Asset Exposure of the Company, whether from borrowing or derivatives, should not exceed the Net Assets of the Company by more than 30%. The Portfolio Manager is responsible for operating within these parameters.

The Board considers that long-term capital growth can be enhanced through the use of gearing.

The Board is responsible for setting the gearing limits of the Company and reviews the position on a regular basis.

### Derivative instruments

*As at 31 March 2013, the Company's exposure to short derivative instruments represented 1.5% of Gross Assets.*

The Company may use derivative instruments for efficient portfolio management, gearing and hedging. They may also be used in order to achieve the investment objective (i.e. to enhance portfolio performance).

The Board has adopted a policy that the Gross Asset exposure of short positions held by the Company will not in aggregate exceed 15% of Gross Assets.

*As at 31 March 2013, the Company's total exposure to any single counterparty from all derivative activities was 2.2%.*

It is the Board's policy that total exposure to any single counterparty from all activities, including, but not limited to, the management of cash and the use of derivatives should not exceed 15% of Gross Assets. Derivative exposures are included after the netting of offsetting positions and allowing for any collateral placed by the counterparty with the Company.

## Unlisted investments

*As at 31 March 2013, the Company had invested in two unlisted investments with fair value of £18,957,000, representing 2.6% of Gross Assets.*

The Company is permitted to invest up to 5% of Gross Assets in unlisted securities issued in companies which carry on business, or which have significant interests, in China or Hong Kong.

## Foreign exchange hedging policy

The Company's financial statements are denominated in UK sterling, while investments are made and realised in currencies other than UK sterling, including Chinese renminbi, Hong Kong dollars and US dollars. It is the policy not to hedge the underlying currencies of the holdings in the portfolio but rather to take the currency risk into consideration when making investment decisions.

## Cash management

The Investment Managers are not required to ensure that the Company's cash resources are fully invested at all times.

## DIVIDEND POLICY

*The Board recommends the payment of a final dividend of 1.00 pence per Ordinary Share for the year ended 31 March 2013.*

As the Company's objective is to achieve long-term capital growth, the Board does not expect that dividends will constitute a material element of any return to shareholders. However, in order to continue to qualify as an investment company, the Company is required by Section 1159 of the Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of its income.

## INVESTMENT IN OTHER INVESTMENT COMPANIES: LIMIT OF 15%

*As at 31 March 2013, the Company held no investments in other investment companies.*

The Board has set a limit of 15% on the proportion of the Company's Gross Assets that can be invested in the securities of other listed investment companies (including listed investment trusts) which themselves do not have stated investment policies.

## PREMIUM & DISCOUNT MANAGEMENT

*During the year to 31 March 2013, the Company repurchased 6,525,000 Ordinary Shares through its share repurchase authorities approved by shareholders.*

The Board has no rigid premium management or discount control policy but will exercise its authority to issue or repurchase the Company's shares if deemed to be in the best interests of shareholders at the time.

The Board has adopted an approach whereby the level of premium/discount is actively managed by attempting to ensure the share price of the Company tracks as closely as possible the underlying Net Asset Value of the Portfolio.

## CORPORATE ENGAGEMENT

The Board believes that the Company should, where necessary take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any controversial issues (which are then referred to the Board) it delegates the responsibility for corporate engagement and shareholder voting to the Managers.

# Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 March 2013.

The Company was incorporated in England and Wales on 22 January 2010 under the registered number 7133583 and re-registered as a public limited company on 24 February 2010.

## BUSINESS AND STATUS

The Company carries on business as an investment trust company and has been granted approval as such by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust company under that Act.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and operates as such. It is not a close company and has no employees.

## DIRECTORS' REPORT – BUSINESS REVIEW

### INTRODUCTION

The Company is required to present a "Business Review", which provides a fair review of the Company and a description of the principal risks and uncertainties faced. It includes an analysis of the performance of the Company, both during the financial year and the position at the year end, taking into account its objective, strategy and risks and how these are measured using Key Performance Indicators.

### OBJECTIVE AND STRATEGY

The primary objective of the Company is to enhance shareholder value, through long-term capital growth. The Company aims to achieve this with an actively managed portfolio of investments, made up primarily of securities issued by companies listed in China or Hong Kong and China related companies listed elsewhere. As part of the strategy the Board has delegated the management of the investment portfolio and certain other services to FIL Investment Management (Hong Kong) Limited and FIL Investments International. The Investment Managers aim to achieve a capital return on the Company's total assets over the longer term in excess of the equivalent return on the MSCI China Index, as expressed in UK sterling.

### ACTIVITY

The Company's activity is to pursue the above objective through operating as an investment company. A review of the year's activities and an indication of likely future developments and the factors likely to affect this are given in the Chairman's Statement on pages 3 and 4 and in the Manager's Report on pages 5 to 8. The Board supports these views.

## FIL'S INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

The Board has appointed FIL as Investment Managers.

FIL's distinctive investment approach is "bottom up" stock picking – investing in companies on the basis of their underlying strengths, facilitated by extensive research capabilities.

FIL has had a presence in Asia since 1969 and now has offices in seven countries across the region, including in three cities in mainland China and in Hong Kong.

The Hong Kong office is FIL's second largest in the region, with approximately 40 investment professionals, including analysts and portfolio managers. Globally, FIL has over 7,000 investment professionals and research associates.

The analysts in the Hong Kong investment team evaluate companies, meet their managements and interpret the effects of international and local events. They contact many companies every week.

## KEY PERFORMANCE INDICATORS ("KPIs")

Given the Company's objective and strategy, the Board has identified the following KPIs against which performance can be measured.

	Year ended 31 March 2013 %	Year ended 31 March 2012 %
Net Asset Value total return	+15.7	-18.5
Share price total return	+15.0	-26.4
<i>MSCI China Index total return</i>	<i>+12.2</i>	<i>-12.5</i>
Discount to Net Asset Value	5.2	4.6
Ongoing charges	1.8	1.7

## PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

The process is regularly reviewed by the Board in accordance with the Financial Reporting Council's ("FRC's") "Internal Control: Revised Guidance for Directors".

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. An internal controls report providing an assessment of risks, together with controls to mitigate these risks, is prepared by the Manager and considered by the Audit Committee.

The Board also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

# Directors' Report

The Board considers the following as the major risks facing the Company:

Top Risks	Risk Mitigation
Risks related to the PRC	Investing in an emerging market such as the PRC subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Board reviews material economic, market and legislative changes at each Board meeting.
Performance risk	<p>The achievement of the Company's performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to underperformance of the Benchmark Index.</p> <p>Management of the risks set is carried out by the Board. The Company has a clearly defined strategy and investment remit. There is a clearly defined management agreement, and borrowing/derivative limits are also set by the Board.</p> <p>The portfolio is managed by a highly experienced Portfolio Manager. The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the portfolio against the Company's Benchmark Index and that of its competitors and the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long-term investment performance and the Board accepts that by targeting long-term results the Company risks volatility in the shorter term. Unlisted investments are managed by FIL Investments International.</p> <p>Performance improved in the 2012/13 financial year as outlined in the Manager's report on page 5.</p>
Key person risk	Anthony Bolton will manage the portfolio until the Company's next year end, 31 March 2014. Dale Nicholls will succeed Mr Bolton on this date and will work closely with him from the latter part of 2013 to ensure an orderly handover in 2014.

Other risks facing the Company include:

## Market risk

The Company's assets consist mainly of listed securities in China and Hong Kong and the principal risks are therefore market related such as market down turn, interest rate movements and exchange rate movements. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background are core to the Company's continued success.

Risks to which the Company is exposed and which form part of the market risks category are included in Note 18 to the Financial Statements on pages 46 to 53 together with summaries of the policies for managing these risks. These are: market price risk (comprising other price risk, interest rate risk and foreign currency risk); liquidity risk; counterparty risk; credit risk; and derivative instruments risk.

## Corporate governance risks

The Manager employs a number of external research providers and due diligence firms to mitigate investment research risks in the PRC. The Company has exposure to a number of companies with all or part of their business in Variable Interest Entity ("VIE")

structures. These are entities where there is a controlling interest that is not based on the majority of voting rights which may result in increased corporate governance risks.

## Share price risk

The price of the Company's shares, as well as its discount or premium to NAV, are factors which are not within the Company's total control. Some short-term influence over the discount or premium may be exercised by the use of share repurchases or share issues at acceptable prices. Details of share repurchases during the year are given on page 20. The Company's share price, NAV and discount volatility are monitored daily by the Managers and by the Board.

## Gearing risk

The Company has the option to invest up to the total of any loan facilities or to use Contracts For Difference (CFDs) to invest in equities. The principal risk is that while in a rising market the Company will benefit from gearing, in a falling market the impact would be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. On 17 February 2012, the Company entered into a revolving credit facility agreement with Scotiabank

# Directors' Report

Europe PLC ("the Lender") for US\$150,000,000 and this has been fully drawn down. Additional geared exposure is being achieved through the use of long CFDs. The Board regularly considers gearing and gearing risk. Further details of the Company's gearing policy are provided on page 16.

## Currency risk

The functional currency of the Company in which it reports its results, is UK sterling. Most of its assets and its income are denominated in other currencies, mainly Hong Kong dollars and US dollars. Consequently, it is subject to currency risk on exchange rate movements between UK sterling and these other currencies. It is the Company's policy not to hedge against currency risks. Borrowings are denominated in US dollars and, therefore, the effect of US dollar exchange rate movements on assets denominated in US dollars will be offset by the effect on these loans. Further details can be found in Note 18 to the Financial Statements on pages 46 to 53.

## Tax and Regulatory risks

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains. A breach of other legal and regulatory rules may lead to suspension from listing on the Stock Exchange or a qualified audit report. The Board receives regular reports from the Managers confirming regulatory compliance during the year.

There are a number of prospective regulations which could impact the Company. Of greatest significance is the Alternative Investment Fund Managers ("AIFM") Directive. The implementation date for the Directive is expected to be July 2014. The Board monitors the changes at each Board meeting and is provided with regular briefings from the Association of Investment Companies ("AIC") as well as details of industry and the Managers lobbying activities.

## Operational risks – Service Providers

The Company has no employees and relies on a number of third party service providers, principally the Managers, Registrar and Custodian. The Company is dependent on the Managers control systems and those of its Custodian and Registrar, both of which are monitored and managed by the Managers in the context of the Company's assets and interests on behalf of the Board.

The security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements, among other things, rely on the effective operation of such systems.

The Managers, Registrar and Custodian are subject to a risk-based programme of internal audits by the Managers. In addition, service providers' own internal controls reports are received by the Board and any concerns investigated.

While it is believed that the likelihood of poor governance, compliance and operational administration by third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company.

## ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY MATTERS

The portfolio is managed by FIL Investment Management (Hong Kong) Limited and FIL Investments International. The Company has no employees and all of its Directors are non-executive. The Company's day-to-day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees.

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. The Secretary and Unlisted Investment Manager, FIL Investments International, is registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the UK Environment Agency.

The Company's financial reports are printed by a company which has received accreditations for its environmental awareness and further details of this may be found on the back cover of this report.

Financial reports and other publicly available documentation are also available on the Company's website [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). Details about Fidelity's own community involvement may be found on its website, [www.fidelity.co.uk](http://www.fidelity.co.uk).

## DIRECTORS' REPORT – GENERAL

### THE BOARD

All appointments to the Board, elections, re-elections and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. Details of the Directors who served during the year ended 31 March 2013 are set out on page 15.

All Board members are subject to re-election at the forthcoming Annual General Meeting. Information on the process of appointment, election and replacement of Directors is included in the Corporate Governance Statement.

No Director has a contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which were significant in relation to the Company's business except as disclosed in relation to Mr Wells' interests in the Management Agreement. There have been no other related party transactions requiring disclosure under International Accounting Standard 24.

The interests of FIL Limited and the Directors in the Ordinary Shares of the Company as at 31 March 2013 are shown on page 20.

### DIRECTORS AND OFFICERS' LIABILITY INSURANCE

In addition to benefits enjoyed under the Manager's global Directors and Officers' liability insurance arrangements, the Company maintains insurance cover for its Directors under its own policy as permitted by the Companies Act 2006. Directors are also covered by the Director Indemnity provisions in accordance with the Articles of Association as approved by the shareholders.

# Directors' Report

## ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

## SUBSTANTIAL SHARE INTERESTS

The following notifications had been received of interests in 3% or more of the voting rights and/or issued ordinary share capital of the Company:

	Holding at 31 March 2013	Holding at 17 June 2013
FIL Limited	43.06% <sup>1</sup>	43.29 <sup>2</sup>
Legal & General	3.26%	3.27%

<sup>1</sup> Direct holding on own account (6.50%) and indirect holdings for Fidelity's ISA and Share Plan clients (36.56%)

<sup>2</sup> Direct holding on own account (6.48%) and indirect holdings for Fidelity's ISA and Share Plan clients (36.06%)

An analysis of ordinary shareholders as at 31 March 2013 is detailed in the table below.

Analysis of ordinary shareholders as at 31 March 2013	% of issued share capital
Institutions and wealth managers	46.56
Private shareholders <sup>1</sup>	41.62
Pension companies	6.03
Insurance companies	4.36
Other	1.43

<sup>1</sup> Includes Fidelity Share Plan and ISA investors

## SHARE CAPITAL

The Company's share capital comprises Ordinary Shares of 1 penny each. As at 31 March 2013, the total number of shares in issue was 653,229,480 (2012: 659,754,480). Each share carries one vote. Deadlines for the exercise of voting rights and details of arrangements by which someone other than the shareholder can exercise voting rights are detailed in the Notes to the Notice of Meeting on pages 56 and 57. The Company's Ordinary Shares have a premium listing on the London Stock Exchange and the Company is a constituent member of the FTSE 250 Index.

## SHARE ISSUES

No Ordinary Shares were issued during the year to 31 March 2013 (2012: 6,250,000) and none has been issued since the year end.

The authority to issue shares and disapply pre-emption rights granted by the shareholders at the Annual General Meeting, held on 24 July 2012, expires at the conclusion of the next Annual General Meeting and therefore, resolutions renewing the authority will be put to shareholders at the Annual General Meeting to be held on 24 July 2013.

## SHARE REPURCHASES

During the year to 31 March 2013, the Company repurchased 6,525,000 Ordinary Shares for cancellation. Since the year end, the Company has repurchased a further 15,250,000 Ordinary Shares for cancellation. The total number of Ordinary Shares in issue at the date of this report is 637,979,480.

At the Annual General Meeting held on 24 July 2012, the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 98,616,100 Ordinary Shares in the market for cancellation. The authority expires on 24 July 2013. A special resolution to renew the authority, including the ability to buy shares into Treasury, will be put to shareholders for approval at the forthcoming Annual General Meeting.

Pursuant to this authority, during the period from 1 August 2012 to 31 March 2013, 3,650,000 Ordinary Shares of 1 penny each were repurchased for cancellation. In aggregate the total shares repurchased during the year ended 31 March 2013 was 6,525,000 Ordinary Shares of 1 penny each (2012: 2,900,000) representing 1.00% of the issued share capital as at 31 March 2013 (2012: 0.44%) and for a total consideration of £5,216,000 (2012: £2,323,000).

## DIRECTORS' SHAREHOLDINGS

	Shares held at 31 March 2013	Shares held at 31 March 2012
John Owen	53,433	53,433
Nicholas Bull	65,804	65,804
David Causer	65,804	65,804
Peter Pleydell-Bouverie	59,224	59,224
Elisabeth Scott <sup>1</sup>	12,319	12,200
Andrew Wells	nil	nil

<sup>1</sup> 119 shares acquired through dividend re-investment

The Directors' shareholdings remain unchanged at the date of this report.

## POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations during the year under review.

## PAYMENT OF CREDITORS

The Company's principal supplier is the Investment Manager who is paid in the month following the end of each calendar quarter, in accordance with the terms of the Management Agreement (detailed below).

The Company's policy for the year to 31 March 2013 and 31 March 2014, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the

# Directors' Report

agreed terms of payment. The Company did not have any trade creditors in the year under review and to date. Other suppliers are paid in accordance with the individual payment terms agreed with them.

## MANAGEMENT COMPANY

During the year ended 31 March 2013, the investments of the Company, other than in unlisted securities, were managed by FIL Investment Management (Hong Kong) Limited, which provides portfolio management services to the Company pursuant to the Management Agreement dated 25 February 2011.

The investments in unlisted securities are managed by FIL Investments International, which provides portfolio management services to the Company pursuant to the Discretionary Investment Management Agreement dated 5 January 2011.

For the year to 31 March 2013, the respective Management Agreements provided for an annual management fee of 1.5% of the Net Asset Value of the Company and the fees totalled £8,374,000. This reduced to 1.2% per annum with effect from 1 April 2013. In addition, the Investment Managers are entitled to an annual performance fee of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index, subject to a maximum performance fee payable in any year equal to 1.5% of the arithmetic mean of the value of assets with valuations calculated at the end of each month during the year. Any out-performance above this cap will be carried forward. If the Company under-performs, the under-performance must be made good before any further performance fee becomes payable. For the year ended 31 March 2013, no performance fee was payable.

In addition, FIL Investments International provides accounting, administrative and secretarial services to the Company pursuant to the Secretarial Services Agreement dated 25 February 2010 under which the Company has agreed to pay a secretarial fee of up to £600,000 per annum, payable quarterly in arrears. For the year to 31 March 2013, a secretarial fee of £600,000 was payable.

The Board reviews the services provided by the Manager and also the terms of the Management Agreement on a regular basis. The Management Agreement will continue unless and until terminated by either party giving to the other not less than twelve months' notice in writing. The Management Agreement may, however, be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the Agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the agreement by not less than two months' notice if the Manager ceases to be a subsidiary of FIL Limited or if the Board shall resolve at two successive quarterly meetings that there has been a material and continuing under-performance in the portfolio of assets.

The Management Engagement Committee has reviewed the performance of the Investment Managers – taking into consideration those items in the Corporate Governance Statement on page 27 of this Annual Report. The Committee concluded that it was in the interests of shareholders that the Management Agreements should continue. Fidelity also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity ISA under an agreement dated 19 February 2010.

## RESPONSIBILITY AS AN INSTITUTIONAL SHAREHOLDER

The Board has adopted the Manager's Principles of Ownership in relation to investments. These Principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. The Manager, in its Principles of Ownership, expressly declares that it supports the FRC's Stewardship Code setting out the responsibilities of institutional shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at [www.fidelity.co.uk](http://www.fidelity.co.uk)

## SOCIALLY RESPONSIBLE INVESTMENT

The Manager's primary objective is to produce superior financial returns for the Company's shareholders. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in the Manager's view, these have a material impact on either investment risk or return.

## ANNUAL GENERAL MEETING

**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 adviser authorised under the Financial Services and Markets Act 2000.**

The Board is recommending to shareholders resolutions which give the Directors authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting ("AGM") and will provide the Directors with the flexibility to issue further Ordinary Shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 12 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £637,979. If passed, this resolution will enable the Directors to allot a maximum of 63,797,900 Ordinary Shares which represents approximately 10% of the issued Ordinary Share capital of the Company as at 17 June 2013. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so.

# Directors' Report

Resolution 13 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £637,979 (approximately 10% of the issued Ordinary Share capital of the Company as at 17 June 2013).

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of Ordinary Shares in issue on 17 June 2013 for cancellation. Purchases of Ordinary Shares will be at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing Net Asset Value per share, thereby resulting in an increased Net Asset Value per share.

**Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is 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 in respect of their own beneficial holdings.**

## CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement, which forms part of this Directors' Report, on pages 24 to 29.

## AUDITOR'S RIGHT TO INFORMATION

As required by Section 418 of the Companies Act 2006 the Directors in office as at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Auditor is unaware and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

## AUDITOR'S APPOINTMENT

A resolution to reappoint Grant Thornton UK LLP as Auditor to the Company will be proposed at the forthcoming AGM together with a resolution to authorise the Directors to determine the Auditor's remuneration.

## GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 17 to 19. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Statements and Notes thereto on pages 32 to 54.

The Company's objectives, policies and processes for managing its capital, financial risk management objectives, details of financial instruments and its exposures to credit and liquidity risk are also set out on pages 17 to 19 and in Note 18 to the Financial Statements on pages 46 to 53.

The Company's assets consist mainly of securities which are readily realisable and, where outsourcing arrangements are in place, alternative service providers are readily available. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Board receives regular reports from the Investment Managers and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By Order of the Board  
**FIL Investments International**  
Secretary  
17 June 2013

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements 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 IFRS 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.

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

We confirm that to the best of our knowledge the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and the Directors' Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties it faces.

Approved by the Board on 17 June 2013 and signed on its behalf.



**John Owen**  
Chairman

# Corporate Governance Statement

The Company is committed to high standards of corporate governance. Accordingly, the Board has put in place a framework for corporate governance which it believes is appropriate for an investment company. This Corporate Governance Statement forms part of the Directors' Report.

## ASSOCIATION OF INVESTMENT COMPANIES CODE

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained in the AIC Guide, addresses governance issues relevant to investment companies and enables boards to satisfy any requirements they may have under the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC guide (which incorporates the UK Code), will provide better information to shareholders. The AIC Code and the AIC Guide may be found on the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk)

The Board is accountable to the Company's shareholders for good governance and considers that the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code and associated disclosure requirements of the Listing Rules except as set out below. The UK Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide and as explained in the UK Code, the Board considers that these provisions are not

relevant to the Company, being an externally managed investment company. The Company has therefore not reported in respect of these provisions.

## THE BOARD AND ITS COMMITTEES

### THE BOARD

The Board of Directors has overall responsibility for the Company's affairs and for promoting the long-term success of the Company. All matters which are not delegated to the Company's Managers under the Management and Secretarial Services Agreements are reserved for the Board's decision. Matters reserved for the Board include, amongst other things, decisions on strategy, management, structure, capital, share issues, share repurchases, gearing, financial reporting, risk management, investment performance, share price discount, corporate governance, the appointment of the Company Secretary and Board appointments. The Company's investment policy is detailed on page 16.

The Board currently consists of six Directors, five of whom are independent of the Managers. Other than as previously disclosed in relation to Andrew Wells, the Directors are considered to be free from any relationship which could materially interfere with the exercise of their independent judgement and all Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively.

All Directors, with the exception of Andrew Wells, form the membership of the Audit Committee and the Management Engagement Committee. All the Directors are members of the Nomination and Remuneration Committee and the Investment Committee.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table below gives the attendance record for the meetings held during the year.

	Regular Board Meetings	Nomination and Remuneration Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
John Owen	4/4	2/2	4/4	1/1
Nicholas Bull	4/4	2/2	4/4	1/1
David Causer	4/4	2/2	4/4	1/1
Peter Pleydell-Bouverie	4/4	2/2	4/4	1/1
Elisabeth Scott	4/4	2/2	4/4	1/1
Andrew Wells <sup>1</sup>	4/4	1/1	n/a	n/a

Figures indicate those meetings for which each Director was eligible to attend and attended in the period. Regular Board meetings exclude ad hoc meetings for formal approvals.

<sup>1</sup> Appointed on 21 May 2012

# Corporate Governance Statement

## SENIOR INDEPENDENT DIRECTOR

The Board appointed Nicholas Bull as Senior Independent Director on 26 October 2010. The Senior Independent Director fulfils the role as a sounding board for the Chairman and as intermediary for other non-executive Directors where necessary. The Senior Independent Director also chairs the Nomination and Remuneration Committee.

## BOARD COMPOSITION

The Board consists of Directors who, between them, have good knowledge and wide experience of business in Asia and of investment companies. The Directors believe that the Board has an appropriate balance of skills, experience, independence, knowledge of the Company and length of service to discharge its duties and provide effective strategic leadership and proper governance of the Company.

Biographical details of all Directors including their relevant directorships are given on page 15 of this report.

The Board ensures that it conducts its business at all times with only the interests of the shareholders in mind and independently of any other associations. It meets at least four times a year, with the Portfolio Manager in attendance, including an annual meeting in China at which the Board has the opportunity to meet the investment team.

Between these meetings there is regular contact with the Managers. Other meetings are arranged as necessary. Additionally, Board Committees and sub-groups meet to pursue matters referred to them from the Board and the Chairman is in contact with the other Directors regularly without representatives of the Managers being present.

## BOARD BALANCE

The Board aims to ensure that the Board and its Committees have a balance of skills, experience, length of service and knowledge of the Company. The Nomination and Remuneration Committee carries out its candidate search from the widest possible pool of talent against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender.

## CHANGES TO THE BOARD

All appointments to the Board and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. The Company complies with the requirements of the AIC Code in respect of appointments to the Board. The Nomination and Remuneration Committee is responsible for identifying possible candidates for consideration by the Board. Whilst the Independent Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by the entire Board. External consultants may also be used to identify potential candidates.

## TRAINING

Upon appointment, each Director is provided with all relevant information regarding the Company and receives training on

the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities. In addition, a new Director will receive an induction, spending time with representatives of the Manager whereby he or she will become familiar with the various processes which the Managers consider necessary for the performance of his or her duties and responsibilities to the Company. The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company and the Chairman reviews and agrees development and training needs with each Director and the Senior Independent Director will do likewise for the Chairman. The Directors also receive regular briefings from, amongst others, the AIC, the Company's Auditor and the Company Secretary regarding any proposed developments or changes in law or regulations that affect the Company and/or the Directors.

## PERFORMANCE EVALUATION

A formal annual process for the evaluation of the Board, its Committees and its Directors is in place and undertaken at the Board meetings ahead of the Annual General Meetings. The review of the performance of the Chairman is led by the Senior Independent Director on an annual basis.

The performance and contribution to the Company of the Chairman and each Director holding office during the year to 31 March 2013 was considered using an external evaluation agency. It has been concluded that in each case the Chairman and Directors have been effective and that they continue to demonstrate commitment to their roles.

## ELECTION AND RE-ELECTION

As a constituent member of the FTSE 250 Index, the Directors of the Company are subject to annual re-election by the shareholders, subject to recommendation to the Board by the Nomination and Remuneration Committee ("the Committee") recommending to the Board that all Directors should seek re-election for the forthcoming year. As part of their deliberations, the Committee conducts annual evaluations of each Director.

The Committee has a policy of reviewing the tenure of each Director on a three year cycle and has agreed that an independent Director may serve for more than nine years, so long as that Director is considered by the Committee, to continue to be independent.

The Committee considers that a Chairman will not be considered independent after nine years in that role but may remain a Director thereafter, subject to annual re-election.

The names of Directors submitted for re-election are accompanied by sufficient biographical details on page 15 to enable shareholders to make an informed decision. The terms and letters of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the forthcoming Annual General Meeting.

# Corporate Governance Statement

## DIRECTORS' REMUNERATION

Levels of remuneration are competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review and this is also reviewed by an external evaluator. The level of Directors' fees is determined by the Nomination and Remuneration Committee within the limit governed by the Articles of Association. Directors' fees are disclosed fully in each Annual Report (see the Directors' Remuneration Report on page 30). Shareholdings in the Company by Directors are encouraged and the Directors' share interests are disclosed in the Directors' Report on page 20. The Directors do not receive performance related remuneration.

## THE COMPANY SECRETARY

The Company Secretary is a corporate secretary. The appointment of the Company Secretary is a matter for the Board as a whole. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Directors also have the ability to take independent professional advice, if necessary, at the Company's expense. The Company maintains Directors and Officers' liability insurance.

## COMMITTEES

The Board of Directors discharges certain of its corporate governance responsibilities through four Committees:

### THE AUDIT COMMITTEE

The Audit Committee consists of all the independent non-executive Directors, namely David Causer, John Owen, Nicholas Bull, Peter Pleydell-Bouverie and Elisabeth Scott. David Causer chairs this Committee as the Board believes it appropriate for him to do so given his financial background and experience as chairman of an audit committee. The Committee considers that collectively its members have sufficient recent and relevant financial experience to discharge their responsibilities fully.

The Committee's authority and duties are clearly defined in its written terms of reference which are available on the Company's pages of the Manager's website: [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

The Audit Committee of the Board meets formally twice a year and with the Auditor at least twice a year to review these and other appropriate matters. A sub-committee of the Audit Committee consisting of the Audit Committee Chairman and the Senior Independent Director meet as and when necessary to review matters of an ad hoc nature.

The Chairman of the Board is a member of the Committee as the Board believes that all the current independent Directors should be members of the Audit Committee.

The Audit Committee discharges its responsibilities in a number of ways, including as set out below:

- Reviewing the Company's draft annual and interim Financial Statements prior to Board approval and reviewing the scope and results of the audit including the external Auditor's report on the annual Financial Statements;
- Reviewing the appropriateness of the Company's accounting policies;
- Reviewing and approving the audit fee;
- Reviewing the external Auditor's terms of engagement;
- Considering the appointment, reappointment or removal of the Auditor as appropriate;
- Reviewing the external Auditor's plan for the audit of the Company's Financial Statements;
- Reviewing the external Auditor's quality control procedures;
- Reviewing and monitoring the effectiveness and cost of the external audit process and the external Auditor's independence and objectivity, with particular regard to the provision of non-audit services taking into consideration relevant UK professional and regulatory requirements and to consider the risks associated with audit firms withdrawing from the market;
- Reviewing the overall services provided by the Company's external Auditor and alternative audit services available;
- Considering the scope of work undertaken by the Investment Manager's internal audit department;
- Reviewing the Investment Manager's report on risk and internal controls and reporting to the Board;
- Considering whether the Company needs an internal audit function given that the Company delegates its day-to-day operations to third parties; and
- Reviewing the Company's custody arrangements.

The Committee also reviews corporate governance issues, the existence and performance of all controls operating in the Company, including the adherence to Section 1159 Corporation Tax Act 2010 status.

### THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of all the Directors, namely Nicholas Bull, John Owen, David Causer, Peter Pleydell-Bouverie, Elisabeth Scott and Andrew Wells. Nicholas Bull, Senior Independent Director, acts as the Chairman of this Committee as it is considered that he has the requisite experience to do so.

# Corporate Governance Statement

The Committee is charged with nominating new Directors for consideration by the Board of Directors, and subsequent approval by shareholders. It believes that the best way of ensuring that the Board as a whole and each independent Director individually carry out their duties in an independent manner, irrespective of the interests of the Investment Managers, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is entirely controlled by this Committee. The Nomination and Remuneration Committee also considers the election and re-election of Directors.

The Committee also concerns itself with the remuneration of the Directors, considering the Directors' roles and the responsibility and time involved in carrying these duties out effectively. It also makes itself aware of the directors' fees of other investment trust companies and other comparable entities.

This Committee meets on an annual basis and as and when required and makes recommendations to the Board where appropriate.

The Committee's terms of reference are available for inspection at the Company's registered office and are included on the Company's pages of the website: [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

## THE MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee consists of all the independent non-executive Directors, namely John Owen, Nicholas Bull, David Causer, Peter Pleydell-Bouverie and Elisabeth Scott. John Owen, Chairman of the Company, also chairs this Committee. The Committee is charged with reviewing and monitoring the performance of the Investment Managers and the Secretary in respect of their contracts and the fees they are paid. This Committee meets at least once a year and reports to the Board, making recommendations where appropriate.

The level of remuneration of the Investment Managers and the Secretary is determined by the Management Engagement Committee. This remuneration relates to the investment management function carried out by the Investment Managers, on which a percentage of the funds under management is paid, including a performance fee when appropriate, and to the administrative function carried out by the Secretary. The Board is mindful that the fees paid to the Investment Managers and to the Secretary should be at a level to ensure that both the Investment Managers and the administrators within the Secretariat who are engaged to look after the Company's affairs are appropriately skilled and that those individuals are fully focused on the Company's business.

The criteria which are taken into consideration in reviewing the performance of the Investment Managers and the Secretary include those set out below:

- Quality of team – the skills and particular experience of the teams involved in managing all aspects of the Company's business;

- Commitment of the Managers to the investment company business generally and to the Company in particular;
- Investment management, portfolio management skills, experience and track record and other investment related considerations;
- Managing and controlling the administration, the accounting and the company secretarial function;
- Shareholder relations – shareholder information and relations, discount and premium management;
- Management agreements – consideration of fees, notice periods and duties; and
- Marketing – commitment to and execution of activities designed to secure sustainable demand from potential long-term investors.

With effect from 1 April 2013, the annual management fee reduced from 1.5% of the Net Asset Value of the Company to 1.2%.

The Committee's terms of reference are available on the Company's pages of the website: [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

## THE INVESTMENT COMMITTEE

The Investment Committee consists of all the Directors and one representative of the Unlisted Investment Manager, with the requisite investment experience, attends on an advisory basis. Peter Pleydell-Bouverie chairs this Committee as the Board believes it appropriate for him to do so given his extensive investment experience.

The Committee considers that collectively the members of the Committee have sufficient recent and relevant investment and financial experience to discharge its responsibilities fully. The Committee is charged with reviewing and monitoring the on-going performance of the investments; discussing with the Investment Managers the strategy for the investment portfolios; reviewing all investments including pre-IPO opportunities; and reporting to the Board on a periodic basis.

The Committee meets when appropriate or as the Chairman of the Committee shall require.

## FINANCIAL REPORTING

Set out on page 23 is a statement by the Directors of their responsibilities in respect of the Financial Statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report on page 31. The Board has a responsibility to present a balanced and clear assessment of annual and interim reports, interim management statements, other price sensitive public reports, as well as to provide information required to be presented by statutory requirements. All such reports are reviewed and approved by the Board prior to their issue to ensure that this responsibility is fulfilled.

# Corporate Governance Statement

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Company's systems of risk management and internal control and for reviewing their effectiveness. The identification, control and evaluation of risk is assessed quarterly and a regular internal controls report is provided by the Manager. The systems of risk management and internal control are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has contractually delegated to external agencies, including the Managers, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day-to-day accounting and Company Secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company.

The Board, assisted by the Manager, has undertaken regular risk and controls assessments. The business risks have been analysed and recorded in a risk and internal controls report which is regularly reviewed. The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Managers, including their internal audit function and the work carried out by the Company's external Auditor, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Audit Committee has received and reviewed the report on the effectiveness of the internal controls maintained on behalf of the Company and meets the Manager's Internal Audit representative at least twice a year. The Chairman of the Audit Committee has direct access to the Manager's Head of Internal Audit and vice versa. The Board also receives each year from the Managers a report on their internal controls which includes a report from the Managers' reporting accountants on the control procedures in operation around the investment management and administration processes.

By means of the procedures set out above and in accordance with the FRC's "Internal Control: Revised Guidance for Directors", the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the risk management and internal control systems throughout the year ended 31 March 2013. This process continued to be in place up to the date of the approval of these Financial Statements and is expected to remain in place for the coming year.

## WHISTLE-BLOWING PROCEDURE

Part of the Managers' role in ensuring the provision of a good service pursuant to the Management Agreements includes the ability for employees of FIL to raise concerns through a

workplace concerns escalation policy (or "whistle-blowing procedure"). FIL has advised the Board that it is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for FIL to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy has been endorsed accordingly.

## BRIBERY ACT 2010

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has to reputation and business confidence.

The Board, the Investment Managers, the Investment Managers' employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing action as appropriate. The Board has adopted a zero tolerance policy in this regard.

## SHAREHOLDERS

The Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and other Directors are available to meet with major shareholders to discuss strategy and governance. The Board regularly monitors the shareholder profile of the Company and liaises with the Managers and the Company's broker to canvass shareholder opinion and communicate its views to shareholders. The Board aims to provide the maximum opportunity for dialogue between the Company and shareholders. It believes that the Company's institutional shareholders have proper access to the Managers at any time and to the Board if they so wish. If any shareholder wishes to contact a member of the Board directly they should contact the Company Secretary whose details are given on pages 14 and 65.

All shareholders are encouraged to attend the Annual General Meeting at which there will be a presentation of the year's results and an opportunity to meet the Portfolio Manager, representatives of the Managers and the Board.

Except where a poll is called, all resolutions at the Annual General Meeting are dealt with on a show of hands. The proxy voting results are counted, are available to the Meeting and are disclosed in the Company's page of the Managers website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)).

The Notice of Meeting on pages 55 and 56 sets out the business of the Annual General Meeting. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Chairman of the

# Corporate Governance Statement

Board and the other members of the Board, will be available to answer questions at the Annual General Meeting. The Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the Meeting.

## DISCLOSURE AND TRANSPARENCY RULES

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules is set out in the Directors' Report on pages 17 to 22 because it is information which refers to events that have taken place during the course of the year. The following is a list of that information:

- Directors' shareholdings
- Directors and Officers' liability insurance
- Going concern
- Share capital
- Share issues
- Share repurchases
- Substantial share interests

On behalf of the Board



**John Owen**  
Chairman  
17 June 2013

# Directors' Remuneration Report

This report has been prepared in accordance with Sections 420 – 422 of the Companies Act 2006 in respect of the year ended 31 March 2013. An ordinary resolution for the approval of this report will be put to the shareholders at the forthcoming Annual General Meeting. The Companies Act 2006 requires the Company's Auditor to audit certain parts of the disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on page 31.

## REMUNERATION

The Board of Directors is comprised solely of non-executive Directors and has established a Nomination and Remuneration Committee. This Committee meets annually and as and when required. At its annual meeting it determines the fees paid to Directors.

The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this, the Nomination and Remuneration Committee makes recommendations to the Board regarding the level of Directors' fees, having regard to their duties and responsibilities, to their time commitments, to their potential liabilities (both financial and reputational) and finally to levels of fees in the investment company industry generally. No Director received bonuses, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 March 2013. It is intended that this policy will continue for the year ending 31 March 2014 and subsequent years.

## DIRECTORS' SERVICE CONTRACTS

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Articles of Association of the Company. The Company does not make payments to Directors on termination or compensation upon early termination of appointment.

## DIRECTORS' REMUNERATION PER ANNUM

	2013 £'000	2012 £'000
Chairman	40	40
Senior Independent Director	30	30
Chairman of the Audit Committee	30	30
Chairman of the Investment Committee	30	30
Director	25	25

## REMUNERATION OF DIRECTORS (audited)

	2013 £'000	2012 £'000
John Owen	40	40
Nicholas Bull	30	30
David Causer	30	30
Peter Pleydell-Bouverie	30	30
Elisabeth Scott <sup>1</sup>	25	10
Andrew Wells <sup>2</sup>	–	n/a
Total	155	140

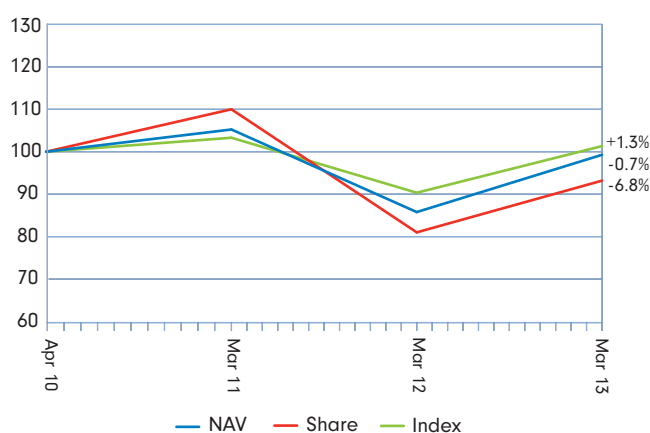
<sup>1</sup> Appointed on 1 November 2011

<sup>2</sup> Waives his Director fees. Appointed on 21 May 2012

## COMPANY PERFORMANCE

The Company's performance has been measured against the MSCI China Index (in UK sterling terms) as this is the most appropriate benchmark in respect of its investment objective of long-term capital growth.

Comparison of NAV and Share Price total return performance against the MSCI China Index from 19 April 2010 to 31 March 2013



Sources: Fidelity and Datastream

On behalf of the Board

**John Owen**  
Chairman  
17 June 2013

# Independent Auditor's Report to the Shareholders of Fidelity China Special Situations PLC

We have audited the Financial Statements of Fidelity China Special Situations PLC for the year ended 31 March 2013 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU).

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## OPINION ON FINANCIAL STATEMENTS

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

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

## Marcus Swales

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

17 June 2013

# Income Statement for the year ended 31 March 2013

	Notes	revenue £'000	Year ended 31.03.13 capital £'000	total £'000	revenue £'000	Year ended 31.03.12 capital £'000	total £'000
<b>Revenue</b>							
Investment income	3	14,278	–	14,278	12,912	–	12,912
Other income	3	5	–	5	9	–	9
Net derivative income	3	856	–	856	550	–	550
<b>Total income</b>		<b>15,139</b>	<b>–</b>	<b>15,139</b>	<b>13,471</b>	<b>–</b>	<b>13,471</b>
Gains/(losses) on investments designated at fair value through profit or loss	10	–	87,198	87,198	–	(155,156)	(155,156)
Net (losses)/gains on derivative instruments held at fair value through profit or loss	11	–	(115)	(115)	–	27,460	27,460
Foreign exchange (losses)/gains on other net assets		(19)	890	871	80	6	86
Foreign exchange losses on bank loans		–	(4,898)	(4,898)	–	(1,605)	(1,605)
<b>Total income and gains/(losses)</b>		<b>15,120</b>	<b>83,075</b>	<b>98,195</b>	<b>13,551</b>	<b>(129,295)</b>	<b>(115,744)</b>
<b>Expenses</b>							
Investment management fee	4	(4,187)	(4,187)	(8,374)	(4,156)	(4,156)	(8,312)
Other expenses	5	(1,573)	–	(1,573)	(1,655)	–	(1,655)
<b>Profit/(loss) before finance costs and taxation</b>		<b>9,360</b>	<b>78,888</b>	<b>88,248</b>	<b>7,740</b>	<b>(133,451)</b>	<b>(125,711)</b>
<b>Finance costs</b>							
Interest on bank loans	6	(871)	(871)	(1,742)	(878)	(878)	(1,756)
<b>Profit/(loss) before taxation</b>		<b>8,489</b>	<b>78,017</b>	<b>86,506</b>	<b>6,862</b>	<b>(134,329)</b>	<b>(127,467)</b>
Taxation	7	(289)	(809)	(1,098)	(289)	(237)	(526)
<b>Net profit/(loss) after taxation for the year</b>		<b>8,200</b>	<b>77,208</b>	<b>85,408</b>	<b>6,573</b>	<b>(134,566)</b>	<b>(127,993)</b>
<b>Earnings/(loss) per Ordinary Share</b>	8	<b>1.25p</b>	<b>11.76p</b>	<b>13.01p</b>	<b>0.99p</b>	<b>(20.33)p</b>	<b>(19.34)p</b>

The Company does not have any income or expense that is not included in the net profit/(loss) for the year. Accordingly the "Net profit/(loss) after taxation for the year" is also the "Total comprehensive income/(loss) for the year" and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company and is prepared in accordance with IFRS. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

All of the profit/(loss) and total comprehensive income/(loss) is attributable to the equity shareholders of the Company. There are no minority interests.

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

The Notes on pages 36 to 54 form an integral part of these Financial Statements.

# Statement of Changes in Equity for the year ended 31 March 2013

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Equity shareholders' funds at 31 March 2011</b>		6,564	204,648	–	452,232	18,188	2,331	683,963
Issue of Ordinary Shares	15	63	6,921	–	–	–	–	6,984
Repurchase of Ordinary Shares	15	(29)	–	29	(2,323)	–	–	(2,323)
Net (loss)/profit after taxation for the year		–	–	–	–	(134,566)	6,573	(127,993)
Dividend paid	9	–	–	–	–	–	(1,656)	(1,656)
<b>Equity shareholders' funds at 31 March 2012</b>		6,598	211,569	29	449,909	(116,378)	7,248	558,975
Repurchase of Ordinary Shares	15	(66)	–	66	(5,216)	–	–	(5,216)
Net profit after taxation for the year		–	–	–	–	77,208	8,200	85,408
Dividend paid	9	–	–	–	–	–	(4,934)	(4,934)
<b>Equity shareholders' funds at 31 March 2013</b>		6,532	211,569	95	444,693	(39,170)	10,514	634,233

The Notes on pages 36 to 54 form an integral part of these Financial Statements.

# Balance Sheet as at 31 March 2013

Company number 7133583

	Notes	2013 £'000	2012 £'000
<b>Non current assets</b>			
Investments designated at fair value through profit or loss	10	712,898	629,709
<b>Current assets</b>			
Derivative assets held at fair value through profit or loss	11	8,592	11,582
Amounts held at futures clearing houses and brokers		4,056	3,922
Other receivables	12	3,131	9,146
Cash and cash equivalents		18,511	20,123
		34,290	44,773
<b>Current liabilities</b>			
Derivative liabilities held at fair value through profit or loss	11	(3,110)	(3,792)
Bank loans	13	(98,739)	(93,841)
Other payables	14	(11,106)	(17,874)
		(112,955)	(115,507)
<b>Net current liabilities</b>		(78,665)	(70,734)
<b>Net Assets</b>		634,233	558,975
<b>Equity attributable to equity shareholders</b>			
Share capital	15	6,532	6,598
Share premium account	16	211,569	211,569
Capital redemption reserve	16	95	29
Other reserve	16	444,693	449,909
Capital reserve	16	(39,170)	(116,378)
Revenue reserve	16	10,514	7,248
<b>Total equity shareholders' funds</b>		634,233	558,975
<b>Net Asset Value per Ordinary Share</b>	17	97.09p	84.72p

The Financial Statements on pages 32 to 54 were approved by the Board of Directors on 17 June 2013 and were signed on its behalf by:



**John Owen**  
Chairman

The Notes on pages 36 to 54 form an integral part of these Financial Statements.

# Cash Flow Statement for the year ended 31 March 2013

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>Operating activities</b>		
Cash inflow from investment income	13,394	11,063
Cash inflow from net derivative income	867	508
Cash inflow from other income	5	11
Cash outflow from Directors' fees	(156)	(146)
Cash outflow from other payments	(9,618)	(9,933)
Cash outflow from the purchase of investments	(443,379)	(613,873)
Cash outflow from the costs of derivatives	(17,861)	(13,711)
Cash inflow from the sale of investments	445,595	554,516
Cash inflow from the proceeds of derivatives	20,054	34,528
Cash outflow from amounts held at futures clearing houses and brokers	(384)	(642)
<b>Net cash inflow/(outflow) from operating activities before servicing of finance</b>	<b>8,517</b>	<b>(37,679)</b>
<b>Servicing of finance</b>		
Cash outflow on interest on bank loans	(1,736)	(1,594)
<b>Net cash inflow/(outflow) from operating activities and servicing of finance</b>	<b>6,781</b>	<b>(39,273)</b>
<b>Financing activities</b>		
Cash inflow from the issue of Ordinary Shares	-	6,984
Cash outflow from the repurchase of Ordinary Shares	(4,349)	(1,345)
Cash inflow from bank loans	-	30,223
Cash outflow from dividends paid to shareholders	(4,934)	(1,656)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(9,283)</b>	<b>34,206</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2,502)</b>	<b>(5,067)</b>
Net cash and cash equivalents at the start of the year	20,123	25,184
Effect of foreign exchange movements	890	6
<b>Cash and cash equivalents at the end of the year</b>	<b>18,511</b>	<b>20,123</b>

The Notes on pages 36 to 54 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. PRINCIPAL ACTIVITY

The principal activity of the Company is that of an investment trust company within the meaning of Section 1159 of the Corporation Tax Act 2010.

## 2. ACCOUNTING POLICIES

The Company's annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union, and with the AIC's Statement of Recommended Practice ("SORP"). The accounting policies adopted in the preparation of these Financial Statements are summarised below.

All of the Company's activities are inter-related and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment and therefore segmental information is not required.

**a) Basis of accounting** – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative assets and liabilities, and on the assumption that approval as an investment trust will continue to be granted.

**b) Changes in accounting policy and disclosures** – At the date of authorisation of these Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 9 'Financial Instruments' (effective periods beginning on or after 1 January 2015); and
- IFRS 13 'Fair Value Measurement' (effective periods beginning on or after 1 January 2013).

It is anticipated that the adoption of these Standards and Interpretations in future periods will have no material financial effect on the Financial Statements of the Company. However, additional disclosures may be necessary and will be considered on their application.

**c) Presentation of the Income Statement** – In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net profit/(loss) after taxation is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

**d) Income** – Income from equity investments is credited to the revenue column of the Income Statement on the date on which the right to receive the payment is established, normally the ex dividend date. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as a gain in the capital column of the Income Statement.

Where appropriate certain derivatives, such as contracts for difference ("CFDs"), are used. Income derived from these is included in the revenue column of the Income Statement.

**e) Special dividends** – Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

**f) Expenses and finance costs** – All expenses are accounted for on an accruals basis and are charged as follows:

- Any performance fee, if due, is allocated entirely to capital, as the Board believes it reflects the capital performance of the Company's investments;
- The investment management fee and finance costs are allocated equally between revenue and capital; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

# Notes to the Financial Statements

## 2. ACCOUNTING POLICIES (continued)

**g) Taxation** – The taxation expense represents the sum of taxation currently payable and deferred taxation.

Taxation currently payable is based on the taxable profit for the year. Taxable profit differs from profit before taxation, as reported in the Income Statement, because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current taxation is calculated using taxation rates that have been enacted or substantially enacted by the Balance Sheet date.

Deferred taxation is the taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding taxation bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Companies which are approved as Investment Trusts under Section 1158 of the Corporation Tax Act 2010 are not liable for UK taxation on capital gains.

The carrying amount of deferred taxation assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the taxation rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the revenue column of the Income Statement, except when it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement.

**h) Foreign currency** – The Directors, having regard to the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be UK sterling. Transactions denominated in foreign currencies are calculated in UK sterling at the rate of exchange ruling as at the date of the transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. All capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserve.

**i) Valuation of investments** – The Company's business is investing in financial assets with a view to profiting from their total return in the form of capital growth and income. 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 Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is measured as bid or last market prices depending upon the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations. Investments which are not quoted or are not frequently traded, are stated at the Directors' best estimate of fair value, based on recognised valuation techniques which may take account of recent arm's length transactions in the investments.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains/(losses) on investments and has disclosed them in Note 10 below.

**j) Derivative instruments** – Where appropriate, certain permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include forward currency contracts, CFDs, futures and options. They are valued at fair value which is measured as the quoted trade price for the contract.

Where such transactions are used to protect or enhance income, if the circumstances support this, then the income and expenses derived from them are included in "Net derivative income" via the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the gains and losses derived from them are included in "Net (losses)/gains on derivative instruments held at fair value through profit or loss" via the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected in the Balance Sheet at their fair value within "Current assets" and "Current liabilities".

As part of an established policy, premiums received on written options are taken to capital and are included in "Net (losses)/gains on derivative instruments held at fair value through profit or loss" via the capital column of the Income Statement.

During the year the Company has obtained equivalent exposure to Chinese and Hong Kong equities through the use of long CFDs. The gearing level is monitored and reviewed by the Board on an ongoing basis.

# Notes to the Financial Statements

## 2. ACCOUNTING POLICIES (continued)

CFDs are valued at fair value which is measured as the difference between the settlement price and the value, calculated in accordance with accounting policy 2 (i), of the underlying shares in the contract. All gains and losses in the fair value of the CFDs are included in "Net (losses)/gains on derivative instruments held at fair value through profit or loss" via the capital column of the Income Statement.

Income received from dividends on the long CFDs is included in "Net derivative Income" in the revenue column of the Income Statement.

**k) Bank loans** – Loans are initially included in the Financial Statements at cost, being the fair value of the consideration received net of any issue costs relating to the borrowing. After initial recognition, the loans are measured at amortised cost using the effective interest rate method. The amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

**l) Capital reserve** – The following are transferred to capital reserve:

- Gains and losses on the disposal of investments, including derivatives;
- Changes in the fair value of investments, including derivatives, held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Performance fee;
- 50% of the investment management fee;
- 50% of finance costs;
- Dividends receivable which are capital in nature; and
- Taxation charged or credited relating to items which are capital in nature.

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10: "Distributable Profits", changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of level 3 investments with a fair value of £19,366,000 (2012: £3,903,000).

**m) Dividends** – Dividends payable to equity shareholders are recognised when the Company's obligation to make payment is established.

# Notes to the Financial Statements

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>3. INCOME</b>		
<b>Income from investments designated at fair value through profit or loss</b>		
Overseas dividends	13,195	11,145
Overseas scrip dividends	526	1,252
UK dividends	284	515
UK scrip dividends	273	-
	<u>14,278</u>	<u>12,912</u>
<b>Other income</b>		
Deposit interest	<u>5</u>	<u>9</u>
<b>Net derivative income</b>		
Dividends received on long CFDs	1,234	1,064
Interest paid on long CFDs	(328)	(390)
Interest received on short CFDs	8	10
Dividends paid on short CFDs	(58)	(134)
	<u>856</u>	<u>550</u>
<b>Total income</b>	<u>15,139</u>	<u>13,471</u>
	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000

## 4. INVESTMENT MANAGEMENT FEE

Investment management fee charged to revenue	4,187	4,156
Investment management fee charged to capital	<u>4,187</u>	<u>4,156</u>
	<u>8,374</u>	<u>8,312</u>

Under the Investment Management Agreements between the Company, FIL Investment Management (Hong Kong) Limited and FIL Investments International ("The Managers"), the Managers provided investment management services for an annual fee of 1.5% of the Net Asset Value ("NAV"). From 1 April 2013 the annual fee reduced from 1.5% to 1.2% of the NAV. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December.

In addition, the Managers are entitled to an annual performance fee of 15% of any change in the NAV per Ordinary Share attributable to performance which is more than 2% above the return on the MSCI China Index, subject to a maximum performance fee payable in any year equal to 1.5% of the arithmetic mean of the value of Net Assets calculated at the end of each month during the year. Any out-performance above this cap is carried forward. If the Company under-performs the MSCI China Index in any year, the under-performance has to be made good before any further performance fee becomes payable. Both the NAV per Ordinary Share and the MSCI China Index are calculated on a total return basis.

No performance fee is payable for the year ended 31 March 2013 (2012: none).

# Notes to the Financial Statements

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>5. OTHER EXPENSES</b>		
AIC fees	28	14
Custody fees	229	310
Directors' expenses	55	30
Directors' fees*	155	140
Legal and professional fees	110	148
Marketing expenses	133	174
Printing and publication expenses	120	119
Registrars' fees	53	55
Secretarial and administration fees	600	600
Other expenses	38	38
Fees payable to the Independent Auditor		
Audit services	25	25
Tax advice (relating to prior year)	27	-
Review of the performance fee	-	2
	<u>1,573</u>	<u>1,655</u>

\* Details of the breakdown of Directors' fees are provided on page 30 in the Directors' Remuneration Report.

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>6. FINANCE COSTS</b>		
Interest on bank loans payable within one year:		
Charged to revenue	871	878
Charged to capital	871	878
	<u>1,742</u>	<u>1,756</u>

# Notes to the Financial Statements

## 7. TAXATION

### a) Analysis of the taxation charge for the year

	revenue £'000	Year ended 31.03.13 capital £'000	total £'000	revenue £'000	Year ended 31.03.12 capital £'000	total £'000
Overseas taxation	289	–	289	289	–	289
Overseas capital gains tax	–	809	809	–	237	237
Total current taxation for the year (see Note 7b)	289	809	1,098	289	237	526

### b) Factors affecting the taxation charge in the year

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK for an investment trust company of 24% (2012: 26%).

A reconciliation of the standard rate of UK corporation tax to the taxation charge is shown below:

	revenue £'000	Year ended 31.03.13 capital £'000	total £'000	revenue £'000	Year ended 31.03.12 capital £'000	total £'000
Profit/(loss) before taxation	8,489	78,017	86,506	6,862	(134,329)	(127,467)
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 24% (2012: 26%)	2,037	18,724	20,761	1,784	(34,926)	(33,142)
Effects of:						
(Gains)/losses on investments not taxable*	–	(19,938)	(19,938)	–	33,617	33,617
Income not taxable	(3,244)	–	(3,244)	(3,161)	–	(3,161)
Excess expenses	1,225	1,214	2,439	1,388	1,309	2,697
Overseas taxation expensed	(18)	–	(18)	(11)	–	(11)
Overseas taxation	289	–	289	289	–	289
Overseas capital gains tax	–	809	809	–	237	237
Current taxation charge (Note 7a)	289	809	1,098	289	237	526

\* The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

### c) Deferred taxation

There are excess management expenses of £28,895,000 (2012: £18,966,000) and excess finance costs of £964,000 (2012: £733,000), resulting in a deferred taxation asset which has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

# Notes to the Financial Statements

	Year ended 31.03.13			Year ended 31.03.12		
	revenue	capital	total	revenue	capital	total
<b>8. EARNINGS/(LOSS) PER ORDINARY SHARE</b>						
Earnings/(loss) per Ordinary Share	1.25p	11.76p	13.01p	0.99p	(20.33p)	(19.34p)

Earnings/(loss) per Ordinary Share is based on the revenue net profit after taxation in the year of £8,200,000 (2012: £6,573,000), the net capital profit after taxation in the year of £77,208,000 (2012: loss £134,566,000) and the total net profit after taxation in the year of £85,408,000 (2012: loss £127,993,000) and on 656,533,795 (2012: 661,971,830) Ordinary Shares being the weighted average number of Ordinary Shares in issue during the year.

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>9. DIVIDENDS</b>		
<b>Dividend paid</b>		
Final dividend paid of 0.75 pence per Ordinary Share for the year ended 31 March 2012	4,934	-
Final dividend paid of 0.25 pence per Ordinary Share for the period from 19 April 2010 to 31 March 2011	-	1,656
	<u>4,934</u>	<u>1,656</u>
<b>Dividend proposed</b>		
Final dividend proposed of 1.00 pence per Ordinary Share for the year ended 31 March 2013 and based on the number of Ordinary Shares in issue as at the date of this report	6,380	-
Final dividend proposed of 0.75 pence per Ordinary Share for the year ended 31 March 2012	-	4,934
	<u>6,380</u>	<u>4,934</u>

The Directors have proposed the payment of a final dividend of 1.00 pence per Ordinary Share for the year ended 31 March 2013 to be paid on 2 August 2013 to shareholders on the register at the close of business on 19 July 2013 (ex dividend date 17 July 2013).

# Notes to the Financial Statements

	2013 £'000	2012 £'000
<b>10. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Total investments*	712,898	629,709
Opening book cost	685,879	695,593
Opening investment holding (losses)/gains	(56,170)	24,694
<b>Opening fair value of investments</b>	<b>629,709</b>	<b>720,287</b>
<b>Movements in the year</b>		
Purchases at cost	435,526	620,969
Sales – proceeds	(439,535)	(556,391)
Sales – realised losses	(1,025)	(74,292)
Movement in investment holding gains/(losses) in the year	88,223	(80,864)
<b>Closing fair value of investments</b>	<b>712,898</b>	<b>629,709</b>
Closing book cost	680,845	685,879
Closing investment holding gains/(losses)	32,053	(56,170)
<b>Closing fair value of investments</b>	<b>712,898</b>	<b>629,709</b>
	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
<b>Gains/(losses) on investments designated at fair value through profit or loss</b>		
Losses on sales of investments	(1,025)	(74,292)
Investment holding gains/(losses)	88,223	(80,864)
	<b>87,198</b>	<b>(155,156)</b>

\* The fair value hierarchy of the investments is shown in Note 18 below.

The portfolio turnover rate for the year was 69.6% (2012: 91.2%).

## Cost of investment transactions

Transaction costs are incurred in the acquisition and disposal of investments. These are included in the gains/(losses) on investments designated at fair value through profit or loss in the capital column of the Income Statement. The total costs were as follows:

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000
Purchases	942	1,380
Sales	1,002	1,311
	<b>1,944</b>	<b>2,691</b>

## Substantial interest

As at 31 March 2013, the Company held 21,664 ordinary shares of 10 pence each in DJI Holdings Limited, a private company incorporated in the UK. This holding represented 6.7% of the issued share capital of that company which, in the opinion of the Directors, did not represent a participating interest.

# Notes to the Financial Statements

	Year ended 31.03.13 £'000	Year ended 31.03.12 £'000		
<b>11. DERIVATIVE INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
<b>Net (losses)/gains on derivative instruments held at fair value through profit or loss in the year</b>				
Realised gains on forward currency contracts	237	3,280		
Realised losses on futures	-	(621)		
Realised (losses)/gains on options	(5,762)	17,626		
Realised gains on CFDs	3,389	2,795		
Movement on investment holding (losses)/gains on forward currency contracts	(787)	279		
Movement on investment holding losses on futures	-	(502)		
Movement on investment holding gains on options	161	1,349		
Movement on investment holding gains on CFDs	2,647	3,254		
	<u>(115)</u>	<u>27,460</u>		
	2013 £'000	2012 £'000		
<b>Fair value of derivative instruments recognised in the Balance Sheet</b>				
Derivative assets recognised at fair value through profit or loss	8,592	11,582		
Derivative liabilities recognised at fair value through profit or loss	(3,110)	(3,792)		
	<u>5,482</u>	<u>7,790</u>		
	2013	2012		
	fair value £'000	Gross Asset Exposure £'000		
		fair value £'000	Gross Asset Exposure £'000	
<b>At the year end the Company held the following derivative instruments</b>				
Long CFDs	5,121	50,296	2,825	39,329
Short CFDs	361	(10,961)	10	(1,551)
Options	-	-	4,168	(42,104)
Forward currency contracts	-	-	787	787
	<u>5,482</u>	<u>39,335</u>	<u>7,790</u>	<u>(3,539)</u>

# Notes to the Financial Statements

2013  
£'000

2012  
£'000

## 12. OTHER RECEIVABLES

Securities sold for future settlement	2,417	8,477
Accrued income	394	633
Other receivables	320	36
	<u>3,131</u>	<u>9,146</u>

2013  
£'000

2012  
£'000

## 13. BANK LOANS

### Fixed rate unsecured US dollar loans

US dollar 150,000,000 @ 1.67%, repayable on 21 May 2013	98,739	-
US dollar 100,000,000 @ 1.87%, repaid on 21 May 2012	-	62,561
US dollar 50,000,000 @ 1.85%, repaid on 21 May 2012	-	31,280
	<u>98,739</u>	<u>93,841</u>

On 17 February 2012 the Company entered into a two year, multicurrency revolving credit facility for US\$150,000,000.

2013  
£'000

2012  
£'000

## 14. OTHER PAYABLES

Securities purchased for future settlement	5,169	13,821
Amount payable on share repurchases	1,845	978
Other payables	4,092	3,075
	<u>11,106</u>	<u>17,874</u>

2013  
shares

£'000

2012  
shares

£'000

## 15. SHARE CAPITAL

### Issued, allotted and fully paid:

<b>Beginning of the year</b>	659,754,480	6,598	656,404,480	6,564
Issue of Ordinary Shares of 1 penny each	-	-	6,250,000	63
Repurchase of Ordinary Shares of 1 penny each	(6,525,000)	(66)	(2,900,000)	(29)
<b>End of the year</b>	<u>653,229,480</u>	<u>6,532</u>	<u>659,754,480</u>	<u>6,598</u>

# Notes to the Financial Statements

## 16. RESERVES

The share premium account represents the amount by which the proceeds from share issues, less the associated costs, exceed the nominal value of the Ordinary Shares issued. Court approval was given on 21 April 2010 to cancel the account and as a result £452,232,000 was transferred to the Other Reserve. Subsequently, the Company issued 157,654,480 Ordinary Shares resulting from its "C" share issue and 45,000,000 Ordinary Shares in separate issues pursuant to the authorities granted by shareholders. The share premium account is not distributable by way of dividend and it cannot be used to fund share repurchases.

The capital redemption reserve represents the nominal value of Ordinary Shares repurchased and cancelled. It is not distributable by way of dividend and it cannot be used to fund share repurchases.

The other reserve is a distributable premium reserve created on 21 April 2010 when Court approval was given for the share premium account at that date to be cancelled. As a result £452,232,000 was transferred from the share premium account to the other reserve. It is not distributable by way of dividend and it can and has been used to fund share repurchases.

The capital reserve represents realised gains or losses on investments and derivatives sold, increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It is not distributable by way of dividend. It can be used to fund share repurchases when it is not in deficit.

The revenue reserve represents the net revenue surpluses recognised in the revenue column of the Income Statement that have not been distributed as dividends to shareholders. It is distributable by way of dividend.

## 17. NET ASSET VALUE PER ORDINARY SHARE

The Net Asset Value per Ordinary Share is based on Net Assets of £634,233,000 (2012: £558,975,000) and on 653,229,480 (2012: 659,754,480) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

## 18. FINANCIAL INSTRUMENTS

### MANAGEMENT OF RISK

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The Board with the assistance of the Managers, has developed a risk matrix which, as part of the internal control process, identifies the operational risks that the Company faces. Risks identified are strategic, marketing and business development, investment management, company secretarial, fund administration and operations and support function risks. Risks are identified and graded in this process, together with steps taken in mitigation of risks, and are updated and reviewed on an ongoing basis. Key risks identified fall into two broad categories. The first, external risks, are stock market, share price and discount and the second, internal risks, are portfolio and governance, operational, financial, compliance, administration etc.

This Note is incorporated in accordance with IFRS 7 "Financial Instruments: Disclosures" and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

- Equity shares and equity linked notes;
- Derivative instruments which comprise CFDs, forward currency contracts and options written on stocks and equity indices;
- Cash, liquid resources and short-term debtors and creditors that arise from its operations; and
- Bank borrowings.

The risks identified by IFRS 7 arising from the Company's financial instruments are market price risk (which comprises other price risk, interest rate risk and foreign currency risk), liquidity risk, counterparty risk and credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### Market price risk

#### Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments. It represents the potential loss the Company might suffer through price movements in its investment positions.

The Manager is responsible for actively monitoring the portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks meet an acceptable risk/reward profile. Other price risks arising from derivative positions, mainly to do with underlying exposures, are estimated using Value at Risk and Stress Tests as set out in, and in accordance with, the Company's Derivative Risk Measurement and Management Document.

The Board meets quarterly to review the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective.

#### Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through a two year, multicurrency revolving credit facility for US\$150,000,000 taken out on 17 February 2012. The Company has drawn down the whole of this facility as disclosed in Note 13 above. The Company is exposed to a fair value interest rate risk on this facility if interest rates change.

The Company is exposed to cash flow interest rate risk on cash at bank and amounts held at futures clearing houses and brokers. The Company is exposed to a fair value interest rate risk on the fixed rate bank loan of US\$150,000,000 (2012: US\$150,000,000). The cash at bank and amounts held at futures clearing houses and brokers are shown in the Balance Sheet on page 34.

#### Foreign currency risk

The Company's total return and balance sheet can be affected by foreign exchange rate movements because the Company has income, assets and liabilities which are denominated in currencies other than the Company's functional currency which is UK sterling.

Three principal areas have been identified where foreign currency risk could impact the Company:

- movements in currency exchange rates affecting the value of investments and bank loans;
- movements in currency exchange rates affecting short-term timing differences; and
- movements in currency exchange rates affecting income received.

The Company will also be subject to short-term exposure from exchange rate movements, for example, between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to UK sterling on receipt.

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### Currency exposure of financial assets

The Company's financial assets comprise equity investments, long positions on derivative instruments, short-term debtors and cash. The currency profile of these financial assets is shown below.

	2013				
	investments designated at fair value through profit or loss £'000	exposure to long derivative instruments £'000	other receivables £'000	cash and cash equivalents* £'000	total £'000
Australian dollar	4,395	-	-	-	4,395
Canadian dollar	516	-	-	-	516
Chinese renminbi	74,717	-	-	109	74,826
Hong Kong dollar	397,437	49,332	2,044	22,263	471,076
Singapore dollar	21,504	964	-	-	22,468
Taiwan dollar	4,507	-	-	-	4,507
UK sterling	15,475	-	52	37	15,564
US dollar	194,347	-	1,035	158	195,540
	<u>712,898</u>	<u>50,296</u>	<u>3,131</u>	<u>22,567</u>	<u>788,892</u>

\* Cash and cash equivalents includes amounts held at futures clearing houses and brokers

	2012				
	investments designated at fair value through profit or loss £'000	exposure to long derivative instruments £'000	other receivables £'000	cash and cash equivalents* £'000	total £'000
Chinese renminbi	41,172	-	-	81	41,253
Hong Kong dollar	409,301	38,495	4,929	23,929	476,654
Korean won	4,163	-	-	-	4,163
Singapore dollar	11,759	834	203	-	12,796
UK sterling	9,775	-	34	1	9,810
US dollar	153,539	-	3,980	34	157,553
	<u>629,709</u>	<u>39,329</u>	<u>9,146</u>	<u>24,045</u>	<u>702,229</u>

\* Cash and cash equivalents includes amounts held at futures clearing houses and brokers

The Company had no open forward currency contracts at 31 March 2013 (2012: contracts to sell US dollar 119 million for Chinese renminbi 756 million).

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and borrowings.

The Company's financial liabilities comprise short positions on derivative instruments, US dollar denominated bank loans and other payables. The currency profile of these financial liabilities is shown below.

	2013			
	exposure to short derivative instruments £'000	US dollar bank loans £'000	other payables £'000	total £'000
Canadian dollar	-	-	2	2
Chinese renminbi	-	-	1,047	1,047
Hong Kong dollar	10,961	-	4,725	15,686
Singapore dollar	-	-	157	157
UK sterling	-	-	4,734	4,734
US dollar	-	98,739	441	99,180
	<u>10,961</u>	<u>98,739</u>	<u>11,106</u>	<u>120,806</u>

	2012			
	exposure to short derivative instruments £'000	US dollar bank loans £'000	other payables £'000	total £'000
Chinese renminbi	-	-	237	237
Hong Kong dollar	43,655	-	11,086	54,741
UK sterling	-	-	3,661	3,661
US dollar	-	93,841	2,890	96,731
	<u>43,655</u>	<u>93,841</u>	<u>17,874</u>	<u>155,370</u>

### Liquidity risk

The Company's assets comprise readily realisable securities, to meet funding commitments as necessary. Short-term flexibility is achieved by the use of overdraft facilities if required. Details of the Company's borrowing commitments are shown in Note 13 above.

### Counterparty risk

All securities and derivative instruments are transacted with brokers and carry the risk that the counterparty to a transaction may not meet its financial obligations. All counterparties for any type of trading are assessed by an independent Credit Research and Analysis function and approved for use by the Managers. Exposures to counterparties are monitored and reported regularly by the Managers to the Board. Margin on exchange-traded derivatives mitigates counterparty risk exposure in accordance with the terms outlined in market standard (ISDA) derivative legal contracts.

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### Credit risk

Investments may be adversely affected if any of the institutions with which money is deposited suffers insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Managers and are settled on a delivery versus payment basis. Limits are established for each broker and are kept under review by the Managers. Exposure to credit risk arises on cash at bank, outstanding investment transactions and the derivative instruments.

### Derivative instruments risk

A Derivative Instrument Charter, including an appendix entitled 'Derivative Risk Measurement and Management', details the risks and risk management processes used by the Managers. This Charter was approved by the Board and allows the use of derivative instruments for the following purposes:

- to gain exposure to equity markets, sectors or individual investments;
- to hedge equity market risk in the Company's investments with the intention of mitigating losses in the event of market falls;
- to enhance portfolio returns by writing call and put options; and
- to take short positions in equity markets which would benefit from a fall in the relevant market price in instances where the Manager believes the investment is overvalued. These positions therefore distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

The risk and investment performance of these instruments are managed by an experienced, specialist derivative team of the Managers using portfolio risk assessment tools for portfolio construction.

### RISK SENSITIVITY ANALYSIS

#### Other price risk sensitivity analysis

Changes in market prices, other than those arising from interest rate risk, may also affect both the Company's net profit after taxation for the year and the Company's Net Assets. Details of how the Board sets risk parameters and performance objectives can be found in the Directors' Report on pages 17 to 19.

An increase of 10% in the share prices of the investments designated at fair value through profit or loss at 31 March 2013 would have increased both the profit after taxation for the year and the Net Assets of the Company by £71,290,000 (2012: the loss after taxation for the year would have decreased and the Net Assets of the Company would have increased by £62,971,000). A decrease of 10% in the share prices of the investments designated at fair value through profit or loss would have had an equal but opposite effect.

#### Derivative instruments exposure sensitivity analysis

The Company invests in CFDs to gain exposure to the equity market. An increase of 10% in the share prices of the investments underlying the CFDs at 31 March 2013 would have increased both the profit after taxation for the year and the Net Assets of the Company by £3,934,000 (2012: the loss after taxation for the year would have decreased and the Net Assets of the Company would have increased by £3,778,000). A decrease of 10% in the share prices of the investments underlying the CFDs would have had an equal but opposite effect.

#### Interest rate risk sensitivity analysis

Based on the financial assets and liabilities held and interest rates at the Balance Sheet date, an increase of 0.5% in interest rates throughout the year would have decreased both the profit after taxation for the year and the Net Assets of the Company by £381,000 (2012: the loss after taxation for the year would have increased and the Net Assets of the Company would have decreased by £349,000). A decrease of 0.5% in interest rates throughout the year would have increased both the profit after taxation for the year and the Net Assets of the Company by £475,000 (2012: the loss after taxation for the year would have decreased and the Net Assets of the Company would have increased by £449,000).

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### Foreign currency risk sensitivity analysis

Based on the financial assets and liabilities held and the exchange rates ruling at the Balance Sheet date, if the UK sterling exchange rate had strengthened by 10% against the other currencies, both the profit after taxation for the year and the Net Assets of the Company would have decreased (2012: the loss after taxation for the year would have increased and the Net Assets of the Company would have decreased) by the following amounts:

	2013 £'000	2012 £'000
Australian dollar	400	-
Canadian dollar	47	-
Chinese renminbi	6,707	3,729
Hong Kong dollar	41,399	38,143
Korean won	-	378
Singapore dollar	2,028	1,163
Taiwan dollar	410	-
US dollar	8,760	5,529
	<u>59,751</u>	<u>48,942</u>

If the UK sterling exchange rate had weakened by 10% against the other currencies, both the profit after taxation for the year and the Net Assets of the Company would have increased (2012: the loss after taxation for the year would have decreased and the Net Assets of the Company would have increased) by the following amounts:

	2013 £'000	2012 £'000
Australian dollar	488	-
Canadian dollar	57	-
Chinese renminbi	8,198	4,557
Hong Kong dollar	50,599	46,619
Korean won	-	463
Singapore dollar	2,479	1,422
Taiwan dollar	501	-
US dollar	10,707	6,758
	<u>73,029</u>	<u>59,819</u>

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Note 2 (i) and 2 (j) above, investments are shown at fair value which is bid or last market price. In the case of cash, book value approximates to fair value due to the short maturity of the instruments. The exceptions are the US dollar denominated bank loans whose fair value has been calculated by discounting future cash flows at current US dollar interest rates.

	2013		2012	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured bank loan @ 1.67% per annum	99,283	98,739	-	-
Fixed rate unsecured bank loan @ 1.87% per annum	-	-	62,835	62,561
Fixed rate unsecured bank loan @ 1.85% per annum	-	-	31,417	31,280
	<u>99,283</u>	<u>98,739</u>	<u>94,252</u>	<u>93,841</u>

### FAIR VALUE HIERARCHY

Under IFRS 7, the International Accounting Standards Board requires investment companies to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

#### Classification Input

Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

The valuation techniques used by the Company are explained in the Accounting Policies Notes 2 (i) and 2 (j) above. The table below sets out the Company's fair value hierarchy:

	2013			
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	655,577	-	19,366*	674,943
Investments – equity linked notes	-	37,955	-	37,955
Derivative instruments	-	8,592	-	8,592
	<u>655,577</u>	<u>46,547</u>	<u>19,366</u>	<u>721,490</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instruments	-	(3,110)	-	(3,110)

\* Level 3 investments include a holding in Alibaba Group Holding Limited, an unlisted company incorporated in the Cayman Islands, which is the leading e-commerce company in China. The holding of 25,000 preference shares was purchased during the year at a cost of £15,374,000. At 31 March 2013 the fair value of this investment was £16,457,000. During the year dividend income of £165,000 was received from this investment.

# Notes to the Financial Statements

## 18. FINANCIAL INSTRUMENTS (continued)

	2012			
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	585,407	–	4,063	589,470
Investments – equity linked notes	–	40,239	–	40,239
Derivative instruments	–	11,582	–	11,582
	<u>585,407</u>	<u>51,821</u>	<u>4,063</u>	<u>641,291</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instruments	–	(3,632)	(160)	(3,792)

The table below sets out the movements in level 3 investments during the year:

	2013 £'000	2012 £'000
<b>Financial assets at fair value through profit or loss</b>		
Level 3 investments at the beginning of the year	4,063	–
Purchases at cost	15,374	2,500
Transfers from level 1 at fair value	5,765	1,563
Transfers to level 1 at fair value	(6,919)	–
Movement in investment holding gains in the year	1,083	–
Level 3 investments at the end of the year	<u>19,366</u>	<u>4,063</u>
	2013 £'000	2012 £'000
<b>Financial liabilities at fair value through profit or loss</b>		
Level 3 investments at the beginning of the year	(160)	–
Transfers from level 1 at fair value	–	(160)
Transfers to level 1 at fair value	160	–
Level 3 investments at the end of the year	<u>–</u>	<u>(160)</u>

# Notes to the Financial Statements

## 19. CAPITAL RESOURCES AND GEARING

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital, reserves and gearing, which are disclosed in the Balance Sheet above. It is managed in accordance with its investment policy and in pursuit of its investment objective, both of which are detailed in the Director's Report on pages 16 and 17. The principal risks and their management are disclosed in the Directors' Report on pages 17 to 19 and in Note 18 above.

The Company's gearing at the year end is set out below:

	2013 £'000	2012 £'000
<b>Gross Asset Exposure*</b>		
Investments	712,898	629,709
Long derivatives	50,296	39,329
Short derivatives	10,961	1,551
	<u>774,155</u>	<u>670,589</u>
Less: Options hedging the above	-	(42,104)
	<u>774,155</u>	<u>628,485</u>
<b>Net Assets</b>	<u>634,233</u>	<u>558,975</u>
<b>Gearing (Gross Asset Exposure in excess of Net Assets)</b>	<u>22.1%</u>	<u>12.4%</u>

\* Forward currency contracts are excluded

## 20. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments at 31 March 2013 (2012: none).

## 21. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGERS

FIL Investment Management (Hong Kong) Limited is the Manager and FIL Investments International is the unlisted securities Manager and the Secretary of the Company. Details of the investment management fee payable, are given in Note 4 above and the secretarial and administration fees payable are detailed in Note 5 above. Fees paid to the Directors are disclosed in the Directors' Remuneration Report on page 30.

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity China Special Situations PLC will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on 24 July 2013 at 12.00 noon for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 March 2013.
2. To approve the final dividend.
3. To re-elect Mr John Owen as a Director.
4. To re-elect Mr Nicholas Bull as a Director.
5. To re-elect Mr David Causer as a Director.
6. To re-elect The Hon Peter Pleydell-Bouverie as a Director.
7. To re-elect Ms Elisabeth Scott as a Director.
8. To re-elect Mr Andrew Wells as a Director.
9. To approve the Directors' Remuneration Report for the year ended 31 March 2013.
10. To reappoint Grant Thornton UK LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which Financial Statements are laid before the Company.
11. To authorise the Directors to determine the Auditor's remuneration.

## SPECIAL BUSINESS

Resolutions 12 and 13 will, if approved, authorise the Directors to allot a limited number of the currently unissued Ordinary Shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of Ordinary Shares of the Company in issue on 17 June 2013. The Directors will only issue new Ordinary Shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so. To consider and, if thought fit, to pass the following resolutions which will be proposed, resolution 12 as an ordinary resolution and resolution 13 as a special resolution:

12. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £637,979 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 17 June 2013) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so

that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.

13. THAT, subject to the passing of resolution 12 set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said resolution 12 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:
  - a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);
  - b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £637,979 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 17 June 2013); and
  - c) to the allotment of equity securities at a price of not less than the Net Asset Value per share.

and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this resolution had not expired.

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of Ordinary Shares in issue on 17 June 2013 for cancellation. Purchases of Ordinary Shares will be at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing Net Asset Value per share, thereby resulting in an increased Net Asset Value per share.

# Notice of Meeting

14. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 693 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of Ordinary Shares of 1 penny each in the capital of the Company (the "shares") provided that:

- a) the maximum number of shares hereby authorised to be purchased shall be 95,633,100;
- b) the minimum price which may be paid for a share is 1 penny;
- c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;
- d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
- e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board  
**FIL Investments International**  
Secretary  
17 June 2013

Registered office:  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

## Notes:

1. A member of the Company entitled to attend and vote at the Annual General meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 12.00 noon on 22 July 2013. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notari ally or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Registrars, PXS, The Registry, 24 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
4. In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 12.00 noon on 22 July 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrars no later than 12.00 noon on 22 July 2013.
6. All members are entitled to attend and vote at the Annual General Meeting and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at 12.00 noon on 22 July 2013.
7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

# Notice of Meeting

8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding three per cent or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members by 6.00pm on 22 July 2013. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at 6.00pm on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.
10. As at 17 June 2013 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 637,979,480 Ordinary Shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 17 June 2013 was 637,979,480.
11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
12. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.
14. Under Section 338 and Section 338A of the Companies Act 2006, 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 may properly be moved and is intended to 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 be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of 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. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 12 June 2013, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.
15. No Director has a service contract with the Company.
16. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

Registered office: Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

# Glossary to the Annual Report

AIC	the Association of Investment Companies
AIC Code	the Association of Investment Companies Code of Corporate Governance, as amended from time to time
American Depository Receipt or ADR	a negotiable certificate issued by a US Bank representing a specified number of shares in a foreign stock that is traded on a US Exchange
Articles of Association	the articles of association of the Company, as amended from time to time
Auditor	Grant Thornton UK LLP or such other auditor as the Company may appoint from time to time
Benchmark	Morgan Stanley China Index (MSCI China Index) (sterling adjusted) and is a composite of China "B", "H", "Red Chip" and "P Chip" share classes
Board of Directors	the Board of Directors of the Company or any duly constituted Committee thereof
Capita or Capita Registrars	a trading name for Capita Registrars Limited, the Company's Registrars
Cenkos Securities	Cenkos Securities plc, the Company's broker
China or PRC	the People's Republic of China (excluding Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC)
China "A" Shares	Shares traded on the Chinese Stock Exchanges in Chinese renminbi. Historically, foreign investors were unable to participate in the China "A" Share market. However, following China's introduction of the QFII program in 2002, a legal framework has been provided for licensed QFIIs to invest in China "A" Shares on the Chinese Stock Exchanges and certain other securities previously not eligible for investment by foreign investors
China "B" Shares	Shares traded on the Shenzhen Stock Exchange and Shanghai Stock Exchange in Hong Kong dollars and US dollars, respectively. China "B" Shares were originally intended to be available only to foreign individual and institutional investors. However, since February 2001, China "B" Shares have been available to domestic individual investors who trade through legal foreign currency accounts
China "H" Shares	Shares in companies incorporated in the PRC which are listed on the Hong Kong Stock Exchange. China "H" Shares are available to non-Chinese investors and are traded in Hong Kong dollars on the Hong Kong Stock Exchange
Chinese Stock Exchanges	the Shanghai Stock Exchange, the Shenzhen Stock Exchange and any other stock exchange located within the PRC from time to time
Collateral	assets provided as security
Company	Fidelity China Special Situations PLC
Contract For Difference or CFD	a contract between the Company and an investment bank at the end of which the parties exchange the difference between the opening and closing price of the underlying asset of a specified financial instrument. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). A Contract For Difference does not involve buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. If the Company trades long, dividends are received and interest is paid. If the Company trades short, dividends are paid and interest is received. A Contract For Difference only requires a small deposit ("margin") on trades
Custodian	JPMorgan Chase Bank N.A. (London branch)
Custody Agreement	the agreement between the Custodian and the Company regarding the custody of the assets of the Company dated 25 February 2010
Debt	Bank borrowings and long CFDs

# Glossary to the Annual Report

Derivatives	financial instruments whose value is derived from the value of an underlying asset or other financial instruments such as stocks, bonds, currency exchange rates, real estate and commodities, or market benchmarks such as interest rates. The main categories of derivatives are Contracts For Difference, futures, options and swaps
Directors	Directors of the Company listed in the section headed "Board of Directors", and Director shall mean any one of them
Disclosure and Transparency Rules	the disclosure rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 as amended from time to time
Discount	if the share price of the Company is lower than the net asset value per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the Net Asset Value per share
Equity Linked Notes or ELN	debt instruments whose return on investment is linked to specific equities or equity markets. The return on equity linked notes may be determined by an equity index, a basket of equities, or a single equity
Fair Value	represents the carrying value in the Balance Sheet and it is also the difference between settlement price and the underlying value of the security
FIL	FIL Limited and each of its subsidiaries
FIL Limited	FIL Limited (incorporated in Bermuda), the ultimate parent company of the FIL Group of companies
Fidelity	FIL Investments International
Form of Proxy	the form of proxy for use by shareholders in respect of the Annual General Meeting
Forward/Future Contract	a forward is an agreement to buy or sell a currency, commodity or other asset at a specified future date and at a predetermined price. It is not standardised and is not traded on organised exchanges. A future is an agreement to buy or sell a stated amount of a security, currency or commodity at a specific future date and at a pre-agreed price
FRC	Financial Reporting Council
Gearing	Gross Asset Exposure in excess of Net Assets
Gross Assets	Net Assets plus borrowings
Gross Asset Exposure	the value of the portfolio to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the derivatives, but excluding forward currency contracts)
Hedging	a hedge position will demonstrate risk reduction qualities by delivering short exposure to an asset which has regional congruence and a correlation of at least 80% to long exposures in the Company's portfolio. It therefore distinguishes itself from a "short" which is a position not opened with the objective of reducing the long exposure in the portfolio. Qualifying hedge exposures do not count towards the short exposure limits. For the purposes of calculating Gross Asset Exposure the exposure attributed to the hedge positions will be deducted from the exposure of the corresponding long positions
IFRS	International Financial Reporting Standards
Index linked securities	debt instruments whose return on investment is linked to changes in interest rates, stock exchanges, or other price indices
Investment Manager or Manager	FIL Investment Management (Hong Kong) Limited
Investment Managers or Managers	together, the Investment Manager and the Unlisted Investment Manager

# Glossary to the Annual Report

Management Agreement	the agreement between FIL Investment Management (Hong Kong) Limited and the Company regarding the management of the Company's investments dated 25 February 2010
Management Agreements	together the Management Agreement and the Unlisted Management Agreement
Management Fee	the annual management fee which is calculated as 1.5% of NAV (1.2% of NAV with effect from 1 April 2013)
Marked-to-market	assigning a value based on the current fair market price
Money market instruments	short-term debt instruments that provide the unconditional right to receive a stated, fixed sum of money on a specified date. Money market instruments include treasury bills, bonds, commercial and financial paper, banker's acceptances, negotiable certificates of deposit and short-term notes issued under note issuance facilities
MSCI China Index	the benchmark of the investment performance of the Company is the Morgan Stanley China Index, UK sterling equivalent
MSCI China Mid Cap Index	designed to measure the performance of the mid cap segment of the China market. The Index represents approximately 15% of the free float-adjusted market capitalisation of the China equity universe. It has 306 constituents with a total market cap size of US\$255,893m
MSCI China Small Cap Index	designed to measure the performance of the small cap segment of the China market. The Index represents approximately 14% of the free float-adjusted market capitalisation of the China equity universe. It has 321 constituents with a total market cap size of US\$99,998m
Net Asset Value or NAV per Ordinary Share	the NAV per Ordinary Share is calculated as shareholders' funds divided by the number of Ordinary Shares in issue
Options or options contract	options provide the right to acquire or sell instruments at an agreed price at an agreed date. Options may be call or put and are used to gain or reduce exposure to the underlying asset on a conditional basis
Ordinary Shares	Ordinary Shares with a nominal value of 1 penny each in the capital of the Company and "Ordinary Share" means any one of them
P Chips	companies controlled by mainland individuals, with the establishment and origin of the company in mainland China. P Chips are incorporated outside of the People's Republic of China (PRC) and traded on the Stock Exchange of Hong Kong with a majority of revenues or assets derived from Mainland China
Performance Fee	the Investment Managers are entitled to an annual Performance Fee of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index, subject to a maximum Performance Fee payable in any year equal to 1.5% of the arithmetic mean of the value of assets with the valuation calculated at the end of each month during the year
Portfolio	The Company's portfolio can be made up of equities, index linked, equity linked and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions and other interests including derivative instruments (such as futures, options and contracts for difference)
Portfolio Manager	The current individual appointed as Portfolio Manager is Anthony Bolton
Pre-emption rights	Section 561 of the Companies Act 2006 provides that a company which offers equity securities must first make an offer of those securities, (on the same or more favourable terms) in proportion to the nominal value held by existing shareholders
Premium	if the share price of the Company is higher than the Net Asset Value per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the Net Asset Value per share
Prospectus	the Prospectus of the Company dated 7 January 2011

# Glossary to the Annual Report

QFII	a Qualified Foreign Institutional Investor. The Investment Manager is a QFII and as such has been granted a QFII licence by the China Securities Regulatory Commission("CSRC") which permits the Company to invest in China A Shares through the Investment Manager and has received an allocation of quota for onshore investment from the State Administration of Foreign Exchange of the PRC ("SAFE")
Red Chips	Red Chip is the term used to describe companies incorporated outside China but which are based in mainland China. Red Chips are listed on, and are required to observe the filing and reporting requirements of, the Hong Kong Stock Exchange. Red Chips typically have a significant portion of their business interests located in mainland China and many are owned, either directly or indirectly, by organisations or enterprises controlled by the Chinese state, provinces or municipalities
Registrar	Capita Registrars
Renminbi	currency of the PRC
Secretarial Agreement	the agreement between the Secretary and the Company regarding the provision of company secretarial and administrative services dated 25 February 2010
Secretary	FIL Investments International
Shareholders' funds	the value of the Company's assets less all its liabilities as shown in the balance sheet
Short stock exposure	the position of the Company when it has sold a security or derivative that it did not own but is now committed to eventually purchase to satisfy its obligation to sell, being a strategy used to capitalise on an expected decline in the security's or derivative's price
SORP	Statement of Recommended Practice
Unlisted Investment Manager	FIL Investments International
Unlisted Management Agreement	the Agreement between FIL Investments International and the Company regarding the management of the Company's unlisted investments
Unlisted securities	securities which are not listed on a regulated stock exchange

# Investing in Fidelity China Special Situations PLC

The information on the following pages is provided by Fidelity and should not be seen as a recommendation by the Board of Fidelity China Special Situations PLC.

Fidelity offers a range of options, so that you can invest in the way that is best for you. As Fidelity China Special Situations PLC is a company listed on the London Stock Exchange you can also buy its shares through a stockbroker, share shop or bank.

## INVESTING INSIDE AN ISA

You may invest in the Company's shares through the Fidelity ISA ("Individual Savings Account"). A Fidelity ISA can be an excellent way to get more from your investment, because you will not have to pay income or capital gains tax on your returns.

The maximum investment in a stocks and shares ISA for the 2013/2014 tax year is £11,520. The full amount may be invested in a Stocks and Shares ISA, or you can invest up to half the ISA allowance in a Cash ISA and the balance in a Stocks and Shares ISA. The minimum investment per fund in the Fidelity ISA is £1,000 as a lump sum, £250 as a top-up, or £50 a month per company in a regular savings plan.

**Charges** – Initial Charges for investments in the Fidelity ISA may vary. For those investing personally (directly with Fidelity), there will be no initial charge. Those investing through an intermediary will pay a basic initial charge of 0.5% plus any initial fee or commission (where applicable) agreed with their intermediary. Fidelity pays stamp duty from the initial charge. There are no other charges for the Fidelity ISA, but the Company pays an annual management charge to Fidelity of 0.85% plus a performance related fee where applicable, as set out in the Annual Report.

## MOVING MONEY FROM A PREVIOUS ISA

If you have opened ISAs with other investment companies, you can move them into the Fidelity ISA and invest in Fidelity China Special Situations PLC without losing any tax benefits. This is known as an ISA transfer and it can be a great way to give your portfolio a new focus, or to realign it with your current investment goals. Please note that during the transfer your money will not be invested in the stock market so you may miss out on any growth during this time.

**Charges** – Fidelity does not apply an initial charge for a transfer into Fidelity China Special Situations PLC. You will also not have to pay any additional transfer costs. However, please bear in mind that your current ISA manager may ask you to pay an exit fee. If your old fund provider charges you a fee for leaving them, you can claim it back from us. Please note this offer does not apply to the share dealing service.

## INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust Share Plan offers you a low cost and convenient way to put money into Fidelity China Special Situations PLC. The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month in a regular savings plan. Holding shares within the Share Plan allows you to reinvest your dividends and make further investments without

having to pay brokerage fees. You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.

**Investing for children** – the Share Plan is a flexible and inexpensive way to invest on behalf of children. All you have to do is enter the initials or name of the child in the Designation Box on the Share Pal application form.

**Charges** – There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than stamp duty of 0.5%, which is currently payable on all share purchases. However, if you invest through a Financial Adviser, there may be additional fees of up to 3% agreed with your advisor.

## BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

Registered shareholders of fully listed companies are able to nominate the underlying beneficial owners of their shares to receive information rights. You should contact your registered shareholder direct to request to receive your information rights. Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrars, Capita Registrars, or to the Company direct.

## INVESTING ONLINE

Whilst you cannot use a Debit Card online to invest through an ISA, JISA or Share Plan the application forms you need are all available via [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its). You can also invest online in Fidelity China Special Situations PLC shares via the share trading facility available via [www.fidelity.co.uk/sharenetwork](http://www.fidelity.co.uk/sharenetwork). The Share Dealing service, ShareNetwork, is provided by Xest which is the online trading division of Charles Stanley & Co Limited, a leading London stockbroker. ShareNetwork enables you to buy or sell shares in any listed company during normal London Stock Exchange trading hours – between 8am and 4.30pm any working day. Shares in ShareNetwork can either be held direct or in an ISA, subject to the normal ISA limits and restrictions. You will be shown a live price and be able to buy or sell immediately. If an order is placed when the market is closed, it will be processed as soon as the market reopens. Unlike many online share dealing services, Fidelity ShareNetwork gives you CREST personal membership for shares held direct. This means that shares are registered on the CREST system in your own name and everything relating to your shares – dividends, annual reports and so on – will be sent direct to you and you will be able to attend and vote at shareholder meetings in your own name.

# Investing in Fidelity China Special Situations PLC

Personal CREST membership does not apply to ISA holdings which must be held in the name of the ISA manager's nominee under ISA regulations. There is no extra charge for opening a ShareNetwork ISA and share purchases or sales are executed on line for only £9 per trade (Stamp duty is also payable on purchases at the rate of 0.5%). There is an account administration fee of £5.10 per month regardless of how many different shares you own and whatever their value. Of course, you need to remember that the value of tax savings and eligibility to invest in an ISA will depend on your individual circumstances, and all tax rules may change in the future.

# Investing in Fidelity China Special Situations PLC

## FURTHER INFORMATION

For application forms or more information about any of the investment options described here, please call the Fidelity Investment Trust Line on 0800 41 41 10 and talk to a Fidelity customer representative (9am to 6pm).

Alternatively, you may like to visit the Fidelity London Investor Centre at 25 Cannon Street, next to St Paul's Cathedral.

You can also find out more by visiting [fidelity.co.uk/its](http://fidelity.co.uk/its) or contacting your Financial Adviser.

The Fidelity Individual Savings Account ("ISA") and Junior ISA is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by FIL Investments International. Both companies are regulated by the Financial Conduct Authority.

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Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than older developed markets. Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity.

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The content of websites referenced in this document does not form part of this document.

# Information for Investors

## CONTACT INFORMATION

**Private investors:** call free to 0800 41 41 10, 9am to 6pm, Monday to Saturday.

**Financial advisers:** call free to 0800 41 41 81, 8am to 6pm, Monday to Friday.  
[www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

**Existing shareholders** who have a specific query regarding their holding or need to provide updated information, for example a change of address, should contact the appropriate administrator:

### Holders of Ordinary Shares

Capita Registrars, Registrars to Fidelity China Special Situations PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8.30am – 5.30pm Monday to Friday) email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

Details of individual shareholdings and other information can also be obtained from the Registrars' website:  
[www.capitaregistrars.com](http://www.capitaregistrars.com)

### Fidelity Share Plan investors

With effect from 1 June 2013, the address has changed to: Fidelity Investment Trust Share Plan, PO Box 12062, Mellon House, Ingrave Road, Brentwood, Essex CM14 9LX. Telephone: 0845 358 1107 (calls to this number are charged at 3.95p per minute from a BT landline dependent on the tariff. Other telephone service providers' costs may vary).

### Fidelity ISA investors

Fidelity, using the freephone numbers given above, or by writing to: UK Customer Service, Fidelity Worldwide Investment, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

### General enquiries

General enquiries should be made to Fidelity, FIL Investments International, the Secretary, at the Company's registered office: FIL Investments International Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. Telephone: 01732 361144. Fax: 01737 836 892  
[www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

## ONLINE SHAREHOLDER SERVICES – SHARE PORTAL

Through the website of our Registrars, Capita Registrars, shareholders are able to manage their shareholding online by registering for the Share Portal, a free, secure, online access to your shareholding. Facilities include:

- **Account Enquiry** – Allows shareholders to access their personal shareholding, including share transaction history, dividend payment history and to obtain an up-to-date shareholding valuation;

- **Amendment of Standing Data** – Allows shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download from this site forms such as change of address, stock transfer and dividend mandate forms as well as buy and sell shares in the Company.

To make use of any of these facilities, please log on to the Capita Registrars website at: [www.capitashareportal.com](http://www.capitashareportal.com)

Should you have any queries in respect of the above facilities, please do not hesitate to contact the Capita Share Portal helpline on 0871 664 0391 (calls cost 10p plus network extras), overseas +44 20 8639 3367, or by e-mail at [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk)

### Capita Share Dealing Services

You can make use of a low cost share dealing service provided by Capita Registrars to buy or sell shares. Further information is available at [www.capitadeal.com](http://www.capitadeal.com), or by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open 8.30am – 5.30pm Monday to Friday). Using Capita Share Dealing Services you will also be able to deal in the shares of other companies for which Capita acts as Registrar, provided you are already a shareholder in the relevant company, and that company offers the Share Dealing facility to its shareholders.

### Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you prefer to receive shares for your next dividend instead of cash please complete an application form online at [www.capitashareportal.com](http://www.capitashareportal.com) or call Capita IRG Trustees on 0871 644 0381 (calls cost 10p per minute plus network extras) from the UK or +44 20 8639 3402 from overseas.

### ShareGift

You may donate your shares to charity free of charge through ShareGift. Further details are available at [www.sharegift.org.uk](http://www.sharegift.org.uk) or by telephoning 020 7930 3737.

### KEEPING YOU UPDATED

If you hold Fidelity China Special Situations PLC shares in a Fidelity ISA, you will receive a yearly report detailing all of your transactions and the value of your shares. Investors with the Fidelity Investment Trust Share Plan will receive statements and valuations twice a year.

# Warning to Shareholders

## SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

## PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at [www.fsa.gov.uk/fsaregister](http://www.fsa.gov.uk/fsaregister) to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

## REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at [www.fca.org.uk/consumer/scams](http://www.fca.org.uk/consumer/scams), where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

**If you have already paid money to share fraudsters you should contact Action Fraud on**

**0300 123 2040**



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