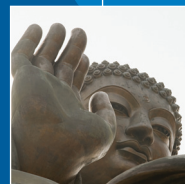


# FIDELITY CHINA SPECIAL SITUATIONS PLC

## ANNUAL REPORT

For the period ended 31 March 2011



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# The Investment Objective

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John Owen, Chairman

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. It may also invest in listed companies with significant interests in China and Hong Kong.

## Returns (%)

Returns	From launch on 19 April 2010 to 31 March 2011
NAV per share total return	+5.24%
Share price total return	+10.00%
MSCI China Index total return <sup>1</sup>	+3.30%

<sup>1</sup> Rebased to 100.00 at launch

Source: Fidelity and Datastream

# Summary of Results

	As at 31 March 2011	At launch 19 April 2010	% change
Gross Assets	£745.98m	£455.82m	
Net Assets	£683.96m	£455.82m	
Net Asset Value per Share	104.20p	99.01p	+5.24
Gross Asset Exposure	£791.89m	£455.82m	
Gross Asset Exposure to Net Assets (%)	115.8%	100.0%	
Earnings per Share <sup>3</sup>	0.47p	n/a	
Number of ordinary shares in issue	656,404,480	460,000,000	

## Stock market data<sup>1</sup>

MSCI China Index – sterling equivalent (total return) <sup>2</sup>		103.30	100.00	+3.30
Share price	period end/launch	110.00p	100.00p	+10.00
	period high	128.70p	n/a	
	period low	92.25p	n/a	
Premium/(discount)	period end	5.57%	n/a	
	period high	13.11%	n/a	
	period low	(1.70%)	n/a	

## For the period from 19 April 2010 to 31 March 2011

Revenue return per ordinary share <sup>3</sup>	0.47p	n/a
Capital return per ordinary share <sup>3</sup>	3.67p	n/a
Total return per ordinary share <sup>3</sup>	4.14p	n/a
Total Expense Ratio <sup>4</sup>	1.93%	n/a
Final dividend proposed per ordinary share	0.25p	n/a

<sup>1</sup> Source: Fidelity and Datastream

<sup>2</sup> Rebased to 100.00 at launch

<sup>3</sup> Based on the weighted average number of ordinary shares in issue during the period

<sup>4</sup> Total expenses, including management fees but excluding finance costs, for the period expressed as a percentage of average net assets. The expenses include one-off costs associated with the offer for subscription and placing, which represented 0.18% of average net assets

## RESULTS FOR THE PERIOD FROM 19 APRIL 2010 TO 31 MARCH 2011

NAV PER SHARE:	+5.24%
SHARE PRICE:	+10.00%
BENCHMARK:	+3.30%

I have pleasure in presenting the first Annual Report for Fidelity China Special Situations PLC and would like to take the opportunity to welcome all our shareholders.

### PERFORMANCE REVIEW

Over the period under review, China overtook Japan to become the world's second largest economy, driven by its rapid transition from a predominantly export-led economy to one that is increasingly influenced by domestic consumption. A key focus of China's twelfth five-year plan is to boost the consumption power of the less affluent by reducing the income gap between its citizens. This supports the consumer-consumption focus of the Portfolio Manager's investment thesis.

These structural changes have been managed through a period of volatility for all equity markets, which has been amplified by sovereign debt concerns in the Eurozone and rising commodity prices, in particular food and energy. These issues have certainly heightened investor caution. Nevertheless, growth in the Chinese economy has been above 8% per annum, despite continued tightening of bank reserve requirements. This, along with interest rate rises imposed by the Chinese Government, has impacted the domestic property market.

The main concern now is inflation, with the Chinese consumer price index running at 5.4% for the year to March 2011. This is likely to lead the Chinese government to implement a further round of tightening measures. Coupled with significant wage increases, these in the long term may end China's days as the cheap manufacturing base of the world.

Against this backdrop, your Board believes that the growth in size and affluence of China's middle class – leading to a higher level of aggregate disposable income – will be an ongoing driver of domestic consumption. We expect that for this reason, the consumer-consumption story will continue to be a central focus for the Company's investment portfolio.

Since the launch of the Company in April 2010, performance figures for the period to 31 March 2011 are encouraging. They provide a solid platform on which the Company can continue to achieve its investment objective of generating long term capital growth for its shareholders.

In the period from 19 April 2010 to 31 March 2011, the Company's net asset value (NAV) per ordinary share increased from 99.01p to 104.20p, an increase of 5.24%. This compares with a rise in our benchmark, the MSCI China Index, of 3.30%. In the same period, the market

price of the ordinary shares increased from 100.00p to 110.00p, an increase of 10%, and the ordinary shares traded at an average premium of 5.30%.

As of 17 June 2011, being the latest practicable date prior to publication, the NAV of the Company was 93.86p per share and the share price was 94.50p per share, meaning that your shares were trading at a 0.68% premium to NAV.

### 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 any return to shareholders. However, in order to continue to qualify as an investment trust, the Company is required by Chapter 4 of Part 24 of the Corporation Tax Act 2010 not to retain more than 15% of the income it derives from shares and securities.

This being the case, allowing for the number of shares eligible for a dividend, the Board recommends a final dividend of 0.25p per share to be approved by shareholders at the forthcoming Annual General Meeting.

The dividend will be payable on 5 August 2011 to shareholders on the register on 22 July 2011 (ex dividend date 20 July 2011).

### SHARE ISSUES

On 18 June 2010, the Company was admitted to the FTSE 250 Index in recognition of the size of the Company's market capitalisation.

Since the Company's launch, the shares have generally traded at a premium to their net asset value, reflecting demand for shares that is not satisfied by sellers. This being the case, the Company issued a total of 38,750,000 ordinary shares in separate issues during the period under review. A further 6,250,000 shares were issued after the period end.

In addition the Company issued 166,250,000 "C" shares of 100 pence each, which were subsequently converted into 157,654,480 new ordinary shares on 1 March 2011. This issue was supported by existing shareholders who subscribed for 56% of the issue.

At the General Meeting to approve the "C" share issue the Board received consent to issue further shares. The Board may continue to issue shares at a premium, in order to satisfy market demand, subject to shareholder approval at the Annual General Meeting.

### Qualified Foreign Institutional Investor (QFII)

On 26 November 2011, the Investment Manager of the Company was granted QFII Status and a QFII quota through which the Company may invest in China "A" Shares through the Investment Manager.

# Chairman's Statement

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This facility allows the Portfolio Manager to invest directly into the potential growth opportunities of the "A" Share market. The Company has now fully funded its share of the quota (as required by State Administration of Foreign Exchange of the PRC ("SAFE")).

## THE BOARD

Board members who were appointed in February 2010 are subject to election at the forthcoming Annual General Meeting of the Company.

On 1 March 2011, Mr Douglas Naismith resigned as a Director and Mr Gary Shaughnessy was appointed to the Board. I would like to welcome Gary to the Board and thank Doug for his valuable contribution to the Company. Mr Shaughnessy will also be subject to election at the Annual General Meeting.

Since my appointment as Chairman of the Board, the last year has been both challenging and fulfilling. The Board has held over twenty Board meetings and overseen two successful share issues, which have created the largest investment company listed on the London Stock Exchange providing direct exposure to China.

In October 2010, the Board visited China and Hong Kong to witness first hand the investment opportunities there. During this visit it was clear that the key asset of the Company and that of its shareholders is the breadth and strength of Fidelity's investment team in Hong Kong, led by Anthony Bolton.

## CORPORATE GOVERNANCE

As detailed in the Corporate Governance Statement on pages 25 to 30, the Board follows the approach recommended by the Association of Investment Companies in its Code of Corporate Governance.

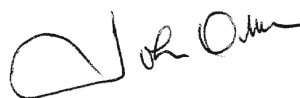
The volume and impact of regulatory change remain challenging for boards of all UK plc's. In particular, the uncertainties around the future of financial regulation in the UK, the potential impact of the Retail Distribution Review and the implementation of the Alternative Investment Fund Managers Directive (AIFMD) will add to the complexity of the governance framework of investment companies going forward.

The Board regularly reviews regulatory change to ensure that the Company's governance arrangements meet best practice requirements.

## THE ANNUAL GENERAL MEETING – 29 JULY 2011

The Annual General Meeting of the Company will be held at the Barbican Centre, Silk Street, London, EC2Y 8DS, on Friday 29 July 2011 at 11.00am.

Our Portfolio Manager, Anthony Bolton will be attending the Annual General Meeting and making a presentation highlighting the achievements and challenges of the initial period and the prospects for the year to come.



**John Owen**  
Chairman  
17 June 2011



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).

When I wrote the first interim report in October last year I did so in a mood of optimism – my transition to Hong Kong was going well and I had settled back into a familiar fund manager's routine. I was enjoying meeting lots of Chinese companies, interacting with our team of analysts and other fund managers who follow China and reading lots of broker and other third party research. Most importantly, the NAV was up about 15% from launch. I did preface my remarks by saying it was still early days, however, and it is now clear that the fund's first period has been one of two halves. About the time I wrote my report the market and NAV peaked and the second half proved much tougher, with the market falling until it made a low in mid March round the time of the C share issue. There was some recovery in April but recently the NAV has returned to near 100p. The second half of the period and performance since the period end has been disappointing for investors and me personally.

I still believe world equities are in a bull market and what we have recently experienced in Chinese stocks is a normal pause in that cycle. I do not yet see either the investor behaviour or market valuations that one would normally associate with a bull market peak. In fact, given the extraordinary world events in the first quarter of this year, markets have been remarkably resilient, illustrating how bull markets typically climb a "wall of worry". As I have maintained for some time, I still feel we are in a two-speed world where growth in the developed economies will be below normal for several years – the solution to the financial crisis has left them with debt problems that will hold back growth for the foreseeable future. The US, Europe and Japan have major challenges ahead and, although emerging markets will not be immune to the effects of this, I believe the relatively higher growth they offer will be increasingly attractive to investors. For the first part of 2011 investor flows have returned to developed markets and emerging market funds have seen redemptions. I believe this is a

temporary pause and flows will return to emerging markets.

One of the fascinating things about China is the fact that investors' attitudes to it are very polarised; it is like one of those optical illusions where some viewers perceive a smiling face and some a sad one – the same picture can provoke two very different interpretations. Some see China as the main driver of Asian growth, on its way to becoming the biggest economy in the world, while others are concerned about excessive credit growth and inflation, property and bad debt problems. Probably the truth lies somewhere between these two extremes.

I want to spend some time in this report on the negative case as, although many of the concerns are valid, I believe some of the conclusions being drawn are wrong. Like any investment proposition, China is not without risks but I continue to believe that the case for investing is compelling.

### INFLATION

My first observation is that in today's two-speed world most emerging markets are probably going to have to live with higher levels of structural inflation than in the recent past. Indeed, the actual level of inflation in China is probably higher than the 5.4% official figure suggests, maybe more like high single digits. China's new five year plan is targeting annual real wage increases of at least 7% and this does not sit easily with an official inflation target of 4%, which I believe will probably be increased in the future. That said, the Chinese authorities have many powers to influence inflation – powers like price controls which are generally not available in other countries. We have already seen this with official or unofficial price controls on a number of products. Recent evidence seems to suggest that food inflation which makes up 70% of China's official CPI is at or past its peak, although core inflation is creeping up. I would not want to say that inflation is not a problem but I do not think it will stop the bull market unless it gets completely out of control. The authorities must tread a delicate path between slowing the economy to alleviate inflationary pressures and suppressing growth too much but I believe they will strike the right balance. I am expecting growth to fall back to 7-8% compared with last year's 10%, but that is still a very attractive level relative to the developed world.

### PROPERTY

Residential property prices in most Chinese cities have been in a generally rising trend for a number of years and affordability looks pretty stretched. Because of the negative public opinion associated with this, the Chinese authorities last year imposed a number of measures to cool demand, including unprecedented controls in some cities on buying multiple properties and purchases by individuals not resident in that city. These measures have removed a lot of the short term speculative money from the market. The Government has also embarked on a very ambitious social housing programme (10 million units this year and a total of 36 million over the next five

# Manager's Report

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years). A number of the negative reports I have received on China suggest that there are several empty cities in China; this may indeed be the case but the Chinese often build infrastructure well in advance of when it is needed and I expect most of the empty cities to fill up in time. These reports also suggest there are as many as 65 million empty apartments. I am unable to confirm a source for this figure and the research I have seen suggests a figure significantly smaller than this. Although empty, these properties are all owned by individuals who chose to keep them as empty shells (there is not a huge backlog of unsold apartments owned by developers). The key question is whether owners try to sell out if, as looks likely later this year, we experience a period of falling property prices. My view is that most will hold on, seeing property as a longer term investment rather than a short term speculation. Also, the mortgage debt against these properties is generally not high so they are unlikely to be forced sellers. The long term demand picture for residential housing is still very favourable.

## BAD LOANS

China has experienced over two years of rapid credit growth. Government measures such as raising interest rates and increasing reserve requirements appear to have led to a slow down in the rate of growth, although lending outside the banking system still appears to be growing fast. Once credit has been expanded strongly it is always difficult to wean banks, companies and individuals off it. That said, credit at the individual level is still very low in China by international standards. One area that observers are particularly concerned about is loans by banks to vehicles set up by local Governments to help finance infrastructure and other local projects. Listed banks have lent RMB 6.25 trillion to these vehicles. The bank regulator (CBRC) has required all banks to look at such loans very closely and it appears as if up to 20% are at some sort of risk of not being repaid. The other thing that worries investors is that local Governments' main source of income is usually selling land they own to developers. If there are problems in the property market, it may become more difficult for them to sell land, which would restrict their financing flexibility. I agree that this is a risk, particularly from 2012 when many of these loans become due. However, I believe the central Government will step in to help the local Governments through any temporary difficulties.

Investors are rightly concerned about inflation, the property market and credit growth, but for the reasons I have outlined here I believe the conclusions they have drawn are too pessimistic. On a more positive note, the authorities have launched an ambitious and challenging new five year plan which envisages a major transition of the economy away from low value manufactured exports towards domestic consumption and the growth of services. They have put specific targets on how much of GDP will in the future come from these two areas. Interestingly, this very much endorses the strategy that I have pursued in managing the fund, with my main focus being on these two areas. I do not think anyone should

underestimate the challenges from this major change of course for the economy, with many workers having to retrain for completely new careers in new places. However, the pragmatism and flexibility of Chinese workers and their managers impresses me. The five year plan also underwrites a further phase of urbanisation in China. Some people worry about the demographics of China, with an aging population due to the one child policy. I think in maybe ten years time this could be a problem but today the continued shift of workers from rural areas to cities is the more important trend.

Finally, the five year plan underwrites the so called "S curve" effect where domestic growth speeds up once a certain level of GDP per head is exceeded. The growth in the China consumer story remains for me the dominant investment theme which will continue to exert a positive influence on markets long after the short term concerns have been resolved.

## KOREA

One other risk in the region that has particularly concerned me is the political situation between North and South Korea. We have seen several hostile acts from the North on the South and my concern is that, if this continues, next time the reaction of the South may be to retaliate. Such an event I believe would, at least in the short term, be very worrying for investors in the region. I think Chinese equities would be affected by this. Because of my concern I have purchased out of the money put options on the Korean index to protect about 25% of the fund's gross assets. Like any form of insurance it is something that I hope will not be needed. The cost of these options has been the largest negative contributor to the fund's performance during the period. I have recently renewed these options for a further six month period.

## GEARING

The Company has two types of gearing. The first is a bank debt facility of US\$100m (post the C share issue increased to US\$150m). The debt is in US\$ rather than HK\$ as I believe there is a possibility of the Hong Kong US dollar peg being removed at some stage and the HK\$ moving up against the US\$. The second form of gearing is through derivatives principally via contracts for difference against some of the largest holdings (these are marked in the Forty Largest Holdings).

## PORTFOLIO

The fund continues to be mainly focused on the Chinese consumption and service sectors with about a third of the fund in consumer sectors, like retailers, luxury cars, food and drink, consumer products, internet and hotels and restaurants, and about half the fund in service businesses, such as financial services, mobile telephony, healthcare, IT services and education. The rest of the fund is in materials companies (gold and paper), domestically-orientated manufacturing companies and some investment companies. The portfolio remains very underweight in most exporters, and infrastructure and



commodity names, including oil shares. This low oil exposure has hurt the fund this period but for the moment I am maintaining the position. On commodities in general, I think the valuations are high, they are very popular and over-owned and therefore risky. I do not think they reflect the slowing growth in China and low growth in the rest of the world. It is interesting that Glencore, one of the most successful commodity trading houses, has chosen now to list when, maybe, a number of commodity prices are near a peak. Oil is different from other commodities, having a political angle that the others largely do not. We will have to watch the situation in the Middle East carefully and especially Saudi Arabia. I also view gold differently from the other commodities as it has characteristics more like a currency. In a world where so many currencies have problems, some exposure to gold makes sense to me.

Within financials, the main exposure is to Hong Kong-based banks (about 12% of the gross assets) and property companies (about 5%) rather than mainland banks and property companies. The fund's only exposure to the mainland residential property market is through two estate agent companies (about 1% of the fund). Because of the Government's tightening measures and the uncertainties about the banks' bad loans and the poor short term outlook for the property market on the mainland, I have preferred the Hong Kong companies. Hong Kong banks are benefiting from good loan growth, the prospect of higher margins and the effects of the internationalisation of the RMB. This should be a new source of revenue as the Hong Kong-based banks are in pole position to benefit from this trend.

The majority of the fund is invested in private companies rather than state owned enterprises. Private companies are generally more dynamic although they can also be more risky. Also, 44% of the fund is in small companies with a market capitalisation below £1 billion, 28% in medium-sized companies (£1-5 billion) and another 28% in large companies over £5 billion. I continue to feel the medium-sized and smaller companies offer some of the best potential and they are also the least well researched.

Fidelity has received its QFII licence and clearance to invest so, since the period end, I have been using this quota to invest in Chinese "A" Shares. Most of our quota has been used to replace the broker provided QFII that we have used to date. The majority of the fund's "A" share exposure is in financial shares, where the "A" shares often sell at a significant discount to the Hong Kong-listed shares of dual-listed companies (companies listed in both the mainland and Hong Kong). In most other areas, I continue to find the "A" shares expensive relative to the shares of similar companies listed in Hong Kong or the US. At the period end, 66% of the gross assets was in Hong Kong-listed shares, 8.5% was in mainland-listed "A" or "B" shares, about 15% in US-listed shares and 7.5% in Chinese exposed companies in other markets. As well as underlying exposure to RMB

through investments held, the Company also had additional RMB exposure through RMB foreign exchange contracts.

In summary, I remain as convinced as ever by the long-term case for investing in China. In the short term, there are challenges as the Chinese authorities try to effect a soft landing for their economy, but I believe they will succeed. I expect investment flows to resume their trend out of the developed world into emerging markets like China; this may lead, at some stage, to valuations going well above fair value. I hope that with the help of our excellent team here in Hong Kong, we can continue to uncover the companies that are best placed to benefit from the ongoing transformation of China's economy.

**Anthony Bolton**

17 June 2011

## Forty Largest Holdings as at 31 March 2011

Holdings	Fair Value £'000	Gross Asset Exposure £'000	Fair Value as a % of Gross Assets
<b>China Unicom (Hong Kong) Limited*</b> An integrated telecommunications provider	36,356	46,267	4.9
<b>Bank Of China Hong Kong Limited*</b> A subsidiary of the Bank of China, based in Hong Kong	36,267	45,262	4.9
<b>HSBC Holdings Plc (Hong Kong listed)*</b> A global banking and financial services company	28,831	35,143	3.9
<b>China Merchants Bank (ELN)</b> Commercial bank offering corporate banking, retail banking and treasury businesses	23,926	23,926	3.2
<b>Tencent Holdings Limited*</b> Provides internet, mobile and telecommunications value-added services	23,261	28,965	3.1
<b>Ping An Insurance (Group) Company of China (ELN)</b> Insurance company	22,425	22,425	3.0
<b>Zhaojin Mining Industry Company Limited</b> Gold mining company	20,505	20,505	2.7
<b>Gome Electrical Appliances Holdings*</b> Retails electrical appliances and consumer electronic products	20,200	24,296	2.7
<b>SoftBank Corporation</b> A Japanese telecommunications firm with holdings in Chinese internet companies	16,323	16,323	2.2
<b>United Laboratories International Holdings</b> Pharmaceutical company	15,560	15,560	2.1
<b>Brilliance China Automotive Holdings Limited*</b> Auto company that is BMW's Chinese partner	15,559	18,797	2.1
<b>PCCW Limited</b> A Hong Kong-based telecommunications company	13,220	13,220	1.8
<b>Jardine Strategic Holdings Limited (Singapore listed)</b> A holding company with interests in engineering, transport services, insurance broking, property investment and mining	12,670	12,670	1.7
<b>BaWang International (Group) Holdings Limited</b> A Chinese herbal personal care and household products company	11,150	11,150	1.5
<b>TVB</b> Hong Kong television broadcaster	10,080	10,080	1.4
<b>WuXi Pharma Tech (ADR)</b> Contract research pharmaceutical company	9,017	9,017	1.2
<b>Asiainfo Linkage, Inc</b> A telecommunications software solutions provider in China	8,994	8,994	1.2
<b>CITIC Securities Company Limited (ELN)</b> Broker and asset manager	8,689	8,689	1.2
<b>Hang Lung Properties Limited</b> Property investment and development company	8,659	8,659	1.2
<b>ChinaCast Education Corporation</b> Education and e-learning services provider	8,160	8,160	1.1
<b>Besunyen Holdings Company Limited</b> Medicinal herbal tea company	8,121	8,121	1.1

## Forty Largest Holdings as at 31 March 2011

Holdings	Fair Value £'000	Gross Asset Exposure £'000	Fair Value as a % of Gross Assets
<b>SJM Holdings Limited</b> Operates casinos and gaming-related activities in Macau	7,991	7,991	1.1
<b>Natural Beauty Bio-Technology Limited</b> A personal care products company	7,792	7,792	1.0
<b>The Link Real Estate Investment Trust</b> Owns retail shopping centres in Hong Kong	7,683	7,683	1.0
<b>Hang Seng Bank Limited</b> A commercial banking group	7,664	7,664	1.0
<b>The Bank of East Asia Limited</b> A commercial banking group	7,538	7,538	1.0
<b>China Huiyuan Juice Group Limited</b> Producer and seller of juices and other beverages	7,282	7,282	1.0
<b>China Liansu Group Holdings Limited</b> Manufacturer of plastic pipes and pipe fittings	7,119	7,119	1.0
<b>Sino Prosper State Gold Resources Holdings Limited</b> Gold mining company	6,788	6,788	0.9
<b>China Medical Technologies Inc (ADR)</b> Manufacturer and seller of medical devices	6,245	6,245	0.8
<b>Xingda International Holdings Limited</b> Leading producer of radial tyre cords	6,068	6,068	0.8
<b>Ming Fung Jewellery Group Limited</b> Manufacturer and retailer of jewellery	5,893	5,893	0.8
<b>Kingdee International Software Group Company Limited</b> Software company	5,865	5,865	0.8
<b>Asian Citrus Holdings (Hong Kong listed)</b> Engaged in planting, cultivation and selling of agricultural products	5,770	5,770	0.8
<b>Hengdeli Holdings Limited</b> Retailer and distributor of consumer goods	5,663	5,663	0.7
<b>China Lodging Group (ADR)</b> Operates a chain of economy hotels	5,489	5,489	0.7
<b>Chow Sang Sang Holdings Limited</b> Manufacturer and retailer of jewellery	5,375	5,375	0.7
<b>Osstem Implant Co Limited</b> Specialises in the provision of dental implants	5,274	5,274	0.7
<b>Luk Fook Holdings (International) Limited</b> Manufacturer and retailer of jewellery	5,251	5,251	0.7
<b>HollySys Automation Technologies</b> Provider of automation and control technologies and applications	5,047	5,047	0.6
<b>Forty Largest Holdings</b>	<b>479,770</b>	<b>518,026</b>	<b>64.3</b>

\*includes investment via contracts for difference

## Distribution of the Portfolio as at 31 March 2011

	% of Total Gross Assets	Benchmark %
<b>Industry</b>		
Financial <sup>1</sup>	25.1	37.7
Consumer Discretionary	22.4	5.1
Telecommunications	9.7	10.7
Healthcare	8.6	5.9
Information Technology	9.5	4.7
Materials	7.1	0.7
Consumer Staples	9.0	6.5
Industrials	6.2	8.1
Energy	1.1	18.9
Utilities	–	1.7
Futures	2.4	–
Cash and Others <sup>3</sup>	(1.1)	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Country of principal business</b>		
China	63.9	100.0
Hong Kong	29.4	–
Taiwan	0.2	–
South Korea <sup>1</sup>	1.0	–
Singapore	2.1	–
Japan	2.1	–
Futures <sup>2</sup>	2.4	–
Cash and Others <sup>3</sup>	(1.1)	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Share Type</b>		
China "A" Shares	9.2	–
China "B" Shares	0.3	1.2
China "H" Shares	4.8	51.1
Red-Chips	14.7	24.2
Other Stocks listed in Hong Kong	48.4	23.5
China Stocks listed in Singapore	2.6	–
China Stocks listed in Korea <sup>1</sup>	1.0	–
China Stocks listed in the US	14.2	–
China Stocks listed in the UK	1.2	–
China Stocks listed in Japan	2.1	–
China Stocks listed in Taiwan	0.2	–
Futures	2.4	–
Cash and Others <sup>3</sup>	(1.1)	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Includes a Korean KOSPI Put Option of 0.07% of gross assets

<sup>2</sup> Index Futures held in Hong Kong and China

<sup>3</sup> Cash, cash equivalent and other net current liabilities

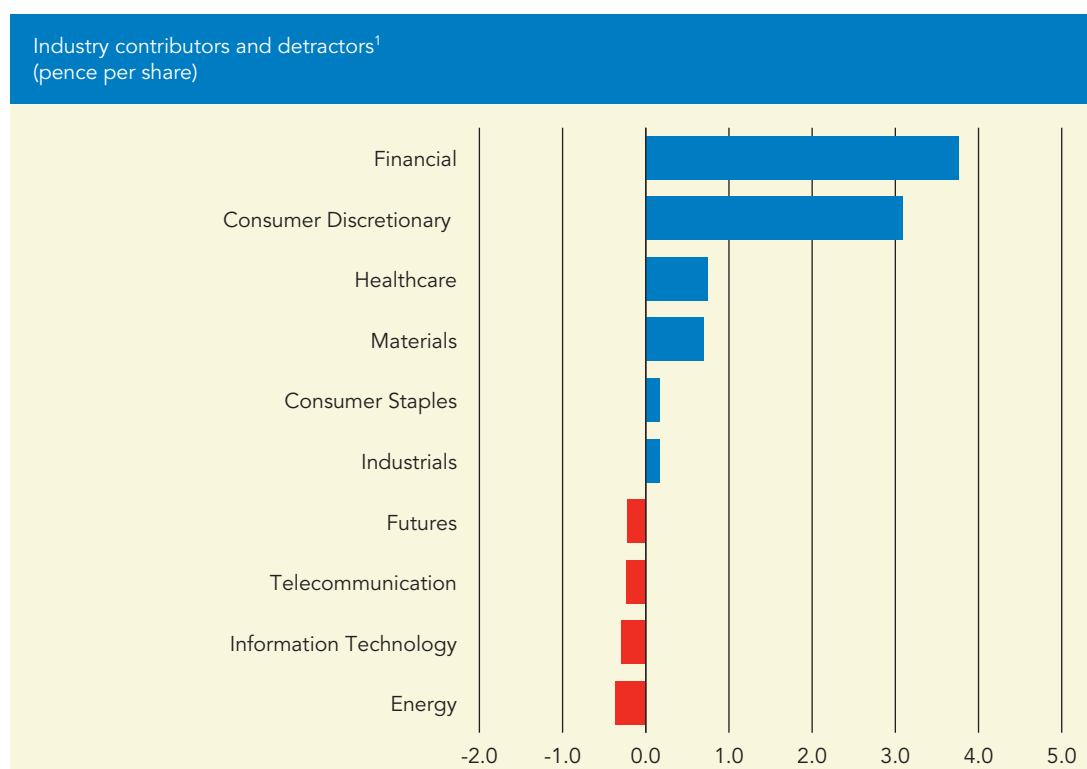
## Distribution of the Portfolio as at 31 March 2011

Denominated Currency	Share Type	% of Total Gross Assets	Benchmark %
Hong Kong dollar	"B" and "H" Shares, Red-Chips and Cash	74.5	100.0
US dollar	Shares listed in the US and "A" Shares	17.7	–
Chinese renminbi	"A" Shares	2.9	–
Japanese yen	Shares listed in Japan	2.1	–
Korean won	Shares listed in South Korea	1.0	–
Singapore dollar	Shares listed in Singapore	1.0	–
UK sterling	Shares listed in the UK	0.6	–
Taiwan dollar	Shares listed in Taiwan	0.2	–
<b>Total</b>		<b>100.0</b>	<b>100.0</b>

In addition, the Company had open forward currency contracts as at 31 March 2011, to sell US dollars for Chinese renminbi equivalent to 23.3% of gross assets.

# Attribution Analysis

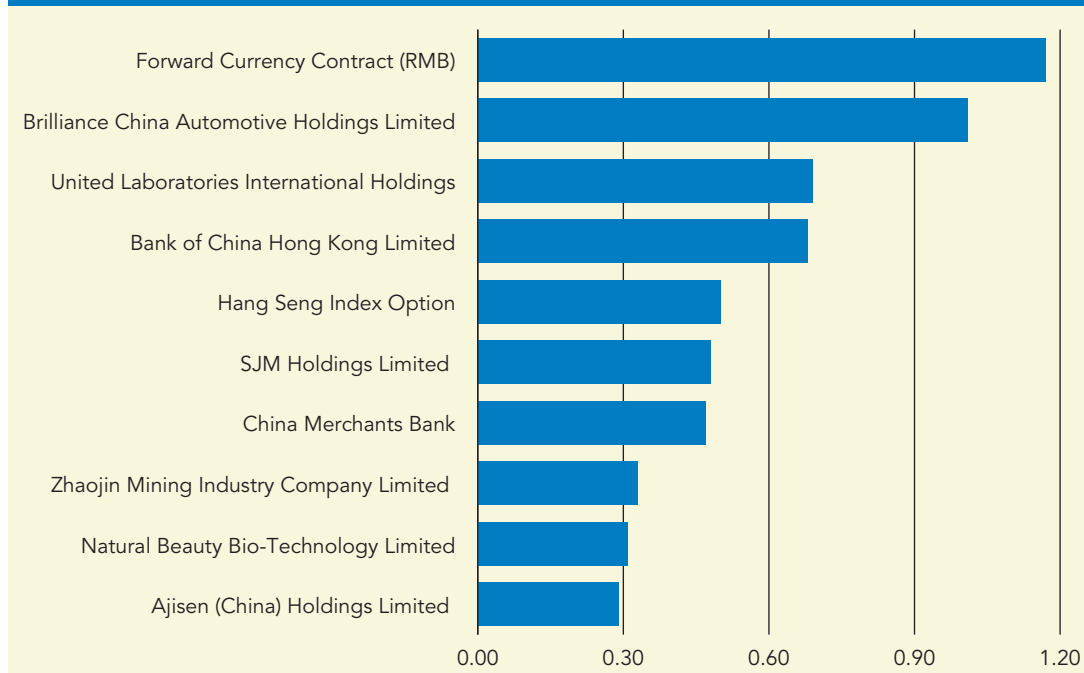
Analysis of change in NAV during the period	Pence per share
NAV at 19 April 2010	99.01
Impact of MSCI China Index – Sterling equivalent	3.30
Impact of Portfolio Management	0.63
Impact of Gearing	0.41
Impact of Share Issues	0.84
Impact of Other Costs	(1.45)
Impact of Cash	1.33
Residual	0.13
NAV at 31 March 2011	104.20



<sup>1</sup> In absolute terms  
Source: Fidelity

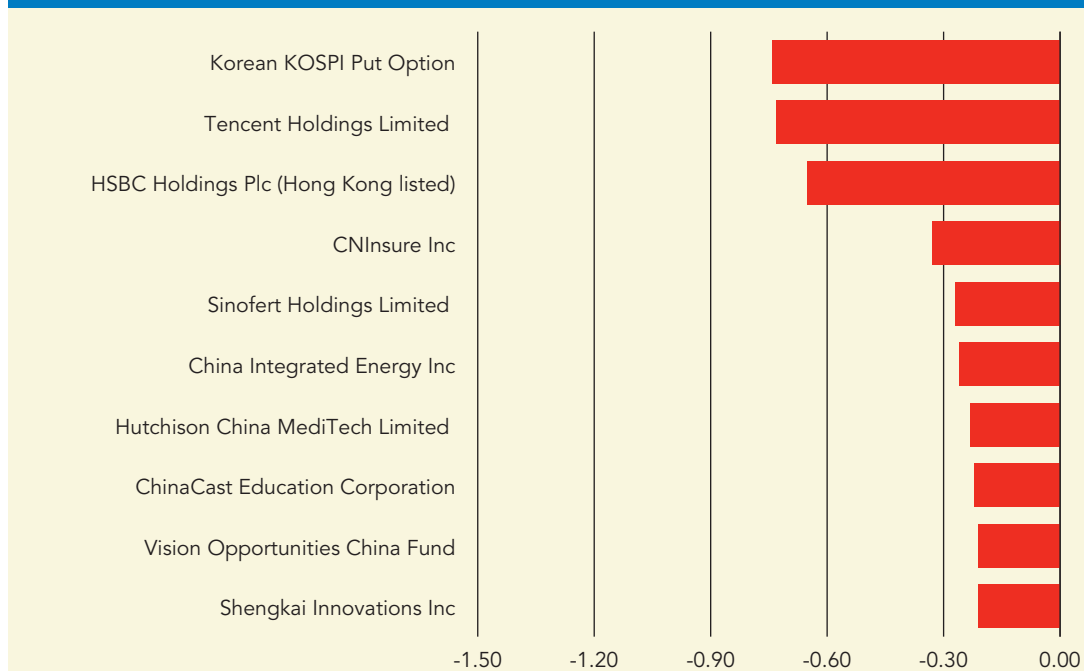
## Attribution Analysis

10 Highest contributors by investment positions<sup>1</sup>  
(pence per share)



<sup>1</sup> In absolute terms  
Source: Fidelity

10 Highest detractors by investment positions<sup>1</sup>  
(pence per share)



<sup>1</sup> In absolute terms  
Source: Fidelity

# Corporate Information

## Investment Manager

FIL Investment Management (Hong Kong) Limited  
17/F, One International Finance Centre  
Central  
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

## Bankers and Custodian

JPMorgan Chase Bank (London Branch)  
125 London Wall  
London EC2Y 5AJ

## Registrars

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

## Lawyers

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY



## 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) (date of appointment: 4 February 2010). Mr Bull is the chairman of Smith's Corporate Advisory Limited and a non-executive director of its parent company, Westhouse Holdings PLC, which is listed on AIM. He is also an

independent director of the hotel business De Vere group. Previously Mr Bull has worked for over 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.



## Board of Directors



### 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 trust listed on the London Stock

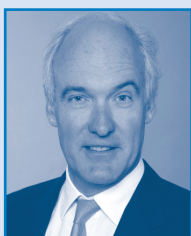
Exchange. He is a qualified chartered accountant and a member of the Securities Institute. Mr Causer has held a number of senior positions within financial services organisations, including as finance director of Mercury Asset Management Group plc and as a managing director of Merrill Lynch Investment 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.



### Gary Shaughnessy<sup>2</sup>

(date of appointment: 1 March 2011). Mr Shaughnessy is Managing Director of the UK Defined Contribution and Retail business of Fidelity International. Mr Shaughnessy has over 20 years' experience in the financial services industry,

including roles spanning the general insurance, life and pensions, personal finance and investment marketplace. He has held positions with the Bank of Scotland, the Automobile Association, AXA, M&G Investments and the Prudential Group where he was Managing Director of Prudential's Retail Life and Pensions business in the UK and Europe until joining Fidelity in 2008.



### 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 Greaveson Investment Management and fund manager at Greaveson, Grant and Co, where he also managed Asia-focused investment funds.

All the Directors are non-executive directors and (with the exception of Mr Shaughnessy) are independent.

<sup>1</sup> Member of the Audit Committee and the Management Engagement Committee

<sup>2</sup> Member of the Nomination and Remuneration Committee

<sup>3</sup> Member of the Investment Committee

# The Board's Policies

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## INTRODUCTION

The role of the Board of Directors of your Company includes determining the policies which govern how it is managed, which are:

## INVESTMENT GOAL: LONG TERM CAPITAL GROWTH

As set out in the Prospectus of the Company dated 7 January 2011, the Board of Directors recognise that long term investment success will best be achieved for the Company through understanding the prospects for individual companies based on in-depth local research and analysis. The Board believes that China represents a compelling investment opportunity, but acknowledges that investing in China is a long term process and returns are likely to vary. However, the Board's primary objective is to provide long term capital growth to shareholders.

## DIVIDEND POLICY

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 trust, the Company is required by Chapter 4 of Part 24 of Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of the income it derives from shares and securities.

*The Board recommends the payment of a final dividend of 0.25p per ordinary share for the period ended 31 March 2011.*

## 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.

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.

*The Company invested in forward currency contracts, equity linked notes, call & put options, index futures and long & short contracts for difference during the period ended 31 March 2011.*

The Company may enter into derivative contracts that expose the Company to unlimited liability, but only where the exposure to the counterparty, after taking into account other derivative contracts entered into with the counterparty, does not exceed 15% of Gross Assets.

No single investment will, on acquisition, represent more than 15% of the portfolio value.

The Investment Managers are not required to seek to ensure that the Company's cash resources are fully invested at all times. Accordingly, there may be times when the Company holds cash or money market instruments pending investment.

The Company currently invests in China "A" Shares through the Investment Manager's QFII license and through third parties who have a QFII facility.

## Unlisted securities

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

*There were no investments in unlisted securities during the period to 31 March 2011.*

## Borrowing, gearing policy and derivatives

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

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

The Company may borrow up to 25% of NAV and the Board has adopted the policy that the Gross Asset Exposure of the Company, whether from borrowing or derivatives, will not exceed the NAV of the Company by more than 30%.

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 Gross Asset Exposure of the Company did not exceed the 30% limit during the period to 31 March 2011.*

## FOREIGN EXCHANGE HEDGING POLICY

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

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

The Board has set a limit of 15% on the proportion of the Company's total 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.

# The Board's Policies

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*As at 31 March 2011 there were two such holdings totalling 1.5% of the Company's gross assets.*

## **PREMIUM & DISCOUNT MANAGEMENT**

The Board recognises that the price of the shares of the Company is affected by the interaction of supply and demand in the market as well as the NAV per share. This being the case, the market price of the shares may, from time to time, represent either a discount or premium to NAV.

The Board regularly reviews the difference between the market price of the shares and the NAV per share, and reserves the right to manage the difference through the powers granted by the shareholders of the Company.

*During the period to 31 March 2011, the Company issued 38,750,000 ordinary shares through its share issue authority.*

## **CORPORATE ACTIVISM**

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 activism and shareholder voting to the Managers.

# Directors' Report

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The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the period ended 31 March 2011.

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.

## STATUS

The Company carries on business as an investment company and intends to seek provisional approval as such by HM Revenue & Customs under Section 1159 of the Corporation Tax Act 2010 for the accounting period to 31 March 2011, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. 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 company under that Section.

The Company is not a close company and has no employees. The Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company as defined in Section 833 of the Companies Act 2006 and operates as such.

## BUSINESS REVIEW INTRODUCTION

The Company is required to present a "Business Review", which provides a fair review of the Company's principal risks and uncertainties faced and 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 ("KPIs").

## OBJECTIVE & STRATEGY

The primary objective of your Company is to enhance shareholder value, achieved 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 will 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 sterling.

## ACTIVITY

The Company's activity is to pursue the 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 7. The Board supports these views.

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

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

Fidelity 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 Fidelity's second largest in the region, with approximately 40 investment professionals, ranging from analysts to portfolio managers. Globally, Fidelity has over 7,000 investment professionals and research associates with a hands-on approach to knowledge accumulation.

The analysts in the Hong Kong Investment team evaluate companies, meet their managements and interpret the effects of international and local events. They contact hundreds of 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.

For the period 19 April 2010 to 31 March 2011

Share price total return	10.00%
Net Asset Value total return	5.24%
Benchmark total return	3.30%

As at 31 March 2011

Premium to Net Asset Value	5.57%
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## 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 Board, with the assistance of the Manager, has developed a risk matrix which, as part of the internal controls process, identifies the key risks that the Company faces. The matrix has identified strategic, marketing and business development, investment management, company secretarial, fund administration and operations and support function risks. The Board reviews and agrees policies for managing these risks. The process is regularly reviewed by the Board in accordance with the FRC's "Internal Control: Revised Guidance for Directors on the Combined Code". Risks are identified, reviewed and graded. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive internal controls reports 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.

The Board considers the following as the major specific risks for the Company:

Top Risks	Risk Mitigation
Political and legislative change in China. Emerging market risk in China.	The Board reviews material economic, market and legislative changes at each Board meeting. An Investment Review report is also produced at each meeting to assess the Company's portfolio performance.
Loss of reputation in the market place.	Reputational risks are often the consequence of risk events in another category, such as investment performance, corporate governance rules or regulatory issues. The Board performs reviews of such risks on a periodic basis.
Poor management of assets or long term under-performance.	<p>The Company has a clearly defined strategy and investment remit. Performance is reviewed at each Board meeting, including performance attribution and income forecasts. There is a clearly defined management agreement, and borrowing/derivative limits are also set by the Board.</p> <p>The Company is managed by a highly experienced Portfolio Manager. The Asia Pacific Investment Management team supports the Portfolio Manager, and the Asia Pacific Chief Investment Officer and the Board review performance regularly.</p>
Key man risk	The Portfolio Manager has committed to manage the portfolio until at least 2013. Succession plans will be developed at an appropriate time and in the interim there is an experienced Asia Pacific Investment team in place supporting him.
Impact of Alternative Investment Fund Managers ("AIFM") Directive.	The Association of Investment Companies ("AIC") provides regular briefing updates and these are reviewed by the Board. Fidelity is also directly involved in industry lobbying. The AIFM Directive legislation is still being developed but is likely to have a lesser impact on investment trusts than as originally drafted.

# Directors' Report

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Further risks identified within this matrix are:

## External risks

### 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 recessions, interest rate movements, deflation/inflation, terrorism and protectionism. 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 47 to 52 together with summaries of the policies for managing these risks. These comprise: market price risk; foreign currency risk; interest rate risk; liquidity risk; counterparty risk and credit risk.

The Company's fixed term, fixed rate loan facility was renewed and increased to \$150m in April 2011. In addition to traditional bank debt, the Company utilises contracts for difference as a secondary gearing mechanism.

The Company relies on a number of main service providers, including principally the Managers, Registrar and Custodians. The Investment Managers are members of a privately owned group of companies on which a regular report is provided to the Board. The Managers, Registrar and Custodian are subject to regular audits by the internal audit team and the other service providers' own internal controls reports are received by the Board and any concerns investigated.

### Risks related to 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 to, among other things, 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, and more governmental limitations on foreign investment than are typically found in developed markets.

### Share price risk

The Board is not able to control the prices at which the Company's ordinary shares trade; they may not reflect the value of the underlying investments. However, it can have an influence in the market by maintaining the profile of the Company through an active marketing campaign and, under certain circumstances, through repurchasing or issuing shares.

## Internal risks

### Investment management

The Board relies on the 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 and competitors and the outlook for the market with the Investment Managers 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.

### Currency risk

The Company's total return and balance sheet are affected by foreign exchange movements because the Company has assets and income which are denominated in US dollars and HK dollars whilst the Company's reporting currency is sterling. While it is the Company's policy not to hedge currency, the fact that borrowings are in US dollars and the contracts for difference are in HK dollars means that part of the investment portfolio funded by borrowing is naturally hedged against changes in the exchange rates. Further details can be found in Note 18 to the financial statements on pages 47 to 52.

### Governance, operational, financial, compliance, administration etc

While it is believed that the likelihood of poor governance, compliance and operational administration by other third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company. Your Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Details of this process are provided in the Corporate Governance Statement within this Annual Report.

### Financial and financial instrument risks

The financial instrument risks faced by the Company are shown in Note 18 to the financial statements on pages 47 to 52. Other risks monitored on a regular basis include derivative positions, which are subject to daily monitoring, together with the Company's cash position.

## Environmental, employee, social and community matters

The portfolio is managed by FIL Investment Management (Hong Kong) Limited. 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 Board fully endorses Fidelity's strong procedures which are involved in the making of its investments.

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 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

All appointments to the Board, elections, re-elections and replacements of Directors take place in accordance with the Companies Act and the Company's Articles of Association. Details of the Directors who served in the period to 31 March 2011 are set out on pages 14 and 15.

During the period, the entire Board was appointed and as such all Board members are subject to 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.

On 1 March 2011, Douglas Naismith resigned from the Board and Gary Shaughnessy was appointed as a non-executive Director of the Company. Mr Shaughnessy is also Managing Director of Fidelity International's UK Defined Contribution and Retail business.

Mr Shaughnessy is an Executive Director of FIL Investments International a member of the FIL Limited Group of Companies.

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 Shaughnessy's interests in the Management Agreement. There have been no other related party transactions requiring disclosure under International Accounting Standard 24.

The interests of the Directors and FIL Limited in the ordinary shares of the Company as at 31 March 2011 are shown on page 22.

## 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.

## ARTICLES OF ASSOCIATION

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

## SUBSTANTIAL SHARE INTERESTS

As at the date of this report, 47.6% of the issued ordinary share capital was held by investors in the Fidelity Individual Savings Account and the Fidelity Investment Trust Share Plan. As at the date of this report notification had been received of the following interests in 3% or more of the voting rights and/or issued ordinary share capital of the Company:

Substantial shareholders	%
FIL Limited <sup>1</sup>	47.72

<sup>1</sup> Direct holding on own account (6.45%) and indirect holdings for Fidelity's ISA and Share Plan clients (41.27%). Holdings as at 31 March 2011.

An analysis of ordinary shareholders as at 31 March 2011 is detailed in the table below.

Analysis of ordinary shareholders as at 31 March 2011	% of issued share capital
Private shareholders <sup>1</sup>	40.17
Institutions and wealth managers	50.87
Insurance companies	4.20
Pension companies	2.82
Other	1.94

<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 2011 the total number of shares in issue was 656,404,480 (at launch: 460,000,000). 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 53 to 55. The Company's ordinary shares have a premium listing on the London Stock Exchange.

## SHARE ISSUES

During the period since launch the Company issued a total of 38,750,000 ordinary shares under its share issue authority and 166,250,000 "C" Shares of 100 pence each, which were subsequently converted into 157,654,480 new ordinary shares on 1 March 2011.

Since 31 March 2011, the Company has issued a further 6,250,000 ordinary shares of 1 penny each.

The Board will be seeking shareholder approval at the forthcoming Annual General Meeting to grant the Board the authority to issue shares and disapply pre-emption rights.



# Directors' Report

	Shares held at launch	Shares held at <sup>1</sup> 31 March 2011	Changes <sup>2</sup>
John Owen	40,600	53,433	12,833
Nicholas Bull	50,000	65,804	15,804
David Causer	50,000	65,804	15,804
Peter Pleydell-Bouverie	45,000	59,224	14,224
Gary Shaughnessy	n/a	66,393	n/a
Douglas Naismith	–	–	–
FIL Limited	32,000,000	42,666,666	10,666,666

<sup>1</sup> No changes to shareholdings since 31 March 2011

<sup>2</sup> Due to "C" Share issue

## POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations during the period.

## 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 period to 31 March 2011 and 31 March 2012, 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 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 period to 31 March 2011, the investments of the Company other than in unlisted securities were managed by FIL Investment Management (Hong Kong) Limited, who provided portfolio management services to the Company pursuant to the Investment Management Agreement dated 25 February 2011.

The investments of the Company's unlisted securities are managed by FIL Investments International, who provided portfolio management services to the Company pursuant to the Discretionary Investment Management Agreement dated 5 January 2011.

For the period to 31 March 2011, the respective Management Agreements provided for an annual management fee of 1.5% of the net asset value of the Company which totalled £7,492,000. 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 outperformance above this cap will be carried forward. If the Company underperforms, the underperformance must be made good before any further Performance Fee becomes payable. For the period to 31 March 2011, no performance fee was payable.

In addition, FIL Investments International provided 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 period to 31 March, a secretarial fee of £568,000 was payable.

The Management Engagement Committee has reviewed the performance of the Investment Managers – taking into consideration those items in the Corporate Governance Statement on pages 25 to 30 of this Annual Report. The Committee concluded that it was in the interests of shareholders that the Management Agreements should continue. The Investment Manager 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 Financial Reporting Council'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 provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. However, these authorities will expire on the date of the next Annual General Meeting ("AGM") in 2012. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 11 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £662,654. If passed, this resolution will enable the Directors to allot a maximum of 66,265,400 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company as at 17 June 2011. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so.

Resolution 12 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 £662,654 (approximately 10% of the issued ordinary share capital of the Company as at 17 June 2011).

Resolution 13 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 2011 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 the Directors' Report, on pages 25 to 30.

## 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 18 to 21. 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 33 to 52.

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 19 and 20 and in the Notes to the Financial Statements on pages 47 to 52.

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 despite the current uncertain economic outlook.

The Board receives regular reports from the Investment Managers and the Directors have a reasonable expectation that the Company has the 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 2011

# Statement of Directors' Responsibilities

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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 period. Under the law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

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:

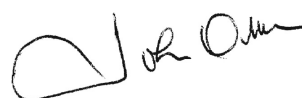
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial 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 United Kingdom 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 2011 and signed on its behalf.



**John Owen**  
Chairman  
17 June 2011

# Corporate Governance Statement

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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 trust 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 Association of Investment Companies' Code of Corporate Governance (the "AIC Code"), by reference to the AIC Corporate Governance Guide (the "AIC Guide"). The AIC Code, as explained in the AIC Guide, addresses all of the principles set out in Section 1 of the Combined 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 Combined Code) will provide better information to shareholders. The AIC Code and AIC Guide may be found on the AIC's website [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 therefore has met its obligations in relation to Section 1 of the Combined Code and associated disclosure requirements of the Listing Rules except as set out below:

The Combined 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 in the preamble to the Combined 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 five Directors, four of whom are independent of the Managers. Mr Shaughnessy is an employee of Fidelity and is not deemed to be independent. The independent Directors are considered to be free from any relationship which could materially interfere with the exercise of their independent judgement and are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively.

The independent Directors form the membership of the Audit Committee, Management Engagement Committee and Investment Committee and the full Board form the membership of the Nomination and Remuneration Committee.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table on page 26 gives the attendance record for the meetings held during the period.

# Corporate Governance Statement

Figures indicate those meetings for which each Director was eligible to attend and attended in the period. Regular Board meetings exclude procedural meetings held to discharge, for example, formal approvals.

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
John Owen	4/4	1/1	2/2	1/1
Nicholas Bull	4/4	1/1	2/2	1/1
David Causer	4/4	1/1	2/2	1/1
Peter Pleydell-Bouverie	4/4	1/1	2/2	1/1
Gary Shaughnessy <sup>1</sup>	n/a	n/a	n/a	n/a
Douglas Naismith <sup>2</sup>	4/4	1/1	n/a	n/a

<sup>1</sup> appointed on 1 March 2011

<sup>2</sup> resigned on 1 March 2011

## 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.

## BOARD COMPOSITION

The Board consists of Directors who, between them, have good knowledge and wide experience of business in Asia and of investment trusts. 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 pages 14 and 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, including an annual meeting in China at which the Board has the opportunity to meet the investment team led by Anthony Bolton.

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.

## CHANGES TO THE BOARD

All appointments to the Board and replacements of Directors take place in accordance with the Companies Act 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. Details of the changes to the Board which have taken place during the period and since the period end are outlined in the Directors' Report on page 21.

## 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 Managers whereby he or she will become familiar with the various processes which the Managers considers necessary for the performance of its 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 and rigorous annual process for the evaluation of the Board, its Committees and its Directors is in place and undertaken at the June Board meeting every year ahead of the Annual General Meeting. This will take the form of written questionnaires and, if appropriate, interviews. The review of the performance of the Chairman is led by the Senior Independent Director on an annual basis.

# Corporate Governance Statement

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The Company Secretary and Portfolio Manager will also participate in these processes to provide all-round feedback to the Board. The results of these evaluations will be issued to and discussed by the Board. The process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and action will be taken on the basis of the results.

The Board is considering seeking externally facilitated evaluation for future years.

## ELECTION AND RE-ELECTION

All the Directors will stand for election by the shareholders at the next Annual General Meeting following their appointment. The Directors retire by rotation and offer themselves for re-election by shareholders every three years. Directors who serve on the Board for more than nine years are subject to annual re-election.

The Nomination and Remuneration Committee has considered the performance and contribution to the Company of each Director and concluded that in each case they have been effective and that they continue to demonstrate commitment to their roles. Accordingly, the Committee has recommended their continued service and this has been endorsed by the Board as a whole which recommends the election of the entire Board at the forthcoming Annual General Meeting to shareholders.

The names of Directors submitted for election are accompanied by sufficient biographical details to enable shareholders to make an informed decision. The terms and conditions 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.

## DIRECTORS' REMUNERATION

Levels of remuneration are competitive and sufficient to attract and retain the standard 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. 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 31). Shareholdings by Directors are encouraged and the Directors' share interests are disclosed in the Directors' Report on page 22. 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 through

its appointed representative, Christopher Pirnie, 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.

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 Directors, and Mr 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 the members of the Committee have sufficient recent and relevant financial experience to discharge its 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 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 meets regularly to review matters of an ad hoc nature.

The members of the Audit Committee are David Causer (Chairman), John Owen, Nicholas Bull and Peter Pleydell-Bouverie.

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 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;
- Reviewing the external Auditor's plan for the audit of the Company's financial statements;
- Reviewing the external Auditor's quality control procedures;

# Corporate Governance Statement

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- 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 internal controls and reporting to the Board; and
- Considering whether the Company needs an internal audit function given that the Company delegates its day to day operations to third parties.

## THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of all the Directors. Mr Owen, Chairman of the Company, also chairs this Committee. 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 re-election of Directors who are retiring by rotation.

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. The level of remuneration of the non-executive Directors is set by the Nomination and Remuneration Committee.

This Committee meets on an annual basis and as and when required, makes recommendations to the Board where appropriate. The members of the Nomination and Remuneration Committee are John Owen (Chairman), Nicholas Bull, David Causer and Peter Pleydell-Bouverie.

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, and Mr 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 of Directors, making recommendations where appropriate.

The level of remuneration of the Investment Managers and the Secretary is determined by the Management Engagement Committee; it relates to the investment management function carried out by the Investment Managers, on which a percentage of the funds under management is paid, where a performance fee is due, and to the administrative function carried out by the Secretary. The Board is mindful that the amounts paid to the Investment Managers and to the Secretary should be sufficient to ensure that both the Investment Managers and the administrators within the Secretary who are engaged to look after the Company's affairs are highly skilled and that those individuals should be duly 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 Investment Managers to the investment trust business generally and to the Company in particular;
- Managing the portfolio of the Company, investment management, portfolio management skills, experience and track record and other investment related considerations. Running and controlling the administration, the accounting and the company secretarial function;
- Shareholder relations – shareholder information and relations, discount and premium management; and
- Marketing – commitment to and execution of activities designed to secure sustainable demand from potential long term investors.

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 independent non-executive Directors and one representative of the Unlisted Investment Manager, with

# Corporate Governance Statement

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the requisite investment experience, attends on an advisory basis. Mr 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 no less than once a year and at such other times as the Chairman of the Committee shall require.

## FINANCIAL REPORTING

Set out on page 24 is a statement by the Directors of their responsibilities in respect of the financial statements. The Auditor has set out in their reporting responsibilities within the Independent Auditor's Report on page 32. The Board has a responsibility to present a balanced and understandable 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.

## INTERNAL CONTROLS

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The identification, control and evaluation of risk is formulated by a series of quarterly investment performance reports, a regular internal controls report and quarterly compliance reports as provided by the Managers. The system of internal controls is 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 Managers, 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 its 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 its 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 Financial Reporting Council's "Internal Control: Revised Guidance for Directors on the Combined Code", 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 internal control systems throughout the period to 31 March 2011. 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 Agreement includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy (or "whistle-blowing procedure"). Fidelity 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 Fidelity 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.

## 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



# Corporate Governance Statement

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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 60.

All shareholders, particularly individual shareholders, are encouraged to attend the Annual General Meeting at which there will be a presentation of the period's results and the forthcoming year's prospects, followed by the opportunity to meet 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 53 to 55 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 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 18 to 23 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
- Substantial share interests
- Share capital
- Share issues
- Going concern

On behalf of the Board



**John Owen**  
Chairman  
17 June 2011



# Directors' Remuneration Report

This report has been prepared in accordance with Sections 420 – 422 of the Companies Act 2006 in respect of the period ended 31 March 2011. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. The law 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 32.

## REMUNERATION COMMITTEE

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.

## REMUNERATION

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 trust industry generally. It is intended that this policy will continue for the year ended 31 March 2012 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 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.

## COMPANY PERFORMANCE

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

## DIRECTORS' REMUNERATION PER ANNUM

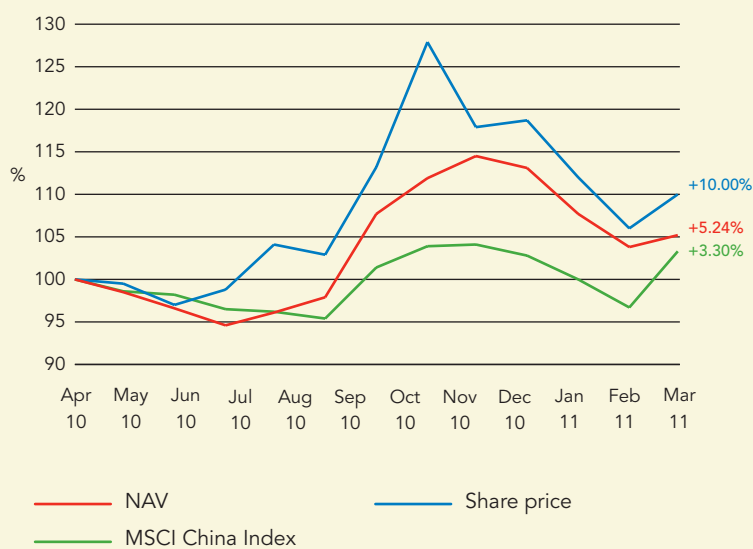
	Annual Board Fee
Chairman	£40,000
Senior Independent Director	£30,000
Chairman of the Audit Committee	£30,000
Chairman of the Investment Committee	£30,000
Director	£25,000

## REMUNERATION OF DIRECTORS (audited)

	Since appointment date 4 February 2010	Notes
John Owen	£46,167	
Nicholas Bull	£31,059	
David Causer	£34,625	
Peter Pleydell-Bouverie	£34,625	
Gary Shaughnessy	–	Waives his Director's fee and appointed on 1 March 2011
Douglas Naismith	–	Waived his Director's fee and resigned on 1 March 2011
<b>Total</b>	<b>£146,476</b>	

No Director received bonuses, taxable expenses, compensation for loss of office or non-cash benefits for the period ended 31 March 2011.

## Comparison of NAV and Share Price Total Return Performance Against the Benchmark Index from 19 April 2010 to 31 March 2011



Sources: Fidelity and Datastream

On behalf of the Board

**John Owen**  
Chairman  
17 June 2011

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

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We have audited the financial statements of Fidelity China Special Situations PLC for the period ended 31 March 2011 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 (IFRSs) 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 24, 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 2011 and of its profit for the period 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 reporting period 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 23, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined 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 2011

# Income Statement for the period from 19 April 2010 to 31 March 2011

	Notes	revenue £'000	capital £'000	total £'000
<b>Revenue</b>				
Investment income	3	9,447	–	9,447
Other income	3	23	–	23
Net derivative income	3	30	–	30
		<u>9,500</u>	<u>–</u>	<u>9,500</u>
<b>Total income</b>				
Gains on investments designated at fair value through profit or loss	10	–	32,177	32,177
Losses on derivative instruments held at fair value through profit or loss	11	–	(12,211)	(12,211)
Foreign exchange losses on other net assets	16	(39)	(513)	(552)
Foreign exchange gains on bank loans	16	–	3,004	3,004
		<u>9,461</u>	<u>22,457</u>	<u>31,918</u>
<b>Total income and gains</b>				
<b>Expenses</b>				
Investment management fee	4	(3,746)	(3,746)	(7,492)
Other expenses	5	(2,435)	–	(2,435)
		<u>3,280</u>	<u>18,711</u>	<u>21,991</u>
<b>Profit before finance costs and taxation</b>				
<b>Finance costs</b>				
Interest on bank loans	6	(523)	(523)	(1,046)
		<u>2,757</u>	<u>18,188</u>	<u>20,945</u>
<b>Profit before taxation</b>				
Taxation	7	(426)	–	(426)
		<u>2,331</u>	<u>18,188</u>	<u>20,519</u>
<b>Net profit after taxation for the period</b>				
<b>Earnings per ordinary share</b>	8	0.47p	3.67p	4.14p

The Company does not have any income or expense that is not included in the net profit for the period. Accordingly the net profit after taxation for the period is also the total comprehensive income for the period 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 Association of Investment Companies.

All of the profit and total comprehensive income 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 period.

The Company was incorporated on 22 January 2010 and operations commenced when its shares were listed on the London Stock Exchange on 19 April 2010.

The Notes on pages 37 to 52 form an integral part of these financial statements.

## Statement of Changes in Equity for the period from 19 April 2010 to 31 March 2011

	Notes	share capital £'000	share premium account £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
Proceeds from offer for subscription and placing	15,16	4,600	455,400	–	–	–	460,000
Fees and expenses of the offer for subscription and placing	16	–	(3,168)	–	–	–	(3,168)
Cancellation of share premium account <sup>1</sup>	16	–	(452,232)	452,232	–	–	–
Issue of ordinary shares	15,16	387	42,262	–	–	–	42,649
Additional share listing costs <sup>2</sup>	16	–	(200)	–	–	–	(200)
Proceeds from "C" share offer and placing	15,16	1,577	164,673	–	–	–	166,250
Fees and expenses of the "C" share offer and placing	16	–	(2,087)	–	–	–	(2,087)
Net profit after taxation for the period	16	–	–	–	18,188	2,331	20,519
<b>Equity shareholders' funds at 31 March 2011</b>		<b>6,564</b>	<b>204,648</b>	<b>452,232</b>	<b>18,188</b>	<b>2,331</b>	<b>683,963</b>

<sup>1</sup> Court approval was given on 21 April 2010 for the Company's share premium account to be cancelled. As a result £452,232,000 was transferred to the other reserve account. This is a distributable reserve.

<sup>2</sup> Costs associated with block listing application fees charged by the London Stock Exchange.

The Company was incorporated on 22 January 2010 and operations commenced when its shares were listed on the London Stock Exchange on 19 April 2010.

The Notes on pages 37 to 52 form an integral part of these financial statements.

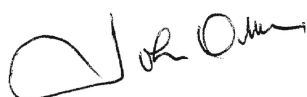
# Balance Sheet

as at 31 March 2011

Company No. 7133583

	Notes	£'000
<b>Non current assets</b>		
Investments designated at fair value through profit or loss	10	720,287
<b>Current assets</b>		
Derivative assets held at fair value through profit or loss	11	2,729
Amounts held at futures clearing houses and brokers		3,280
Other receivables	12	7,388
Cash and cash equivalents		25,184
		38,581
<b>Current liabilities</b>		
Derivative liabilities held at fair value through profit or loss	11	(1,582)
Bank loan	13	(62,013)
Other payables	14	(11,310)
		(74,905)
<b>Net current liabilities</b>		(36,324)
<b>Net assets</b>		683,963
<b>Equity attributable to equity shareholders</b>		
Share capital	15	6,564
Share premium account	16	204,648
Other reserve	16	452,232
Capital reserve	16	18,188
Revenue reserve	16	2,331
<b>Total equity shareholders' funds</b>		683,963
<b>Net asset value per ordinary share</b>	17	104.20p

The financial statements on pages 33 to 52 were approved by the Board of Directors on 17 June 2011 and were signed on its behalf by:



**John Owen**  
Chairman  
17 June 2011

The Company was incorporated on 22 January 2010 and operations commenced when its shares were listed on the London Stock Exchange on 19 April 2010.

The Notes on pages 37 to 52 form an integral part of these financial statements.

# Cash Flow Statement

for the period from 19 April 2010 to 31 March 2011

	£'000
<b>Operating activities</b>	
Cash inflow from investment income	7,736
Cash outflow from net derivative income	(26)
Cash inflow from other income	21
Cash outflow from Directors' fees	(105)
Cash outflow from other payments	(6,645)
Cash outflow from purchase of investments	(1,066,951)
Cash outflow from purchase of derivatives	(16,857)
Cash inflow from sale of investments	380,884
Cash inflow from sale of derivatives	3,499
Cash outflow from amounts held at futures clearing houses and brokers	(3,280)
<b>Net cash outflow from operating activities before servicing of finance</b>	<b>(701,724)</b>
<b>Servicing of finance</b>	
Cash outflow on interest on bank loans	(1,040)
<b>Net cash outflow from operating activities and servicing of finance</b>	<b>(702,764)</b>
<b>Financing activities</b>	
Cash inflow from the offer for subscription and placing	460,000
Cash inflow from the issue of ordinary shares	42,649
Cash inflow from the "C" share offer and placing	166,250
Cash outflow from the costs of the offer for subscription and placing	(3,168)
Cash outflow from the costs of the issue of ordinary shares	(200)
Cash outflow from the costs of the "C" share offer and placing	(2,087)
Cash inflow from bank loan	62,013
<b>Net cash inflow from financing activities</b>	<b>725,457</b>
<b>Increase in cash and cash equivalents</b>	<b>22,693</b>
<b>Reconciliation of cash and cash equivalents</b>	
Net cash inflow from cash and cash equivalents	22,693
Effect of foreign exchange gains	2,491
<b>Cash and cash equivalents at the end of the period</b>	<b>25,184</b>

The Company was incorporated on 22 January 2010 and operations commenced when its shares were listed on the London Stock Exchange on 19 April 2010.

The Notes on pages 37 to 52 form an integral part of these financial statements.

# Notes to the Financial Statements

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## 1 PRINCIPAL ACTIVITY

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The principal activity of the Company is that of an investment trust company within the meaning of Section 1158 of the Corporation Tax Act 2010.

## 2 ACCOUNTING POLICIES

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The Company's annual financial statements for the period from 19 April 2010 to 31 March 2011 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 Association of Investment Companies ("AIC") 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 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 1 January 2013);
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011); and
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012).

It is anticipated that the adoption of these Standards and Interpretations in future periods will have no material financial impact 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 trust 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. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividends. Additionally, the net revenue 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) Revenue** – Income from equity investments is credited to 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, are used. Income derived from these is included in the revenue column in 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 due is allocated entirely to capital, as the Board believes it reflects 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.

# Notes to the Financial Statements

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

Taxation currently payable is based on taxable profit for the period. 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. Investment companies which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for 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 in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

**h) Foreign currency** – The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be sterling. Transactions denominated in foreign currencies are calculated in 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 income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key management personnel. 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 prices depending on the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations.

In accordance with the AIC SORP the Company includes transaction costs within investment movements and has disclosed them in Note 10 on page 43.

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

Where such transactions are used to increase portfolio returns, 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 losses 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 period end are reflected in the Balance Sheet at their fair value within current assets and current liabilities.

Premiums received on written options are taken to capital and are recognised within the gains/(losses) on derivative instruments via the capital column of the Income Statement.

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

Income received from dividends on CFDs and derivative expenses related to them are included in the revenue column of the Income Statement.



# Notes to the Financial Statements

**k) Cash and cash equivalents** – Cash comprises cash at bank. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

**l) 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.

**m) Capital reserve** – The following are accounted for in capital reserve:

- Gains and losses on the disposal of investments, including derivatives;
- Changes in the fair value of investments, including derivatives, held at the period end;
- Foreign exchange gains and losses of a capital nature;
- Performance fee;
- 50% of the investment management fee;
- 50% of finance costs; and
- Dividends receivable 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 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.

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

**o) Share issue costs** – Costs incurred directly in relation to the offer for subscription and placing of ordinary shares and the "C" share offer together with additional share listing costs have been deducted from equity. All other costs not directly attributable to the share issues have been charged to revenue.

31.03.11  
£'000

## 3 INCOME

### Income from investments designated at fair value through profit or loss

Overseas dividends	8,783
Overseas scrip dividends	664
	<u>9,447</u>

### Other income

Deposit interest	12
Income from Fidelity Institutional Liquidity Fund plc	11
	<u>23</u>

### Net derivative income

Income received on long CFDs	68
Less: expenses paid on long CFDs	(38)
	<u>30</u>

<b>Total income</b>	<u><b>9,500</b></u>
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# Notes to the Financial Statements

31.03.11  
£'000

## 4 INVESTMENT MANAGEMENT FEE

Investment management fee charged to revenue	3,746
Investment management fee charged to capital	3,746
	<u>7,492</u>

Under the Investment Management Agreements between the Company, FIL Investment Management (Hong Kong) Limited and FIL Investments International ("the Managers"), the Managers have agreed to provide investment management services for an annual fee equal to 1.5% of the net asset value ("NAV") (excluding investment in the Fidelity Institutional Liquidity Fund plc) payable quarterly in arrears and calculated on the last business day of March, June, September and December in each year.

In addition, the Investment Managers are entitled to an annual performance fee of 15% of any change in the 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 net assets calculated at the end of each month during the year. Any outperformance above this cap will be carried forward. If the Company underperforms 2% above the returns on the MSCI China Index in any year, the underperformance must be made good before any further performance fee becomes payable in future years. Both the NAV and the MSCI China Index will be calculated on a total return basis, and the NAV will be based on the weighted average number of shares in issue.

For the period from 19 April 2010 to 31 March 2011, although the NAV outperformed the Index it did not do so by more than 2%. Therefore, no performance fee is payable.

31.03.11  
£'000

## 5 OTHER EXPENSES

AIC fees	16
Custody fees	187
Directors' expenses	34
Directors' fees*	146
Legal and professional fees	144
Marketing expenses	167
Printing and publication expenses	114
Registrars' fees	56
Secretarial and administration fees	568
Other expenses	36
Costs incurred on the offer for subscription and placing charged to revenue	910
Fees payable to the Independent Auditor**	
Review of the Interim Report	9
Provision for the audit of the Annual Report	33
Review of derivatives charter and contracts	15
	<u>2,435</u>

\* Details of the breakdown of Directors' fees are provided on page 31 within the Directors' Remuneration Report.

\*\* In addition the Independent Auditor received £15,000 for services related to the offer for subscription and placing and £35,000 for services related to the "C" share offer. Both amounts have been deducted from equity and are included within the costs disclosed in note 16 on page 46.

# Notes to the Financial Statements

31.03.11  
£'000

## 6 FINANCE COSTS

Interest on bank loans repayable within one year:

Charged to revenue	523
Charged to capital	523
	<u>1,046</u>

31.03.11 revenue £'000	31.03.11 capital £'000	31.03.11 total £'000
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## 7 TAXATION

### a) Analysis of the taxation charge in the period

Overseas taxation (Note 7b)	<u>426</u>	<u>–</u>	<u>426</u>
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### b) Factors affecting the taxation charge in the period

The taxation assessed for the period is lower than the standard rate of corporation tax in the UK for an investment trust company of 28%.

A reconciliation of the standard rate of UK Corporation Tax to the taxation charge is shown below:

	31.03.11 revenue £'000	31.03.11 capital £'000	31.03.11 total £'000
Profit before taxation	<u>2,757</u>	<u>18,188</u>	<u>20,945</u>
Profit before taxation multiplied by the standard rate of UK corporation tax of 28%	772	5,093	5,865
Effects of:			
Gains on investments not taxable*	–	(6,288)	(6,288)
Income not included for taxation purposes	(2,425)	–	(2,425)
Expenses not allowable	259	–	259
Excess expenses for the period	1,416	1,195	2,611
Overseas taxation expensed	(22)	–	(22)
Overseas taxation	<u>426</u>	<u>–</u>	<u>426</u>
Taxation charge (Note 7a)	<u>426</u>	<u>–</u>	<u>426</u>

\* Investment trust companies are exempt from taxation on capital gains if they meet the criteria set out in Section 1159 of the Corporation Tax Act 2010.

### c) Deferred taxation

A deferred taxation asset of £2,545,000 in respect of unutilised expenses at 31 March 2011 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

	31.03.11 revenue	31.03.11 capital	31.03.11 total
<b>8 EARNINGS PER ORDINARY SHARE</b>			
Earnings per ordinary share	0.47p	3.67p	4.14p

Earnings per ordinary share are based on the revenue net profit after taxation in the period of £2,331,000, the capital net profit after taxation in the period of £18,188,000 and the total net profit after taxation in the period of £20,519,000 and on 495,842,187 ordinary shares being the weighted average number of ordinary shares in issue during the period.

	31.03.11 £'000
<b>9 DIVIDENDS</b>	
<b>Dividend proposed</b>	
Final dividend proposed for the period ended 31 March 2011	1,657

The Directors have proposed the payment of a final dividend of 0.25 pence per ordinary share for the period ended 31 March 2011 with a payment date of 5 August 2011 to shareholders on the register at the close of business on 22 July 2011 (ex dividend date 20 July 2011).

# Notes to the Financial Statements

31.03.11  
£'000

## 10 INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Listed overseas	720,287
<b>Movements for the period 19 April 2010 to 31 March 2011</b>	
Purchases at cost	1,075,592
Sales – proceeds	(387,482)
Sales – realised gains	7,483
Movement in investment holding gains in the period	24,694
<b>Closing fair value of investments</b>	<b>720,287</b>
Closing book cost	695,593
Closing investment holding gains	24,694
<b>Closing fair value of investments</b>	<b>720,287</b>
<b>Net gains on investments</b>	
Gains on sales of investments	7,483
Investment holding gains in the period	24,694
	<b>32,177</b>

The portfolio turnover rate for the period was 129.6%, including the initial investment of the funds raised through the Offer of Subscription and Placing and the “C” Share Offer.

### Cost of investment transactions

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

Purchases	2,387
Sales	790
	<b>3,177</b>

# Notes to the Financial Statements

31.03.11  
£'000

## 11 DERIVATIVE INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

### Losses on derivative instruments held at fair value through profit or loss in the period

Realised gains on forward currency contracts	2,060
Realised losses on futures	(8,316)
Realised losses on options	(5,262)
Realised gains on CFDs	225
Closing investment holding gains on forward currency contracts	508
Closing investment holding gains on futures	502
Closing investment holding losses on options	(1,509)
Closing investment holding losses on CFDs	(419)
	<u>(12,211)</u>

31.03.11  
fair value  
£'000

31.03.11  
gross asset  
exposure  
£'000

### The fair value and gross asset exposure of the derivative instruments were:

Long CFDs	(129)	38,127
Short CFDs	(290)	(3,466)
Forward currency contracts	508	508
Futures	502	18,735
Options	556	(10,764)
	<u>1,147</u>	<u>43,140</u>

### Fair value of derivatives recognised in the Balance Sheet:

Derivative assets recognised at fair value through profit or loss	2,729
Derivative liabilities recognised at fair value through profit or loss	(1,582)
	<u>1,147</u>

31.03.11  
£'000

## 12 OTHER RECEIVABLES

Securities sold for future settlement	6,602
Accrued income	652
Other receivables	134
	<u>7,388</u>

# Notes to the Financial Statements

31.03.11  
£'000

## 13 BANK LOAN

Tranche A fixed rate unsecured bank loan @ 1.63% per annum, repayable on 6 April 2011	40,012
Tranche B fixed rate unsecured bank loan @ 1.88% per annum, repayable on 6 April 2011	22,001
	<u>62,013</u>

On 19 April 2010, the Company entered into a 364 day revolving credit facility for HK\$ 775,000,000. This facility was renegotiated on 1 April 2011, into a 364 day revolving credit facility for US\$ 150,000,000.

31.03.11  
£'000

## 14 OTHER PAYABLES

Securities purchased for future settlement	7,977
Other payables	3,333
	<u>11,310</u>

31.03.11  
£'000

## 15 SHARE CAPITAL

### Issued, allotted and fully paid:\*

460,000,000 ordinary shares of 1 penny each issued at launch on 19 April 2010	4,600
38,750,000 ordinary shares of 1 penny each issued between 20 April 2010 and 31 March 2011	387
157,654,480 ordinary shares of 1 penny each issued on 1 March 2011 following conversion of the "C" shares**	1,577

### End of the period

656,404,480 ordinary shares of 1 penny each at 31 March 2011	<u>6,564</u>
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The ordinary shares arising on conversion of the "C" shares ranked and still rank pari passu with the ordinary shares then in issue.

A further 6,250,000 ordinary shares have been issued by the Company for a total consideration of £6,984,000 since 31 March 2011. Following this share issue the number of ordinary shares in issue is 662,654,480.

\* On 19 February 2010, to enable the Company to re-register as a Public Limited Company under Section 90 of the Companies Act 2006, 50,000 fully paid redeemable shares were allotted to the Investment Manager for 100 pence per share. The 50,000 shares were redeemed in full for £50,000 on admission on 19 April 2010.

\*\* On 28 February 2011, the Company issued 166,250,000 "C" shares of 100p each which converted into 157,654,480 ordinary shares of 1 penny each on the same day. The conversion ratio was 0.9483 (being the net proceeds of the "C" shares of 97.50p per share divided by the net asset value of the ordinary shares of 102.82p per share on 28 February 2011) which meant that a holder of 1,000 "C" shares received 948 ordinary shares.

# Notes to the Financial Statements

	share premium account £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000
<b>16 RESERVES</b>				
<b>Beginning of the period</b>	–	–	–	–
Proceeds from offer for subscription and placing	455,400	–	–	–
Fees and expenses of the offer for subscription and placing	(3,168)	–	–	–
Cancellation of share premium account	(452,232)	452,232	–	–
Issue of ordinary shares	42,262	–	–	–
Additional share listing costs	(200)	–	–	–
Proceeds from "C" share offer and placing	164,673	–	–	–
Fees and expenses of the "C" share offer and placing	(2,087)	–	–	–
Gains on investments for the period	–	–	32,177	–
Losses on derivative instruments for the period	–	–	(12,211)	–
Foreign exchange losses on other net assets	–	–	(513)	–
Foreign exchange gains on bank loans	–	–	3,004	–
Investment management fee charged to capital	–	–	(3,746)	–
Interest on bank loan charged to capital	–	–	(523)	–
Net profit after taxation for the period	–	–	–	2,331
<b>End of the period</b>	<b>204,648</b>	<b>452,232</b>	<b>18,188</b>	<b>2,331</b>

The share premium account was created at launch and represented the amount by which the proceeds from the offer for subscription and placing, less the associated costs, exceeded 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 38,750,000 ordinary shares in separate issues from its block listing facility and 157,654,480 ordinary shares resulting from its "C" share issue. The amount by which the proceeds from these issues, less the associated costs, exceeded the nominal value of the ordinary shares issued is reflected in this account. It is not distributable.

The other reserve was 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 distributable by way of dividend and it can be used to fund share repurchases.

The capital reserve reflects any gains or losses on investments and derivatives in the period along with any increases and decreases in the fair value of investments and derivatives and any other income and costs recognised in the capital column of the Income Statement. It is not distributable by way of dividend, however, it can be used to fund share repurchases.

The revenue reserve reflects all income and costs which are recognised in the revenue column of the Income Statement. It is distributable by way of a dividend.

## 17 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets as at 31 March 2011 of £683,963,000 and on 656,404,480 ordinary shares, being the number of ordinary shares in issue at that date.



# Notes to the Financial Statements

## 18 FINANCIAL INSTRUMENTS

### Management of risk

The Company's investment 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 the 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 stockmarket, 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 IFRS7 "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 futures 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.

### 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 Managers are 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 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 was provided by a 364 day revolving credit facility for HK\$ 775,000,000, or the equivalent amount in other currencies entered into on 19 April 2010. This facility was amended on 1 April 2011 into a 364 day revolving credit facility for US\$ 150,000,000, or the equivalent in other currencies. The Company is exposed, therefore, to a fair value interest rate risk if interest rates change.

### Interest rate risk profile of financial assets and liabilities

The Company is exposed to cash flow interest risk on forward currency contracts, cash at bank and amounts held at futures clearing houses and brokers. The Company was exposed to a fair value interest rate risk on the fixed rate bank loan of US\$ 99,500,000 at 31 March 2011. The net exposure to forward currency contracts is shown in Note 11 on page 44 and cash at bank and amounts held at futures clearing houses and brokers are shown in the Balance Sheet on page 35.

# Notes to the Financial Statements

## Foreign currency risk

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

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

- movements in exchange rates affecting the value of investments and the bank loan
- movements in exchange rates affecting short term timing differences
- movements in exchange rates affecting income received

The Company might 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 sterling on receipt.

## Financial assets

The Company's financial assets comprise equity investments, derivative instruments, short term debtors and cash. The currency profile of these financial assets as at 31 March 2011 is shown below.

	investments designated at fair value through profit or loss £'000	derivatives held at fair value through profit or loss £'000	other receivables £'000	other assets*	total £'000
Chinese renminbi	–	529	–	–	529
Hong Kong dollar	493,865	1,644	4,648	25,655	525,812
Korean won	8,125	556	10	–	8,691
Japanese yen	16,322	–	23	–	16,345
Singapore dollar	7,495	–	–	–	7,495
Taiwan dollar	1,632	–	2,014	–	3,646
UK sterling	4,676	–	136	2,809	7,621
US dollar	188,172	–	557	–	188,729
	<u>720,287</u>	<u>2,729</u>	<u>7,388</u>	<u>28,464</u>	<u>758,868</u>

\* Other assets comprise amounts held at futures clearing houses and brokers and cash and cash equivalents

In addition, the Company had open forward currency contracts at 31 March 2011, to sell US\$ 279 million for renminbi 1,830 million.

# Notes to the Financial Statements

## Financial liabilities

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

The Company's financial liabilities comprise derivative instruments, bank loans and other payables.

The currency profile of these financial liabilities as at 31 March 2011 is shown below.

	derivatives held at fair value through profit or loss £'000	bank loans £'000	other payables £'000	total £'000
Hong Kong dollar	1,561	–	5,241	6,802
UK sterling	–	–	3,313	3,313
US dollar	21	62,013	2,756	64,790
	<u>1,582</u>	<u>62,013</u>	<u>11,310</u>	<u>74,905</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 as required. Details of the Company's borrowing facilities are explained in Note 13 on page 45 to the financial statements.

## 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 the credit research and analysis function of the Managers. Exposures to counterparties are monitored by the Manager. Margin on exchange-traded derivatives mitigates counterparty risk exposure in accordance with the terms outlined in market standard (ISDA) derivative legal contracts.

## Credit risk

The Company may be adversely affected if any of the institutions with which money is deposited suffers insolvency or other financial difficulties. All investment 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 which are kept under review by the Managers. Exposure to credit risk arises on cash and cash equivalents, outstanding investment transactions, equity linked notes and the derivative instruments.

## Maturity analysis of contractual liabilities

The financial liabilities of the Company are shown in notes 13 and 14 on page 45. The major liabilities are the loan tranches which were both repayable on 9 April 2011. Other liabilities comprise amounts due to brokers and accruals. All are paid under contractual terms. For amounts due to brokers, this is normally the purchase date plus three business days. For accruals, this is normally within 30 business days of invoicing.

## RISK SENSITIVITY ANALYSIS

### Other price risk sensitivity analysis

Changes in market prices other than those arising from interest rate risk may also affect the value of the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found on pages 18 to 20 of the Directors' Report.

An increase of 10% in the fair value of the investments (excluding derivatives) at 31 March 2011 would have increased the profit after tax and total assets by £65,880,000. A decrease of 10% in the fair value of investments would have had an equal but opposite effect.

# Notes to the Financial Statements

## Interest rate risk sensitivity analysis

At 31 March 2011, if interest rates had increased by 0.5% the profit after taxation and total assets would have increased by £126,000. If interest rates had decreased by 0.5% the profit after taxation and total assets would have decreased by £21,000. The sensitivity is based on the Company's total cash balances held at 31 March 2011, with all other variables held constant.

## Foreign currency risk sensitivity analysis

At 31 March 2011, if sterling had strengthened or weakened by 10% in relation to the other currency exposures, then with all other variables held constant, the profit after taxation and total assets would have been impacted by the amounts shown below.

If sterling had strengthened by 10%:

	31.03.11
	£'000
Chinese renminbi	(48)
Hong Kong dollar	(47,183)
Korean won	(790)
Japanese yen	(1,486)
Singapore dollar	(681)
Taiwan dollar	(331)
US dollar	(11,267)
	<u>(61,786)</u>

If sterling had weakened by 10%:

	31.03.11
	£'000
Chinese renminbi	59
Hong Kong dollar	57,668
Korean won	966
Japanese yen	1,816
Singapore dollar	833
Taiwan dollar	405
US dollar	13,771
	<u>75,518</u>

## Derivative instruments exposure sensitivity analysis

The Company invests in CFDs to gain exposure to the equity market. A 10% fall in the price of shares underlying the CFDs at 31 March 2011 would have resulted in a decrease of £3,466,000 in the profit after taxation and total assets. A rise of 10% would have had an equal but opposite effect.

# Notes to the Financial Statements

## 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 (j) on page 38 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 as at 31 March 2011, given below, has been calculated by discounting future cash flows at current US dollar interest rates.

	31.03.11 fair value £'000	31.03.11 book value £'000
Fixed rate unsecured bank loan @ 1.63% per annum	40,025	40,012
Fixed rate unsecured bank loan @ 1.88% per annum	22,009	22,001
	<u>62,034</u>	<u>62,013</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 (j) on page 38. The table below sets out the Company's fair value hierarchy as at 31 March 2011:

	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
<b>Financial assets at fair value through profit or loss</b>				
Equity investments	658,800	61,487	–	720,287
Derivative instruments	–	2,729	–	2,729
	<u>658,800</u>	<u>64,216</u>	<u>–</u>	<u>723,016</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instruments	–	(1,582)	–	(1,582)
	<u>–</u>	<u>(1,582)</u>	<u>–</u>	<u>(1,582)</u>

# Notes to the Financial Statements

## Capital Management

The Company has no externally imposed capital requirements. The capital resources of the Company are managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 16 and 18 of the Directors' Report. The principal risks and their management are disclosed on pages 19 and 20 and in this note.

The Company's capital resources at 31 March 2011 comprised:

	£'000	31.03.11 £'000
<b>Debt</b>		
Bank loans		62,013
Long CFDs		38,127
		<u>100,140</u>
<b>Net assets</b>		
Share capital		6,564
Other reserves and retained earnings		677,399
		<u>683,963</u>
<b>Debt to net assets</b>		<u>14.6%</u>
<b>Gross asset exposure</b>		
Investments		720,287
Long derivatives	57,370	
Short derivatives	<u>14,230</u>	
		<u>71,600</u>
		<u>791,887</u>
<b>Gross asset exposure to net assets</b>		<u>115.8%</u>

## 19 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 31 March 2011.

## 20 RELATED PARTY TRANSACTIONS

FIL Investment Management (Hong Kong) Limited is the Manager and FIL Investments International the unlisted Investment Manager and Secretary of the Company. Details of the investment management fee payable, are given in Note 4 on page 40 and the secretarial and administration fees payable are detailed in Note 5 on page 40. Fees paid to the Directors are disclosed on page 31 in the Directors' Remuneration Report.

## 21 COMPARATIVES

As this is the first reporting period since the Company was incorporated, there are no comparative balances.

## 22 SUBSEQUENT EVENTS

On 1 April 2011, the Company entered into a 364 day revolving credit facility of US\$ 150,000,000, which replaced the facility dated 19 April 2010.

On 5 May 2011, the Company invested in an unlisted security for a total consideration of £2.5 million.

# Notice of Meeting

Notice is hereby given that the first Annual General Meeting of Fidelity China Special Situations PLC will be held at the Barbican Centre, Silk Street, London EC2Y 8DS, on Friday 29 July 2011 at 11.00 am for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and financial statements for the period ended 31 March 2011.
2. To approve the final dividend.
3. To elect Mr John Owen as a Director.
4. To elect Mr Nicholas Bull as a Director.
5. To elect Mr David Causer as a Director.
6. To elect Hon Peter Pleydell-Bouverie as a Director.
7. To elect Mr Gary Shaughnessy as a Director.
8. To approve the Directors' Remuneration Report for the period ended 31 March 2011.
9. 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.
10. To authorise the Directors to determine the Auditor's remuneration.

## SPECIAL BUSINESS

Resolutions 11 and 12 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 2011. The Directors will only issue new 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 11 as an ordinary resolution and resolution 12 as a special resolution:

11. 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 £662,654 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 17 June 2011) 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.

12. THAT, subject to the passing of Resolution 11 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) pursuant to the authority given by the said Resolution 11 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 £662,654 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 17 June 2011); 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 13 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 2011 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

# Notice of Meeting

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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.

13. 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 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 99,331,900;
- 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 2011

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 noon on 27 July 2011. 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, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR 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 noon on 27 July 2011. 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 noon on 27 July 2011.
- 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 noon on 27 July 2011 .
- 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



# Notice of Meeting

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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.

- 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 Services 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 Services 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 27 July 2011. 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 2011 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 662,654,480 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 17 June 2011 was 662,654,480.
- 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 21 July 2011, 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

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AGM	Annual General Meeting of the Company
AIC	the Association of Investment Companies
AIC Code	the Association of Investment Companies Code of Corporate Governance, as amended from time to time
AIFM Directive	the Alternative Investment Fund Managers Directive
American Depositary 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	the MSCI China Index
Board of Directors	the Board of Directors of the Company or any duly constituted Committee thereof
C Shares	Convertible Shares of 100p each in the capital of the Company which were converted into new Ordinary Shares on 28 February 2011
Call and Put options	Call or put options may be used to gain or reduce exposure to the underlying asset on a conditional basis: i.e. the purchase of a call option provides exposure to the upside potential of an underlying stock, with the downside risk being limited to the premium paid
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 issued by companies incorporated in the PRC and listed on either of the Chinese Stock Exchanges, traded in renminbi and available for investment by domestic (Chinese) investors and holders of a QFII licence
China "B" Shares	shares issued by companies incorporated in the PRC and listed on either of the Chinese Stock Exchanges, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors
China "H" Shares	shares issued by companies incorporated in the PRC and listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
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
Combined Code	the Financial Reporting Council's Combined Code on Corporate Governance
Company	Fidelity China Special Situations PLC
Contract for difference or CFD	A contract between an investor (i.e. the Company) and an investment bank at the end of which the parties exchange the difference between the opening and closing prices of a specified financial instrument. The investor 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 price. A contract for difference only requires a small deposit ("margin") on trades
Conversion	the conversion of the C Shares into Ordinary Shares which took place on 28 February 2011

# Glossary to the Annual Report

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Conversion Ratio	The conversion ratio of the conversion was 0.9483 (being the net proceeds of the "C" Shares of 97.50p per share divided by the net asset value of the Ordinary Shares of 102.82p per share on 28 February 2011) which meant that a holder of 1,000 "C" Shares received 948 Ordinary Shares
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
Directors	Directors of the Company listed in the section headed "Corporate Information", and Director shall mean any one of them
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
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
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 single equities
Fair Value	represents the carrying value on 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 General Meeting
FRC	Financial Reporting Council
Gearing	Debt either through bank borrowings and/or through derivatives including CFDs
Gross Asset Exposure	the value of the total portfolio to which the investor (i.e. the Company) is exposed, whether through direct or indirect investment (including through derivatives)
Gross Assets	the sum of the value of each of the assets that the Company owns as calculated in accordance with the Company's valuation policy. It also represents total assets less current liabilities, excluding the fixed term bank loan
Hedging	a strategy aimed at minimising or eliminating risk, normally involving positions in two different markets, with one offsetting the other. Derivatives (futures and options) are widely used for hedging purposes because they can protect an investor against changes in the value of an underlying asset or currency. It is not the policy of the Board to hedge the underlying investments or currencies of the holdings in the portfolio but rather to take the currency risk into consideration when making investments
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

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KOSPI	The Korea Composite Stock Price Index. Index of all common shares traded on the Stock Market Division, previously known as the Korea Stock Exchange
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	the Management Agreement and the Unlisted Management Agreement
Management Fee	The annual management fee is calculated as 1.5% of NAV
Marked to market	assigning a value based on the current fair market price
Money marker 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 MSCI China Index, sterling equivalent
Net Assets	Gross assets less fixed term bank loans
Net Asset Value or NAV per share	the NAV is calculated as shareholders funds divided by the number of shares in issue
Offer for Subscription	the Public offer in the UK to subscribe for C Shares in the Company
Open Offer	the offer to Shareholders which constituted an invitation to apply for C Shares in the Company
Options or options contract	options provide the right to acquire or sell instruments at an agreed price at an agreed date
Ordinary Shares	ordinary shares of nominal value of 1penny each in the capital of the Company and "Ordinary Share" means any one of them
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
Placing	the placing of C Shares by Cenkos Securities plc
Portfolio Manager	Anthony Bolton
Portfolio value	the total value of all underlying securities in the Portfolio
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
Prospectus	the Prospectus of the Company dated 7 January 2011
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	companies incorporated outside the PRC and listed on the Hong Kong Stock Exchange and controlled by PRC entities, by way of direct or indirect shareholding and/or representation on the board of directors
Registrar	Capita Registrars

## Glossary to the Annual Report

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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	Shareholders' funds are the net value of the Company's assets, cash and other current net assets, after deducting all debt, including bank loans, at their fair value
Short stock exposure	the position of an investor that 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
SIPP	Self Invested Personal Pension
SORP	Statement of Recommended Practice
UCITS Directive	the European Council Directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 85/611/EEC) (as amended)
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

# Information for Investors

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**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.

**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 4BR. 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

Fidelity Investment Trust Share Plan, Block C, Western House, Lynchwood Business Park, Peterborough, PE2 6BP. 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 International, 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.

The share price of Fidelity China Special Situations PLC appears daily in The Financial Times. Price and performance information is also available at [fidelity.co.uk/its](http://fidelity.co.uk/its). Investors can obtain the real-time share price 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.)

### WARNING TO SHAREHOLDERS – “BOILER ROOM” SCAMS

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based ‘brokers’ who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as ‘boiler rooms’. These ‘brokers’ can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register)
- Report the matter to the FSA either by calling 0845 606 1234 or visiting [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at [www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml](http://www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml). Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

# Investing in Fidelity China Special Situations PLC

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**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

The maximum investment in a stocks and shares ISA for 2011/2012 tax year is £10,680. 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** – The standard initial charge for the Fidelity ISA is 3.5% but if you download the online application form you will pay just 1.25% initial charge. The initial charge for investments through a Financial Adviser will be up to 3.5%. 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 of 1.5% plus a performance related fee, 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. 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 our share dealing service. The annual management charge is as described above in the "Investing inside an ISA" section.

## 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 an alternative 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. 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 Plan application form.

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.

**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 an initial charge of up to 3%.

## 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 in Fidelity China Special Situations PLC

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## INVESTING ONLINE

Whilst you cannot use a Debit Card online to invest through an ISA 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 our website [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.

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.

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## Other Investment Trusts managed by Fidelity

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### FIDELITY ASIAN VALUES PLC

- Invests in equities primarily in South East Asia excluding Japan
- The portfolio is structured on a bottom-up basis, so stocks are selected on individual merit rather than purely by sector or market
- The manager focuses on companies with established market positions



### FIDELITY EUROPEAN VALUES PLC

- Invests in shares listed on Continental Europe stock markets
- The core of the portfolio is focused on stocks able to grow earnings faster than the market in the medium term
- The company also invests in small and emerging European markets



### FIDELITY JAPANESE VALUES PLC

- Invests mainly in small to medium sized companies
- The portfolio manager favours companies with superior mid to long term earnings growth
- The company invests across a wide range of industries and sectors



### FIDELITY SPECIAL VALUES PLC

- Invests primarily in small to medium sized UK companies
- Up to 20% can be invested in Europe and other markets
- The portfolio manager is a value investor, naturally seeking out stocks that are often unloved and unfashionable at the current time

The value of investments can go down as well as up and you may not get back the amount you originally invest. The eligibility to invest in an ISA depends on individual circumstances and all tax rules may change. Overseas investments are subject to currency fluctuations and emerging markets may be more volatile than established markets. If you are unsure about the suitability of an investment, please contact an adviser.

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#### 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](https://fidelity.co.uk/its) or contacting your Financial Adviser. The Fidelity Individual Savings Account ("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 Services Authority. The Fidelity Investment Trust Share Plan is administered by BNP Paribas Securities Services and shares will be held in the name of Puddle Dock Nominees Limited. The value of savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by FIL Investments International with the exception of Fidelity China Special Situations PLC where FIL Investment Management (Hong Kong) Limited is the Investment Manager. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser.

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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