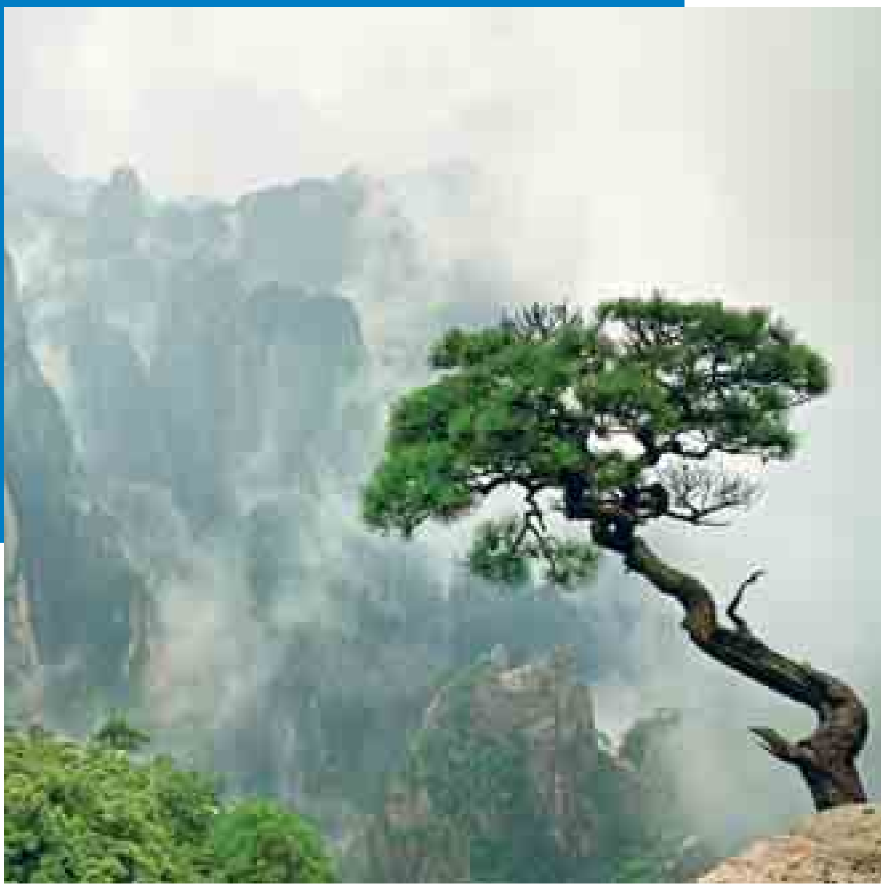
Fidelity China Special Situations PLC

Annual Report

For the year ended 31 March 2014



WORLDWIDE INVESTMENT

Contents

The Investment Objective and Performance

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

Investment Performance (year to 31 March 2014)

Net Asset Value ("NAV") per Share total return	+19.5%
Share Price total return	+14.1%
Benchmark Index – MSCI China Index total return	-6.9%

As at 31 March 2014

Equity Shareholders' Funds	£656.2m
Market Capitalisation	£593.1m
Capital Structure:	
Ordinary Shares of 1 penny	571,354,480

Standardised Performance Total Return[1] %

	01/04/2013 to 31/03/2014	01/04/2012 to 31/03/2013	01/04/2011 to 31/03/2012	19/04/2010[2] to 31/03/2011	Since launch
NAV	+19.5	+15.7	-18.5	+5.2	+18.6
Share Price	+14.1	+15.0	-26.4	+10.0	+6.3
MSCI China Index	-6.9	+12.2	-12.5	+3.3	-5.7

1 Includes reinvested income
2 Date of launch

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

Summary of Results

	2014	2013
Assets at 31 March		
Gross Asset Exposure	£806.6m	£774.2m
Net Assets	£656.2m	£634.2m
Gearing	22.9%	22.1%
Net Asset Value per Ordinary Share	114.84p	97.09p
Number of Ordinary Shares in issue	571,354,480	653,229,480
Stock market data at 31 March		
Share Price at year end	103.80p	92.00p
Share Price year high	108.80p	99.00p
Share Price year low	81.00p	70.00p
(Discount) at year end	(9.6%)	(5.2%)
(Discount) year high	(13.0%)	(9.1%)
(Discount) year low/premium year high	(4.9%)	3.8%
Earnings for the year ended 31 March		
Revenue return per Ordinary Share[1]	1.18p	1.25p
Capital return per Ordinary Share[1]	16.39p	11.76p
Total return per Ordinary Share[1]	17.57p	13.01p
Dividend for the year ended 31 March		
Dividend proposed per Ordinary Share	1.15p	1.00p
Ongoing charges for the year to 31 March[2]	1.45%	1.80%

1 Based on the weighted average number of Ordinary Shares in issue during the year

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

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

Chairman's Statement

John Owen
Chairman

I have pleasure in presenting the Annual Report of Fidelity China Special Situations PLC for the year ended 31 March 2014.

PERFORMANCE REVIEW

During the year under review, the Net Asset Value ("NAV") of the Company increased by 19.5%, outperforming the MSCI China Benchmark Index by 26.4%. The Company's share price increased by 14.1% (all figures on a total return basis).

Whilst the appreciation in the Net Asset Value of the Company is encouraging, the share price remains at or around the launch price of £1.00, which is disappointing. This is as a result of poor investor sentiment toward emerging markets, particularly China, and the fact that many UK investors are turning their attention back to western economies, especially in the US and UK, where there are more positive signs of growth than previously.

There are signs that the Chinese economy is entering a new development phase as the government looks to move away from an economic model driven by state-directed investment spending towards one more reliant on the increasingly wealthy Chinese consumer. Reforms announced by the government in last November's Third Plenary highlighted the desire by the government to achieve this and has also brought about some interesting investment opportunities. This is explained in more detail in the Portfolio Manager's Review. Overall an improving regulatory environment for many industries, a more level playing field for private companies, reforms removing government interference in determining prices for state-owned enterprises ("SOEs") and signs that the government is looking to encourage private capital into SOEs could provide fertile ground for investments, which the portfolio is well positioned to capitalise on.

The slowing growth of the Chinese economy has to be expected given its unprecedented expansion during the last 15 years but the drivers of the investment case in China remain as pertinent now as they were in April 2010 when the Company was launched. The Board continues to believe that the Company offers an effective way for long-term UK investors to access ongoing growth in the Chinese economy.

THE PORTFOLIO MANAGER

In last year's Annual Report I wrote that Anthony Bolton was stepping down as Portfolio Manager of the Company on 31 March 2014 and Dale Nicholls would succeed him from 1 April 2014. Mr Nicholls has an excellent track record and has been investing in China successfully for ten years. He has worked with Mr Bolton since the latter part of 2013 to ensure an orderly and smooth handover and is now responsible for the Company's portfolio.

The Directors are confident that Mr Nicholls will position the portfolio to take best advantage of China's continuing growth. Mr Nicholls will attend the Annual General Meeting on 18 July as will Mr Bolton.

I am most grateful to Mr Bolton for the hard work and commitment he has shown to the Company over the last four years. During that time he has travelled extensively in mainland China and visited over 1,400 companies. While market circumstances may have been more difficult than originally envisaged, he has nonetheless, outperformed the Benchmark Index handsomely. On behalf of the Board, and the shareholders, I wish him well in his retirement.

GEARING

The Company entered into a revolving credit facility agreement with Scotiabank Europe PLC for US$150,000,000 on 17 February 2012. This was renewed on 14 February 2014 to continue for a further three years and has been fully drawn down.

To achieve further gearing, the Company continues to use Contracts For Difference on a number of holdings in its portfolio. Further details are in Note 19 on page 62.

At 31 March 2014, the Company's gearing, defined as the Gross Asset Exposure in excess of Net Assets, was 22.9% (2013: 22.1%).

DIVIDEND

The Board recommends a dividend of 1.15 pence (2013: 1.00 pence) per Ordinary Share for the year ended 31 March 2014 for approval by shareholders at the forthcoming Annual General Meeting.

The dividend will be payable on 25 July 2014 to shareholders on the register on 11 July 2014 (ex-dividend date 9 July 2014).

Shareholders may choose to reinvest their dividends to purchase more shares in the Company. Details of the Dividend Reinvestment Plan are set out on page 71.

DISCOUNT AND PREMIUM

The Board believes that it is in the best interests of shareholders if the share price of the Company tracks closely to the underlying NAV, which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy back shares at a discount to NAV where it is in the best interests of shareholders to do so. During the reporting year, in furtherance of this policy, the Board authorised the repurchase and cancellation at a discount of 81,875,000 Ordinary Shares.
The Company has not repurchased any further Ordinary Shares for cancellation since the year end. The Board is seeking shareholder consent at the forthcoming Annual General Meeting to continue exercising these powers.

Chairman's Statement

TREASURY SHARES

The Board has decided to seek shareholder approval to hold in Treasury any Ordinary Shares repurchased by the Company, rather than cancelling them. The Treasury shares would carry no voting rights or rights to receive a dividend and would have no entitlement in a winding up of the Company. No more than 10% of the issued Ordinary Share capital of the Company would be held in Treasury. Any shares held in Treasury would only be re-issued at NAV per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the Ordinary Shares would enhance NAV per share. The Board is seeking Shareholder approval to implement these recommendations at the forthcoming Annual General Meeting.

MANAGEMENT FEE

With effect from 1 April 2014, the annual management fee payable to the Managers is to reduce further to 1.0% per annum of the Net Asset Value (2013: reduced from 1.5% to 1.2%). As a consequence, ongoing charges from 1 April 2014 are expected to be in the region of 1.25% per annum. Further details are included in the Directors' Report on page 22.

PERFORMANCE FEES

The maximum performance fee that is payable for the year ending 31 March 2014 has also been reduced from 1.5% to 1.0% of the average Net Asset Value during the year. In addition, any out-performance against the Company's Benchmark Index (including the 2% hurdle rate), in excess of that required to reach this 1% maximum fee, will no longer be carried forward. Any under-performance against the Company's Benchmark Index (including the 2% hurdle rate), must still be made good before a performance fee is payable. Further details are included in the Directors' Report on page 22.

The Directors believe that these fee changes will benefit shareholders in forthcoming years.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ("AIFMD")

The AIFMD is a European Directive affecting many investment funds, including the Company, which are managed or promoted within the European Union. It was implemented from 22 July 2013 and the Financial Conduct Authority has permitted a transitional period of one year. The Board has decided in principle to appoint FIL Investment Services (UK) Limited (a FIL Group company) as its Alternative Investment Fund Manager ("AIFM") in advance of the end of the transitional period on 22 July 2014. FIL Investment Services (UK) Limited will delegate the portfolio management (other than in unlisted securities) to FIL Investment Management (Hong Kong) Limited and for unlisted securities to FIL Investments International (both current Managers).

An additional requirement of the AIFMD is to appoint a depositary on behalf of the Company to oversee the custody and cash arrangements of the Company. To this end the Board have agreed in principle to appoint J.P. Morgan Europe Limited to act as the Company's depositary. J.P. Morgan Europe Limited is part of the same group of companies as JPMorgan Chase Bank who act as the Company's current bankers and custodians and will continue to do so.

THE BOARD

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, the entire Board is subject to annual re-election at the forthcoming Annual General Meeting. The Directors' biographies can be found on page 21. The Directors have a wide range of appropriate skills and experience to form a balanced Board for the Company.

THE ANNUAL GENERAL MEETING – 18 JULY 2014

The Annual General Meeting of the Company will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on Friday 18 July 2014 at 12 noon.

The Board is looking forward to having the opportunity to speak to shareholders. Anthony Bolton will be making a presentation on the year's results and Dale Nicholls, the newly appointed Portfolio Manager, will be talking about his investment style and the prospects for the Company for the year to come. We urge you to come and join us for this occasion.

John Owen CMG MBE DL
Chairman
5 June 2014

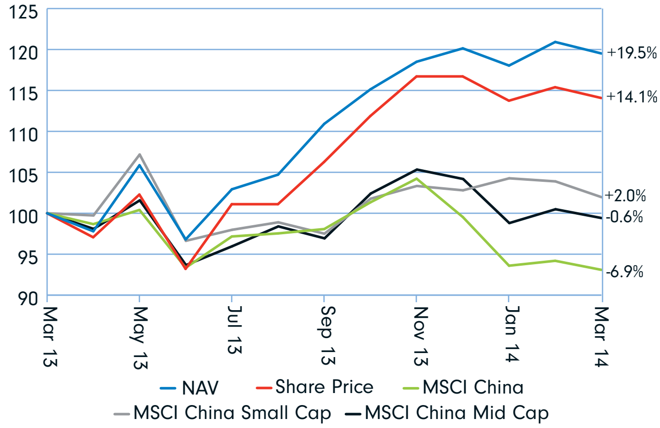
Portfolio Manager's Review

Anthony Bolton has more than 30 years' experience of managing equity funds and began investing in Chinese equities in 2004. He stepped down as the Company's Portfolio Manager on 31 March 2014. He previously acted as portfolio manager for a number of Fidelity funds, including Fidelity Special Situations Fund, which he managed from 1979 until 2007. He also managed the portfolios of two listed investment trusts, Fidelity Special Values PLC (from 1994 to 2007) and Fidelity European Values PLC (from 1991 to 2001).

PERFORMANCE REVIEW

I am pleased to report that the good performance mentioned in last year's Annual Report continued in the year to 31 March 2014. Despite difficult overall market conditions, the Company's Net Asset Value ("NAV") rose 19.5% and the share price by 14.1% despite the market, as represented by the MSCI China Index, falling 6.9% over the same period. Stock selection really came into its own during the period, with many medium and smaller-sized private companies performing well while the bigger state-owned enterprises ("SOEs") languished. The Company's gearing magnified this outperformance. Several of the internet or internet-related companies held in the portfolio, such as SouFun, 21Vianet, BitAuto and Kingsoft, performed particularly strongly, rising by 158%, 174%, 224% and 295% respectively. The unlisted holding in Alibaba convertible shares was revalued during March 2014 to a market cap equivalent of US$100 billion ahead of the company's initial public offering later this year. This is expected to be one of the largest IPOs ever for a Chinese company. Healthcare companies also performed well; for example, the two biggest holdings in this sector, Lee's Pharmaceutical and Hutchison China MediTech, rose sharply as investors started to put higher valuations on their valuable pipelines of new drugs. The undervaluation of their pipelines was one of the reasons we were attracted to these companies. We had identified Wing Hang Bank in the past as a smaller listed Hong Kong bank that could be a takeover target. In the second half of the financial year the largest shareholders decided to put the bank up for sale and, as a result, the shares performed well. An agreed offer was received from the Singapore based bank, OCBC Bank, and if mainland banks had been allowed to join the bidding I believe the take-out valuation could have been even higher.

One disappointment was AsiaInfo Linkage, a US-listed Chinese telephone software business, that had been discussing the terms of a possible management buyout ("MBO") for nearly two years. Our stance during this process was that the MBO terms were likely to be too low and when these were announced we believed the proposed transaction substantially undervalued the business, a view shared by some other institutional shareholders and proxy advice firms. Unfortunately, after a close-run vote the MBO terms were approved and we had to sell our shares at the agreed price. I fully expect the business to return to the stock market at a future date, probably in Hong Kong, and this is likely to happen at a much higher valuation than the one at which the recent deal was struck.



INVESTMENT REVIEW

Views on the outlook for the Chinese economy continue to be very polarised and the factors that worry the China bears have not changed much during the last few years. Concerns include the sustainability of a high level of GDP growth, the overall level of debt in China, the financial viability of local government financing vehicles, the outlook for residential property prices, potential bad debts in the banking system and the quality, and therefore safety, of savings vehicles such as wealth management products and those sold by trust companies. As discussed in previous reports, these factors are often evaluated by investors from a Western perspective which does not necessarily take into account the unique features of a centrally-run economy like China's. I would certainly agree that these areas present financial challenges but the idea that they will result in some imminent major financial crisis in China is, I believe, very far off the mark. Many of these issues involve Government-owned entities and the authorities are therefore likely to use all means at their disposal to address them. Once again, I would like to discuss some of these in greater depth in this report.

It is true that the overall level of debt in China is high although, unlike in some countries in the West, the greater part of the borrowings is corporate rather than Government or personal debt. Partly this is due to corporates having to rely on debt because they are unable to source funds from capital markets as they would in the West. Although debt levels are high, so is the savings rate (much higher than in the West). A high savings rate makes higher debt levels less concerning. Also, nearly all the debt is borrowed internally so it is not exposed to changes in foreign lenders' views about China. In the past, China's current account surplus has been very healthy, putting the country in a strong financial position relative to its peers. Finally, most of the debt has been taken on to finance investment rather than consumption, which again differentiates China from other countries like the US. For all these reasons, I am much less concerned about overall debt levels in China, although I do agree that the authorities will need to curtail the rate at which debt is growing and we have already started to witness this change.

Portfolio Manager's Review

Local government finance problems are principally a result of a mismatch between the duration of borrowing requirements and their funding. These vehicles borrow short-term (normally over one year) to finance long-term investment projects. Over time this will change as more long-term finance becomes available and local governments' share of the tax-take increases and their share of expenditure on services provided decreases (in China most tax revenues currently go to the Central Government while Local Governments fund most of the public services). There are certainly likely to be bad debts along the way, although many of these will be rolled forward when they come up for repayment.

In the savings product area, wealthy investors in trust products will see losses particularly if the underlying funds have been invested in more risky and privately financed projects (government funded projects are likely to be treated more leniently). However, some losses are probably a good thing, as investors will begin to understand that such products are not risk free, as many currently believe them to be.

Bad debts in the banking system will inevitably rise but as most banks are government-owned the systemic risks should not be high as they will definitely be supported. There is a very wide range of views about where bad debt write-offs will peak out in this cycle. Estimates vary from as low as 2% to over 20% of debts. Bank valuations at the time of writing probably discount a level of between 8% and 10%.

As expressed previously, I am less optimistic about the outlook for GDP growth. The most recent figure for the first quarter of 2014 shows annualised growth of 7.4% and the official target for 2014 is 7.5%. I think this target will be difficult to reach (although the official published figure is likely to meet this target). A number of factors are leading to slower growth. These include slowdowns in exports, in the property market and in wage growth as well as the effects of anti-pollution and anti-corruption campaigns. The anti-pollution campaign is leading to the closure of many steel and cement factories while the anti-corruption drive has resulted in a slowdown in investment projects at the provincial level. Also, unlike in the past, provincial leaders are now less incentivised on growth prospects at the provincial and city level. Furthermore, for the first time in a while, residential property prices are falling in many cities. Finally, it is worth remembering that even if growth were to fall to 5%, a figure well below the majority of forecasts, this incremental figure is still equivalent to about 20% of total UK GDP.

More positively, the reform agenda that was announced during the year under review probably represents, in its breadth and boldness, the most significant reform package in China for three decades. The comprehensive release after the Third Plenum meeting in Beijing last November contained full details of sixty items in sixteen areas. Possibly the biggest headline reform is the change to the one-child policy. Although it will take many years for this to have any real effect on the economy, it has significant symbolic significance as this policy was unique to China. The reforms also include measures to reduce government intervention, giving the market a greater role in areas such as the pricing of resources, the setting of interest rates and currency convertibility. They pave the way for private banks and more bond financing and promise to level the playing field between SOEs and private companies.

The proposed changes will establish more market-oriented state holding companies, will reform land rights for farmers, abolish the Hukou registration system in smaller cities and give migrant workers more access to welfare and social security. They will streamline government, abolish forced labour for offenders, increase the independence of the judiciary, accelerate new business approvals and capital projects, create new success measures for government officials beyond simple GDP growth, create more open competition for government tenders and rebalance the tax system between local and central government. Perhaps the most daring move is the establishment of a new Central Reform Group to oversee all aspects of reform and which is headed by President Xi Jinping himself. This underlines the seriousness with which the latest reforms are being taken in Beijing. In summary it would be wrong, I believe, to underestimate the long-term impact of the Third Plenum.

Now we know the agenda, the spotlight has shifted to the execution of these reforms. One area that I would watch particularly closely in the future is the pace and extent of reforms to the SOEs. It will not be easy to reform these organisations as the necessary changes will strike right at the heart of some of the most entrenched vested interests in China. However, if it is radical enough, it has the potential to transform the economy and investment landscape of China.

OUTLOOK

Before I look forward, let me look back. Perhaps my biggest mistake over the last four years has been my optimism about the overall Chinese stock market. I argued that in an environment that was very positive for equities in general, the higher growth being experienced by China would stand out in a low growth world. In fact, it has been the rate of change of growth that has proved more important than the absolute growth rate itself. Stock markets in countries where the economic growth has been increasing (e.g. US and Japan) have generally done better than those where the opposite has been the case (China). This phase could now be drawing to a close.

At the time of writing, stock market valuations in China are very cheap relative to their historical levels on most measures, sentiment is very negative and the local 'A' share market has been in a bear market for over four years. These factors all suggest that now should be a time to be positive about the market outlook as much of the bad news is already discounted in prices. Hong Kong-listed medium and smaller-sized companies still appear very cheaply-valued against their mainland-listed peers. I expect this valuation gap to close in the future as more mainland money is allowed to invest in Hong Kong and we have recently seen measures that should act as a catalyst to these flows. Of course, China is not without risks and I have mentioned the longer-term

Portfolio Manager's Review

challenges on the political and social front often in my previous reports. I believe there has to be more reform on this level over the next decade. Also the Japan-China relationship and events in North Korea must be watched as they could destabilise developments in the shorter-term.

It is with somewhat mixed emotions that I hand over the reins to Dale Nicholls and it will be sad to end my direct involvement with the Company. I have thoroughly enjoyed managing the Company over the last four years even though the period has had its challenges. However, I know the Company is now in very capable hands and I wish Dale all the best for the future. I hope he will benefit from the Chinese bull market that I see ahead. My four years stay in Hong Kong has been the most interesting chapter in my long investment career. Since my first visit to China in 2003 and my first investments there in 2004, I have been hugely impressed by this country, the opportunities that it offers and the dedication and pragmatism of its businessmen. I am convinced that the twenty first century belongs to China and that patient investors will be well rewarded. *Endorsing this view, I have recently significantly increased my personal shareholding in the Company.*

Finally, I would like to say that I very much appreciate the support you have shown me as shareholders. Thank you all very much.

Anthony Bolton
28 April 2014

Portfolio Manager's Outlook

Dale Nicholls has eighteen years investment experience. He joined Fidelity as a research analyst in 1996, covering the Japanese textiles and apparel, banks, chemicals, consumer products, technology, miscellaneous finance and insurance sectors. During this time it was essential for Dale to visit Chinese companies to get a clear view of the key supply and demand dynamics for these industries. He managed Japanese sector funds for the Fidelity Japanese office from 1999 and became portfolio manager of Fidelity Funds Pacific Fund in September 2003. He has also previously managed a number of regional small-cap strategies, including Fidelity Funds Asian Smaller Companies Fund. He was appointed Portfolio Manager of Fidelity China Special Situations PLC on 1 April 2014.

INTRODUCTION

I am pleased to write to you as the new Portfolio Manager of Fidelity China Special Situations PLC. I am honoured to be taking over from Anthony and want to thank him for his commitment to a smooth handover. We have worked together for years but over the last few months of Anthony's tenure we have been working particularly closely and he has been an "open book" in sharing his thoughts and resources.

Managing this portfolio is a wonderful opportunity for a number of reasons. The pure focus on China is something that really excites me as there are a number of great investment opportunities that are currently available in the market – macro fears have created significant opportunity for the bottom-up stock picker. I am also attracted to the flexible structure that the Company offers.

I have been investing in China for over a decade, but I have been at Fidelity for 18 years and managed money in Asia since 1999. My most visible track record is in the Fidelity Funds Pacific Fund, which I have now managed for over ten and a half years. Over this period I have been an active investor in Chinese equities and have worked closely with our investment teams in Hong Kong and Shanghai. Company meetings are a key part of my process and I work with our research teams to gather insight and understanding of companies within my investment universe.

I share Anthony's view that China's economic model will shift more towards private consumption and services, offering many opportunities within this space. Similarly to Anthony, I also have a small and mid-cap bias as these tend to be less researched, which means more opportunities for mis-pricing. I try to let the stock picking drive portfolio construction. Therefore, I aim to build a portfolio of high conviction ideas with limited attention paid to the underlying Benchmark. In short, I am looking for well managed, cash generative companies with strong long-term growth prospects, where these attributes are not well understood by the markets and are not reflected in share price valuations.

ECONOMIC OUTLOOK

While I am a stock picker, the economic environment cannot be ignored, and sentiment here has impacted the Chinese market significantly over the last couple of years. Much focus has been on China's ability to meet the government's short-term target of 'around' 7.5%, and investors are generally sceptical. I agree that it will be tough to reach this target, and would much prefer to see the government take this target down to a more realistic level. It is well documented that the government wants to drive a structural change in its economic model from one that is reliant on investment and exports to one driven by consumption. Due to this structural shift we should expect economic growth to fall from the heady days of year-on-year double digit growth, but this should also be welcomed as consumer-driven growth is less volatile and more sustainable. Also, credit growth has supported much of the rise in investment and this is clearly not sustainable and can lead to issues for the financial system down the road. Therefore, I would be more than comfortable to see growth in the 5-6% range. This is still an enviable growth rate in a global context and a good environment for individual companies to grow. This is particularly true for companies that lie within areas of the economy that the government wants to grow at a faster rate than the general economy, such as consumption.

Total borrowing in China has rapidly expanded in the last five years, taking it from around 120% of GDP to over 200%. History teaches us that such expansions usually end in significant non-performing assets, particularly in areas where the malinvestment has been most severe. I expect the same in China and this is the main reason why the Company does not hold shares in Chinese banks. We are already seeing some well publicised defaults and I believe the sooner authorities start dealing with the problem the better. However, I agree with Anthony's view that a Lehman style financial crisis is highly unlikely. In my view, a key factor in defining a financial crisis is a significant contraction in liquidity and credit, but there are significant deposits supporting the system and, importantly the government is the bank's majority shareholder and it can create liquidity if needed.

This all sounds like bad news for China, but the questions we need to ask are what does it mean for the earnings of individual companies and how much is priced into valuations? What many miss about China is the huge bifurcation in operating performance between the state-owned enterprises ("SOEs") and the private companies – the latter have recorded far superior earnings growth and returns on equity over the last five years, and this has been reflected in stock performance for these two groups. The reform agenda that has been announced will only serve to accelerate this performance gap. Last November's Third Plenary presented the blueprint for a wide range of bold and far-reaching reforms that will help transform China's economic and social scenery.

Portfolio Manager's Outlook

CHINA REFORM

At the time of writing, there has already been interesting developments with regards to the reform agenda and we have seen changes including ongoing interest rate deregulation, new banking licenses to private banks, the formation of free trade zones, the first case of a state-owned enterprise seeking private company participation (Sinopec) and the proposal of a Mutual Market Access pilot programme. This last initiative is interesting in terms of being a potential catalyst for closing the many valuation gaps that exist between Mainland China-listed and Hong Kong-listed shares.

This type of regulatory support is beneficial for "new China" areas of the market, such as consumption and healthcare, which also have the most interesting growth drivers underpinning them. Furthermore, the Company can exercise its ability to invest in private companies as the environment for China's entrepreneurs should only see improvement over the coming years. Against this backdrop I currently favour companies in the consumer discretionary, information technology and healthcare sectors given their long-term growth potential relative to other industries.

That said, some of the more mature areas of the market cannot be ignored. Much has been made about recent reforms and how this will level the playing field between SOEs and private companies. The assumption is that private companies have been given a freer rein to grow and eat into the market share of the SOEs. While I am a firm believer that "new China" is where I want to be positioned, I think the general disregard for all SOEs is creating opportunities to buy some good companies with high barriers to entry who can actually benefit from reforms. For instance, a move for more market-orientated pricing mechanisms means that SOEs who were previously restricted in their pricing by government policy should be able to raise prices. This should benefit the railway industry, including companies such as Guangshen Railway, which has not been able to raise passenger prices since the mid-1990s.

INVESTMENT OPPORTUNITIES

I would now like to discuss in more detail where I am finding opportunities, what I am looking to avoid and cover some of the changes I have made to the portfolio. In general, nothing much has changed versus when Anthony was manager. I have a similar approach to Anthony and we share similar views, so many of the changes were natural changes to the portfolio rather than a difference of opinion. Overall, attractive valuations have led to me increasing the equity exposure of the portfolio during the transition period.

I remain positive on the mid-term growth opportunities in the consumer discretionary sector and believe in the rise of the China consumer. The Chinese government clearly wants to promote consumption in the economy and ongoing urbanisation will continue to support the growth of the middle class. Based on this view and current valuations of stocks in the sector I like names related to rising Chinese wealth and underpenetrated areas of consumption. The Company has holdings in areas related to consumption upgrades, such as SAIC Motor, which manufactures Volkswagen and GM automobiles via a joint venture, and Gree Electrical Appliances, which sells high quality air conditioning units. A number of holdings in the portfolio also fall within the theme of increased travel by mainland Chinese, both at home and abroad. China Lodging owns and manages mid-range hotels across China and China International Travel is a major travel agent that potential tourists use. The main destination for Chinese tourists is currently Hong Kong, and the primary reason for many is to shop. The Company has a number of high street retailers set to benefit from this trend, such as cosmetics retailer Bonjour and jeweller Luk Fook.

As the nation gets wealthier, it aims to be healthier. Improving healthcare is a major priority for the government, and there are increasing signs of support for the development of private hospitals in the country. Hospital management group Phoenix Health Care is one of the first-movers in this area as is Fosun International, a conglomerate with a controlling stake in five hospitals. Alongside this, a number of Chinese healthcare companies have an attractive pipeline of drugs in different stages of development which are not reflected in the share price valuations.

Over the last 18 months the internet and software sector has been a stellar performer. I think these technology companies will be at the forefront of change in China, whether it be through the way things are purchased, how people communicate or how they socialise. While I am positive on the long-term outlook, shorter-term valuations look less compelling following this strong run. Information technology holdings were trimmed in the first quarter of 2014 as the Company took profits, but more recently I have used volatile sentiment towards the sector to add to the higher quality names in the sector.

Elsewhere within the 'new China' theme I like the renewable energy sector. Despite a recent setback following wind companies announcing higher than expected operational costs and weak power generation numbers, I remain confident that renewable energy is an area with great long-term growth potential. Pollution is among the top issues for the government to address and China wants to become more energy self-sufficient, both of which will drive demand. Also, the government has a stated goal in its five year plan to increase its use of non-fossil fuels to 15% of total energy usage by 2020.

As mentioned earlier, the Company has no investments in Chinese banks despite their low valuation due to ongoing regulatory risks and risk of rising 'bad' debt levels. I think we still have quite a way to go here and would not be surprised if we hear negative news that non-performing loans come in higher than many expect. However, the insurance sector looks more interesting. While we need to understand each company's individual exposures, valuations are cheap and mid-term growth prospects strong. Additionally recent reforms, such as enabling insurance firms to invest in a wider range of assets and changing annuity rules, are positive for the sector. I also like brokers as

Portfolio Manager's Outlook

many financial markets are still in the early stage of development and they will play an increasingly important role in financial market reform. Brokers with strong underwriting skills should benefit as companies will look to the markets to raise funds, supported by the end of the ban on IPO's.

In conclusion, I have been working very closely with Anthony since the start of the year to ensure a smooth transition. We have similar views on the Chinese market and the companies we have been meeting. As a consequence there has been limited change in the portfolio. I hope this report has enabled you to understand my approach better and that you share my optimism given the great opportunities in the Chinese market. I look forward to keeping you informed on future developments in a market that continues to offer great promise.

Dale Nicholls
5 June 2014

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company which replaces and enhances reporting previously included in the 'Business Review' section of the Directors' Report. It provides a review of the Company's business and describes the principal risks and uncertainties it faces. The report includes an analysis of the performance of the Company during the financial year and the position at the year end, its objective, strategy and risks and how these are measured using Key Performance Indicators. The Chairman's Statement, Portfolio Manager's Review and the Portfolio Manager's Outlook form part of the Strategic Report.

BUSINESS AND STATUS

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

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

OBJECTIVE

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

STRATEGY

In order to achieve this objective, the Company has an actively managed portfolio of investments and operates as an investment Company. As such, it is able to gear the portfolio and the Board takes the view that long-term returns for shareholders can be enhanced by using gearing in a carefully considered and monitored way.

As part of the strategy, the Board has delegated the management of the portfolio and certain other services. The Portfolio Manager aims to achieve a capital return in excess of the equivalent return on the MSCI China Index (the Company's Benchmark Index), as expressed in UK sterling. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving this objective.

The objective, strategy and principal activity have remained unchanged throughout the year ended 31 March 2014.

The summary of the year's activities and indications of future developments and the factors likely to affect this have been reviewed and supported by the Board. Details can be found in the Chairman's Statement on pages 3 and 4, the Portfolio Manager's Review on pages 5 to 7 and in the Portfolio Manager's Outlook on pages 8 to 10. The Board recognises that investing in equities is a long-term process and that the Company's returns will vary from year to year.

INVESTMENT POLICY

The Company invests in a diversified portfolio consisting primarily of securities issued by companies listed in China or Hong Kong and Chinese 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's interest in any one investment will not, on acquisition, exceed 15% of the portfolio value.

In addition, the Company may invest in China "A" Shares both directly through the Investment Manager's Qualified Foreign Institutional Investor ("QFII") licence and indirectly through third parties who have a QFII facility.

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

Unlisted Investments

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

As at 31 March 2014, the Company had invested in two unlisted investments with fair value of £32,232,000, representing 4.3% of Gross Assets.

Use of Derivative Instruments

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

The Board has adopted a policy that the Gross Asset Exposure of short positions held by the Company will not in aggregate exceed 15% of Gross Assets. It is the Board's policy that total exposure to any single counterparty from all activities, including, but not limited to, the management of cash and the use of derivatives should not exceed 15% of Gross Assets. Derivative exposures are included after the netting of off-setting positions and allowing for any collateral placed by the counterparty with the Company.

Strategic Report

As at 31 March 2014, the Company's exposure to short derivative instruments represented 1.8% of Gross Assets. The Company's exposure to any single counterparty from all derivative activities was 7.6%.

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

As at 31 March 2014, the Company held no investments in other investment companies.

Borrowing and Gearing policy

The Board considers that long-term capital growth can be enhanced by the judicious use of borrowing. The Board is responsible for the Company's gearing strategy with day-to-day decisions being made by the Manager within the remit set by the Board.

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

During the year, the Gross Asset Exposure of the Company did not exceed the limit of 30% of Net Assets. As at 31 March 2014, Gross Asset Exposure in excess of Net Assets was 22.9%.

Foreign exchange hedging policy

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

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 company, the Company is required by Section 1159 of the Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of its income.

FIL'S INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

In order to achieve the investment policy 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 (collectively "FIL"). FIL's distinctive investment approach is "bottom up" stock picking – investing in companies on the basis of their underlying strengths, facilitated by extensive research capabilities.

FIL has had a presence in Asia since 1969 and now has offices in seven countries across the region, including in three cities in mainland China and in Hong Kong. The Hong Kong office is FIL's second largest in the region, and the analysts in the Hong Kong investment team evaluate companies, meet their managements and interpret the effects of international and local events.

PERFORMANCE

In the year ended 31 March 2014, the Company's Net Asset Value total return was 19.5%, outperforming the MSCI China Index which fell by 6.9%. Details on future trends and factors that may impact the future performance of the Company are included in the Chairman's Statement on pages 3 and 4, the Portfolio Manager's Review on pages 5 to 7 and in the Portfolio Manager's Outlook on pages 8 to 10. The Forty Largest Holdings are listed on pages 16 and 17, the Distribution of the Portfolio is on page 18 and the Attribution Analysis is set out on pages 19 and 20. A full list of the Company's holdings as at 31 March 2014 is available on the Company's page of the Manager's website.

RESULTS AND DIVIDENDS

The Company's results are set out in the Income Statement on page 40. The net profit after taxation for the year ended 31 March 2014 was £106.5 million, of which the revenue return was £7.2 million.

The Directors recommend that a dividend of 1.15 pence (2013: 1.00 pence) per Ordinary Share be paid on 25 July 2014 to shareholders who appear on the register as at the close of business on 11 July 2014 (ex-dividend date 9 July 2014).

KEY PERFORMANCE INDICATORS ("KPIs")

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

	Year ended 31 March 2014 %	Year ended 31 March 2013 %
Net Asset Value total return	+19.5	+15.7
Share price total return	+14.1	+15.0
MSCI China Index total return	-6.9	+12.2
Discount to Net Asset Value	9.6	5.2
Ongoing charges	1.45	1.80

Sources: Fidelity and Datastream

Strategic Report

As well as the KPIs set out on page 12, the Board also regularly monitor other relevant statistics, such as the various factors contributing to investment results, as set out in the Attribution Analysis on pages 19 and 20. The principal risks and uncertainties stated below and those on page 14 include descriptions of other performance indicators, their monitoring and management which are important to the business of the Company.

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

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

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

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

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 principal risks facing the Company:

Principal Risks	Risk Mitigation
Market risk	Investing in an emerging market such as the PRC subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Board reviews material economic, market and legislative changes at each Board meeting. The Company has exposure to a number of companies with all or part of their business in Variable Interest Entity ("VIE") structures. These are entities where there is a controlling interest that is not based on the majority of voting rights and may result in a risk to investors being unable to enforce their ownership rights in certain circumstances.
Performance risk	The achievement of the Company's performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to underperformance of the Benchmark Index. Management of the risks set is carried out by the Board. The Company has a clearly defined strategy and investment remit. There is a clearly defined management agreement, and borrowing/derivative limits are also set by the Board. The portfolio is managed by a highly experienced Portfolio Manager. The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the portfolio against the Company's Benchmark Index and that of its competitors and the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long-term investment performance and the Board accepts that by targeting long-term results the Company risks volatility in the shorter-term. Unlisted investments are managed by FIL Investments International. Performance improved and was well ahead of its Benchmark Index in the 2013/14 financial year as outlined in the Portfolio Manager's Review on page 5. The Company has also out-performed its Benchmark Index since launch.

Strategic Report

Other risks facing the Company include:

Discount control risk

Due to the nature of investment trusts, the Board cannot control the discount at which the Company's share price trades to Net Asset Value. However, it can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations programme. The Company's share price, NAV and discount volatility are monitored daily by the Managers and by the Board.

Gearing risk

The Company has the option to invest up to the total of any loan facilities and to use Contracts For Difference (CFDs) to invest in equities. The principal risk is that while in a rising market the Company should benefit from gearing, in a falling market the impact would be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. On 17 February 2012, the Company entered into a revolving credit facility agreement with Scotiabank Europe PLC for US$150,000,000 and this was renewed to continue for a further three years on 14 February 2014. The facility has been fully drawn down. Additional geared exposure is being achieved through the use of long CFDs. The Board regularly considers gearing and gearing risk.

Currency risk

The functional currency and presentational currency of the Company in which it reports its results, is UK sterling. Most of its assets and its income are denominated in other currencies, mainly Hong Kong dollars and US dollars. Consequently, it is subject to currency risk on exchange rate movements between UK sterling and these other currencies. It is the Company's policy not to hedge against currency risks. Borrowings are denominated in US dollars and, therefore, the effect of US dollar exchange rate movements on assets denominated in US dollars will be offset by the effect on these loans. Further details can be found in Note 18 to the Financial Statements on pages 54 to 62.

Tax and Regulatory risks

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

The Alternative Investment Fund Managers Directive ("AIFMD"), details of which are provided in the Chairman's Statement on page 4, requires the Board to appoint an Alternative Investment Fund Manager ("AIFM") by 22 July 2014.

An additional requirement of the AIFMD is to appoint a depositary on behalf of the Company and details are provided in the Chairman's Statement on page 4.

The Board monitors the tax and regulatory changes at each Board meeting and is provided with regular briefings from the Association of Investment Companies ("AIC") as well as details of industry and the Managers lobbying activities.

Operational risks – Service Providers

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

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

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

BOARD DIVERSITY

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender. As at 31 March 2014, there were five male Directors and one female Director.

EMPLOYEE, SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

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. The Company has not adopted a policy on human rights as it has no employees and its operational processes are delegated.

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

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.

Strategic Report

CORPORATE ENGAGEMENT

The Board believes that the Company should, where appropriate, 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 particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate engagement and shareholder voting to the Managers. These activities are reviewed annually.

By order of the Board
FIL Investments International
Secretary
5 June 2014

Forty Largest Holdings as at 31 March 2014

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	%[1]
Tencent Holdings Limited[2] Provider of internet, mobile and telecommunications value-added services	31,754	37,983	4.7
Wing Hang Bank Limited Provider of commercial banking and related financial services	37,731	37,731	4.7
Alibaba Group[3] Major e-commerce group	31,232	31,232	3.9
CITIC Securities Company Limited Broker and asset manager	23,704	23,704	2.9
AIA Group[2] Insurance company	16,949	21,886	2.7
21Vianet Group Provider of carrier-neutral internet data centre services	21,313	21,313	2.6
Hutchison China MediTech Limited[4] Pharmaceutical and healthcare group	18,380	18,380	2.3
SAIC Motor Corporation Limited Automobile manufacturer and distribution company	17,811	17,811	2.2
Lee's Pharmaceutical Holdings Limited Operator in the pharmaceutical preparations sector	16,604	16,604	2.1
NetEase, Inc Internet company	15,530	15,530	1.9
Haitong Securities Financial services group	15,199	15,199	1.9
New Oriental Education & Technology Group Provider of private educational services	14,761	14,761	1.8
Hang Seng China Enterprises Index Call Option A long position on the Hong Kong Exchange "H" Shares Index	1,018	14,108	1.7
China Longyuan Power Group[2] Wind power producer	8,921	13,838	1.7
Li-Ning Company Leading sports brand company	13,128	13,128	1.6
BitAuto Holdings Limited Auto internet company	12,999	12,999	1.6
China Lodging Group Operates a chain of economy hotels	12,810	12,810	1.6
WuXi Pharma Tech Pharmaceutical, biotechnology, and medical device research company	11,904	11,904	1.5
SITC International Holdings[2] Leading shipping logistics company	10,611	11,731	1.5
Ping An Insurance (Group) Company of China Insurance company	11,267	11,267	1.4
Air China[2] Air passenger, air freight and air mail transportation services	9,050	11,018	1.4

Forty Largest Holdings as at 31 March 2014

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	%[1]
Green Dragon Gas[4] Coal bed methane projects developer	10,924	10,924	1.4
SouFun Holdings Limited Real estate internet websites operator	10,347	10,347	1.3
Guangshen Railway Co Railway company	10,101	10,101	1.3
Kingsoft Software company	9,467	9,467	1.2
China Animal Healthcare[2] Manufacturer and distributor of drugs for animals	8,479	9,458	1.2
ChinaCache International Holdings Provider of content delivery network and cloud computing	9,269	9,269	1.1
Newocean Energy Holdings Distributor of liquefied petroleum gas	8,987	8,987	1.1
Ports Design[2] Designs, manufactures and retails fashion garments	6,012	8,973	1.1
Formosa Optical Technology Distributor of optometry products	8,679	8,679	1.1
China International Travel Service Leading tour operator	8,511	8,511	1.1
Asia Satellite Telecommunications Company Limited Premier regional satellite operator	8,186	8,186	1.0
China Meidong Auto Holdings Automobile dealership and maintenance group	7,690	7,690	1.0
Forterra Trust Developer of commercial real estate	7,452	7,452	0.9
Global Logistic Properties[2] Industrial and logistics infrastructure provider	5,047	7,405	0.9
Shanghai Industrial Holdings Ltd[2] Real estate, infrastructure, medicine and consumer products group	4,929	7,106	0.9
Fortune Oil Oil and gas supplier	7,044	7,044	0.8
Huadian Power International Corp[2] Power producer	5,827	7,034	0.8
CSI Properties Limited[2] Property company	6,507	6,833	0.8
Pax Global Technology Manufacturer of point-of-sale terminals	6,505	6,505	0.8
Forty Largest Holdings (2013: 68.5%)	**502,639**	**544,908**	**67.5**

1 % of total gross asset exposure
2 Includes investment in CFDs
3 Convertible preference shares in an unlisted investment (see Note 18 on page 61)
4 Quoted on AIM

A full list of the Company's holdings as at 31 March 2014 is available on the Company's page of the Manager's website.

Distribution of the Portfolio as at 31 March 2014

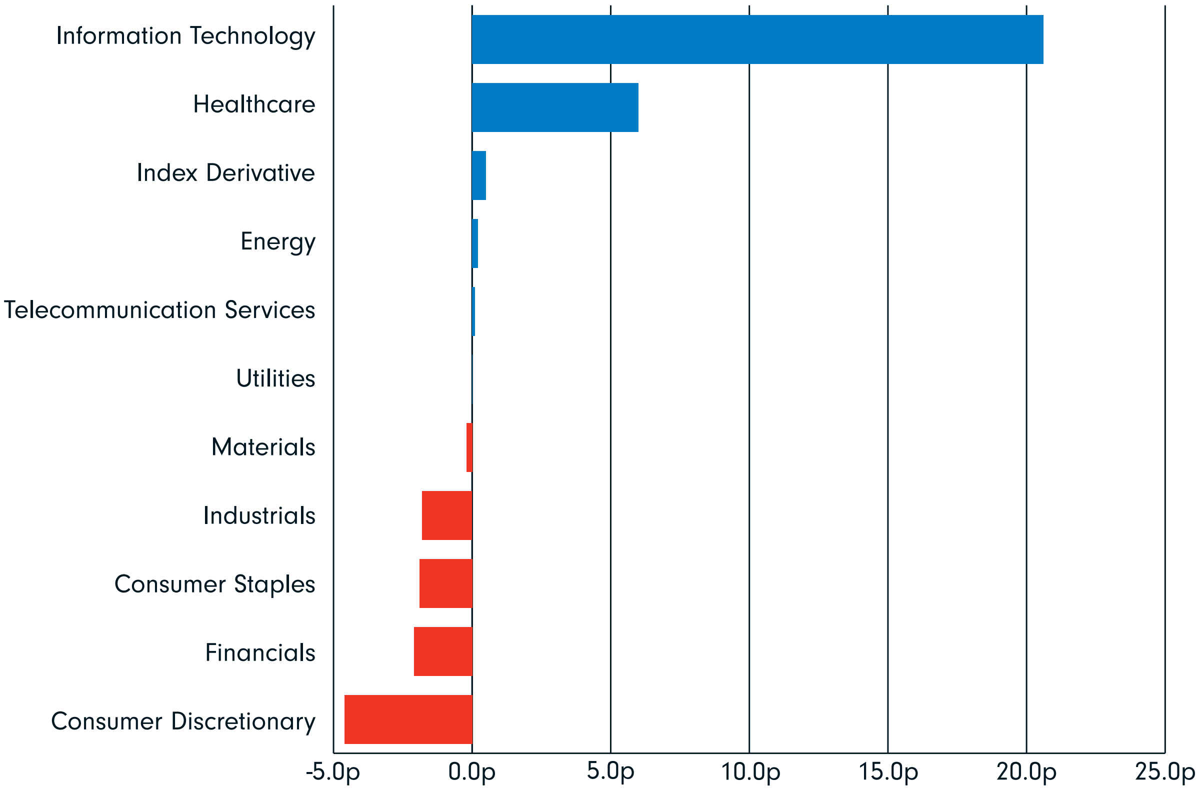
	% of Gross Asset Exposure	Benchmark %
Industry		
Consumer Discretionary	22.4	5.3
Financials	22.2	37.5
Information Technology	20.0	12.5
Healthcare	11.9	1.8
Industrials	6.4	6.6
Energy	5.2	13.6
Utilities	4.0	3.9
Consumer Staples	2.7	5.9
Index Derivative	1.9	–
Telecommunication Services	1.7	9.6
Materials	1.6	3.3
Total	**100.0**	**100.0**
Share Type		
Listed in Hong Kong	50.8	24.1
Listed in US	14.8	–
China "A" Shares	11.1	–
China "H" Shares	8.4	50.2
Red-Chips	4.8	24.9
Unlisted stocks	4.0	–
Listed in Singapore	2.1	–
Listed in Taiwan	1.1	–
Listed in UK	1.1	–
China "B" Shares	0.7	0.8
Listed in Australia	0.6	–
Listed in Canada	0.5	–
Total	**100.0**	**100.0**

	% of Gross Asset Exposure	Benchmark %
Size of Company (Market Cap (UK £))		
Large – above £5bn	23.1	78.2
Medium – between £1bn – £5bn	27.2	21.2
Small – below £1bn	45.7	0.6
Unlisted	4.0	–
Total	**100.0**	**100.0**

Attribution Analysis

Analysis of change in NAV during the year ended 31 March 2014	Pence per share
NAV at 31 March 2013	**97.09**
Impact of MSCI China Index – UK sterling equivalent	-6.71
Impact of Portfolio Management	+23.47
Impact of Gearing	+1.04
Impact of Share Repurchases	+1.11
Impact of Dividend	-1.00
Impact of Other Costs	-2.55
Impact of Cash/Currency	+2.39
NAV at 31 March 2014	**114.84**

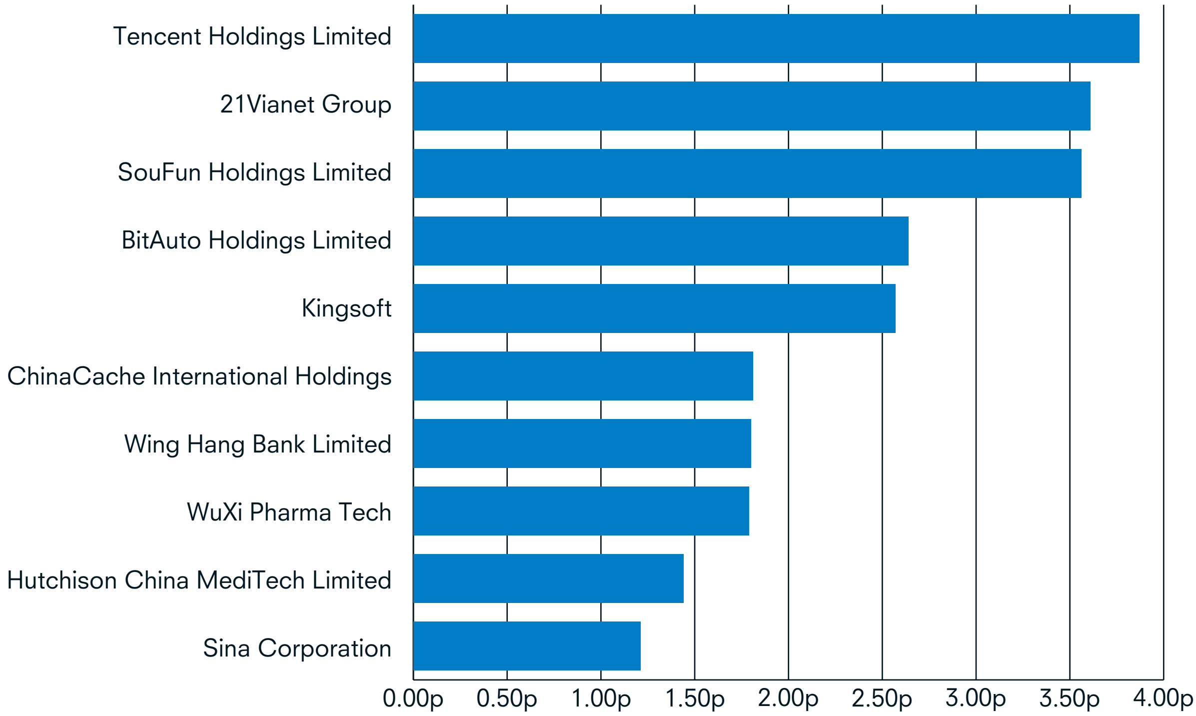
Industry contributors and detractors
(pence per share)



Note: Derivative positions are included in the above investment positions
Source: Fidelity

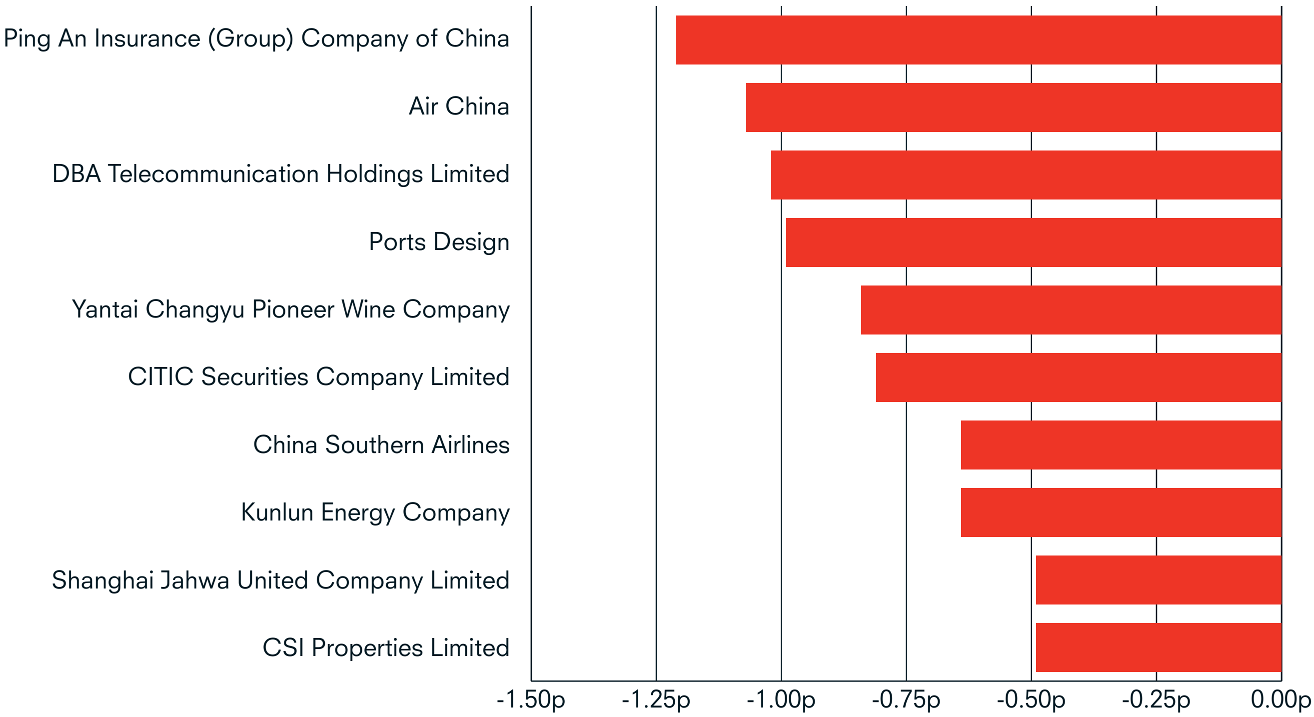
Attribution Analysis

10 Highest contributors by investment positions
(pence per share)



Note: Derivative positions are included in the above investment positions
Source: Fidelity

10 Highest detractors by investment positions
(pence per share)



Note: Derivative positions are included in the above investment positions
Source: Fidelity

Board of Directors

John Owen CMG MBE DL[1,2,3]

(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 Limited, an investment boutique providing structural solutions for professional and institutional investors. He has a number of directorships including Queensgate Bank and 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[1,2,3]

(Senior Independent Director and Chairman of the Nomination and Remuneration Committee) (date of appointment: 4 February 2010). Mr Bull is chairman of hotel group De Vere and chairman of the Advisory Board of City stockbroker Westhouse Securities. He is also a Member of Council of the University of Exeter, a trustee of the Design Museum and deputy chairman of the trustees of the Conran Foundation. Previously Mr Bull worked for 30 years as a corporate finance practitioner with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO in London, Sydney, Singapore and Hong Kong. He is a qualified chartered accountant.

David Causer FCA[1,2,3]

(Chairman of the Audit Committee) (date of appointment: 4 February 2010). Mr Causer is a non-executive director and audit committee chairman of Schroder Income Growth Fund plc, an investment company listed on the London Stock Exchange. He is a qualified chartered accountant and a member of the Securities Institute. Mr Causer has held a number of senior positions within financial services organisations, including as finance director of Mercury Asset Management Group plc and as a managing director of Merrill Lynch Investment Managers until 2001. He was finance director of The British Red Cross Society until December 2007. He is a trustee of a number of charities and of a pension fund.

The Hon. Peter Pleydell-Bouverie DL[1,2,3]

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

Elisabeth Scott[1,2,3]

(Date of appointment: 1 November 2011). Ms Scott worked in the asset management industry in Hong Kong from 1992 to 2008, where she was managing director and country head of Schroder Investment Management (Hong Kong) Limited and chair of the Hong Kong Investment Funds Association. Ms Scott is also a non-executive director of Pacific Horizon Investment Trust PLC and Dunedin Income Growth Investment Trust PLC.

Andrew Wells[2,3]

(Date of appointment: 21 May 2012). Mr Wells is FIL's Global Chief Investment Officer, Fixed Income, leads FIL's Investment Solutions Group (ISG) and has been a member of FIL's Global Operating Committee since November 2010. Mr Wells has over 20 years of investment experience, particularly in Asia, having worked as a portfolio manager in FIL's Hong Kong office from 2002 becoming FIL's Chief Investment Officer for Asian Fixed Income in 2005. In 2007, Mr Wells became Global CIO Fixed Income for FIL, responsible for developing the fixed income investment process, team and structure.

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

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

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 March 2014.

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.

MANAGEMENT COMPANY AND FEES

During the year ended 31 March 2014, the investments of the Company, other than in unlisted securities, were managed by FIL Investment Management (Hong Kong) Limited, which provides portfolio management services to the Company pursuant to the Management Agreement dated 25 February 2011.

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

For the year to 31 March 2014, the respective Management Agreements provided for an annual management fee of 1.2% of the Net Asset Value of the Company (reduced from 1.5% on 1 April 2013) and the fees totalled £7,692,000 (2013: £8,374,000). With effect from 1 April 2014, this has further reduced to 1.0% per annum of Net Asset Value. 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 1.0% (reduced from 1.5% for the year ending 31 March 2014) of the arithmetic mean of the value of assets with valuations calculated at the end of each month during the year. Any out-performance above this cap will no longer be carried forward. If the Company under-performs, the under-performance must be made good before any further performance fee becomes payable. For the year ended 31 March 2014, the performance fee payable was £6,416,000 (2013: nil).

In addition, FIL Investments International provides accounting, administrative and secretarial services to the Company pursuant to the Secretarial Services Agreement dated 25 February 2010 under which the Company pays a secretarial fee of up to £600,000 per annum, payable quarterly in arrears. For the year ended 31 March 2014, the secretarial fee payable was £600,000 (2013: £600,000).

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

The Management Engagement Committee has reviewed the performance of the Investment Managers – taking into consideration those items in the Corporate Governance Statement on pages 28 and 29 of this Annual Report. The Committee concluded that it was in the interests of shareholders that the Management Agreements should continue. Fidelity also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity ISA under an agreement dated 19 February 2010.

THE BOARD

All appointments to the Board, elections, re-elections and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. Details of the Directors who served during the year ended 31 March 2014 are set out on page 21 with a brief description of their careers.

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

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

The interests of the Directors in the Ordinary Shares of the Company as at 31 March 2013 and 31 March 2014 are shown in the Directors' Remuneration Report on page 35.

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.

REGISTRAR AND CUSTODIAN ARRANGEMENTS

The Company employs Capita Asset Services to manage the Company's share register. Fees for their services for the year under review amounted to £57,000 (2013: £53,000).

The Company employs JPMorgan Chase Bank as its custodian who is primarily responsible for safeguarding the Company's assets. Fees for custodial services for the year under review amounted to £285,000 (2013: £229,000).

Directors' Report

SHARE CAPITAL

The Company's issued share capital comprises Ordinary Shares of 1 penny each. As at 31 March 2014, the total number of shares in issue was 571,354,480 (2013: 653,229,480). Each share in issue 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 page 65. The Company's Ordinary Shares have a premium listing on the London Stock Exchange and the Company is a constituent member of the FTSE 250 Index.

SHARE ISSUES

No Ordinary Shares were issued during the year to 31 March 2014 (2013: nil) and none has been issued since the year end.

The authority to issue shares and disapply pre-emption rights granted by the shareholders at the Annual General Meeting, held on 24 July 2013, expires at the conclusion of the next Annual General Meeting and therefore, resolutions renewing the authority will be put to shareholders at the Annual General Meeting to be held on 18 July 2014.

SHARE REPURCHASES

At the Annual General Meeting held on 24 July 2013, the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 95,633,100 Ordinary Shares in the market for cancellation. The authority expires on 18 July 2014. A special resolution to renew the authority, including the ability to buy shares into Treasury, will be put to shareholders for approval at the forthcoming Annual General Meeting.

Pursuant to this authority, during the period from 24 July 2013 to 31 March 2014, 49,135,000 Ordinary Shares were repurchased for cancellation. In aggregate the total shares repurchased during the year ended 31 March 2014 was 81,875,000 Ordinary Shares (2013: 6,525,000) representing 14.3% of the issued share capital as at 31 March 2014 (2013: 1.0%) and for a total consideration of £78,323,000 (2013: £5,216,000). No Ordinary Shares have been repurchased for cancellation since the year end. The total number of Ordinary Shares in issue at the date of this report is 571,354,480.

SUBSTANTIAL SHARE INTERESTS

The following notifications had been received of interests in 3% or more of the voting rights of the Company:

	Holding at 31 March 2014	Holding at 5 June 2014
FIL Limited	43.67%[1]	43.12%[2]
Lazard Asset Management	3.32%	3.31%

1 Direct holding on own account (7.45%) and indirect holdings for Fidelity's ISA and Share Plan clients (36.22%)

2 Direct holding on own account (7.45%) and indirect holdings for Fidelity's ISA and Share Plan clients (35.67%)

An analysis of ordinary shareholders as at 31 March 2014 is detailed in the table below.

Analysis of ordinary shareholders as at 31 March 2014	% of issued share capital
Private shareholders[1]	42.66
Institutions and wealth managers	43.48
Pension companies	7.49
Insurance companies	4.37
Other	2.00

1 Includes Fidelity Share Plan and ISA investors

GREENHOUSE GAS EMISSIONS

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

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.

At the Annual General Meeting on 18 July 2014, resolutions will be proposed to renew the Directors authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting and will provide the Directors with the flexibility to issue further Ordinary Shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 13 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £571,354. If passed, this resolution will enable the Directors to allot a maximum of 57,135,448 Ordinary Shares which represents approximately 10% of the issued Ordinary Share capital of the Company as at 5 June 2014 and so that the Directors may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so. Any shares issued would be at NAV per share or at a premium to NAV per share.

Directors' Report

Resolution 14 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities or sale of Treasury Shares for cash by way of (a) rights issues, normally on a proportionate basis but where necessary taking into account practical considerations such as fractions and foreign securities laws, and (b) other issues up to an aggregate nominal value of £571,354 (approximately 10% of the issued Ordinary Share capital of the Company as at 5 June 2014).

Resolution 15 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 (excluding Treasury Shares) on 5 June 2014 either for immediate cancellation or for retention as Treasury Shares at the determination of the Board. Once shares are held in Treasury, the directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. 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 NAV per share, thereby resulting in an increased NAV per share.

Adoption of New Articles of Association
Resolution 16 is being proposed as a special resolution and relates to the adoption of new Articles of Association (the **New Articles**) which update the Company's existing Articles of Association.

There have been a number of recent changes to tax, regulation and company law which affect investment trusts and the Company. The Board is therefore seeking approval to adopt the New Articles, substantially in the form of the existing Articles, but updated to reflect these changes.

In particular:

1. As a result of changes in tax law, the Companies Act 2006 has been amended to remove the requirement that an investment company's articles of association must prohibit a distribution of realised capital profits and so it is now possible for such companies to pay dividends out of capital profits. It is therefore proposed that the Company's Articles should be updated to give the Company greater flexibility in line with tax and company laws. The Board has no current intention to pay dividends out of capital profits but believe that it is in the shareholders' best interests for the Board to have this power should circumstances warrant its use in the future.

2. The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD"). The proposed New Articles have therefore also been updated in order to incorporate the powers that may be granted to the Board as a result of the implementation of AIFMD. In particular, it is proposed to include a new Article 131, expressly granting the Board the authority to allow a depositary to discharge liability for the loss of financial instruments held in custody in accordance with the limited circumstances permitted by Article 21 of AIFMD.

3. The final change to the articles is in respect of the procedures to be followed when paying dividends. At present the company will send dividend cheques by post but may pay directly into a bank account on the instructions of the shareholder. In accordance with the recent recommendations of the Registrar's Group of the Institute of Chartered Secretaries and Administrators, the company proposes to amend the articles to give it greater flexibility to make payments in other ways, particularly electronically and in the future to specify that the default option for payment of dividends may be by direct payment into a bank account with an option for shareholders to continue to receive payment through the post. The current provisions of the articles to deal with non-payment are expanded to cover electronic payments so that if cheques or other payment methods for dividends fail and having made reasonable enquiries the company cannot establish another means of paying the shareholder, the company may cease to make payments until it has correct payment information and after twelve years the dividends are forfeited. The company is not currently intending to change the methods for payment of dividends but believes that it is sensible to include this power for the future within the new articles being proposed for adoption.

A copy of the existing Articles of Association and the proposed New Articles (showing all changes to the existing Articles), are available for inspection at the registered office of the Company and at 25 Cannon Street, London EC4M 5TA and will be made available for inspection at the Company's forthcoming Annual General Meeting at least 15 minutes prior to the start of the meeting and up until the close of the meeting.

The full text of the resolutions are set out in the Notice of Meeting contained on pages 63 to 65.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement, which forms part of this Directors' Report, on pages 26 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.

Directors' Report

AUDITOR'S APPOINTMENT

A resolution to reappoint Grant Thornton UK LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting 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 Strategic Report on pages 11 to 15. 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 40 to 62.

The Company's objectives, policies and processes for managing its capital, financial risk objectives, details of financial instruments and its exposures to credit and liquidity risk are also set out in the Strategic Report on pages 11 to 14 and in Note 18 to the Financial Statements on pages 54 to 62.

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

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

By Order of the Board
FIL Investments International
Secretary
5 June 2014

Corporate Governance Statement

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

ASSOCIATION OF INVESTMENT COMPANIES ("AIC") CODE

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

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

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

For the reasons set out in the AIC Guide and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The Company has, therefore, not reported further 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 pages 11 and 12.

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

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

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

	Regular Board Meetings	Nomination and Remuneration Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
John Owen	4/4	1/1	3/3	1/1
Nicholas Bull	4/4	1/1	3/3	1/1
David Causer	4/4	1/1	3/3	1/1
Peter Pleydell-Bouverie	4/4	1/1	3/3	1/1
Elisabeth Scott	4/4	1/1	3/3	1/1
Andrew Wells	4/4	1/1	n/a	n/a

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

Corporate Governance Statement

SENIOR INDEPENDENT DIRECTOR

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

BOARD COMPOSITION

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

Biographical details of all Directors including their relevant directorships are given on page 21.

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

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

BOARD BALANCE

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

CHANGES TO THE BOARD

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

TRAINING

Upon appointment, each Director is provided with all relevant information regarding the Company and receives training on the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities. In addition, a new Director will receive an induction, spending time with representatives of the Manager whereby he or she will become familiar with the various processes which the Managers consider necessary for the performance of his or her duties and responsibilities to the Company. The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company and the Chairman reviews and agrees development and training needs with each Director and the Senior Independent Director does 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.

ELECTION AND RE-ELECTION

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

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

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

The names of Directors submitted for re-election are accompanied by sufficient biographical details on page 21 to enable shareholders to make an informed decision. The terms and letters of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the forthcoming Annual General Meeting.

PERFORMANCE EVALUATION

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

The performance and contribution to the Company of the Chairman and each Director holding office during the year to 31 March 2014 was considered using an external evaluation agency. It has been concluded that in each case the Chairman and Directors have been effective and that they continue to demonstrate commitment to their roles.

Corporate Governance Statement

DIRECTORS' REMUNERATION

The level of Directors' fees is determined by the Nomination and Remuneration Committee within the limit governed by the Articles of Association. Full details of the Company's Remuneration Policy and Directors' fees are disclosed in the Directors' Remuneration Report on pages 33 and 34. Shareholdings in the Company by Directors are encouraged and the Directors' share interests are disclosed in the Directors' Remuneration Report on page 35.

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 which 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.

BOARD COMMITTEES

The Board of Directors discharges certain of its corporate governance responsibilities through four Committees as set out below. Terms of reference of the Audit, Nomination and Remuneration and Management Engagement Committees are available on the Company's pages of the Manager's website: www.fidelity.co.uk/its.

THE AUDIT COMMITTEE

The Audit Committee consists of all the independent non-executive Directors, namely David Causer, John Owen, Nicholas Bull, Peter Pleydell-Bouverie and Elisabeth Scott. Mr Causer chairs this Committee as the Board believes it is appropriate for him to do so given his financial background and experience as chairman of an audit committee. Full details of the Company's Audit Committee have been disclosed in the Report of the Audit Committee on pages 31 and 32.

THE NOMINATION AND REMUNERATION COMMITTEE

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

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

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

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

THE MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee consists of all the independent non-executive Directors, namely John Owen, Nicholas Bull, David Causer, Peter Pleydell-Bouverie and Elisabeth Scott. 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, making recommendations where appropriate.

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

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

- Quality of team – the skills and particular experience of the teams involved in managing all aspects of the Company's business;
- Commitment of the Managers to the investment company business generally and to the Company in particular;
- Investment management, portfolio management skills, experience and track record and other investment related considerations;
- Managing and controlling the administration, the accounting and the company secretarial function;
- Shareholder relations – shareholder information and relations, discount and premium management;
- Management agreements – consideration of fees, notice periods and duties; and

Corporate Governance Statement

- Marketing – commitment to and execution of activities designed to secure sustainable demand from potential long-term investors.

With effect from 1 April 2014, the annual management fee reduced from 1.2% to 1.0% of the Net Asset Value of the Company. The performance fee reduced to 1.0% from 1.5% of the average Net Asset Value for the year ending 31 March 2014. Further details are in the Directors' Report on page 22.

THE INVESTMENT COMMITTEE

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

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

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

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

Set out on page 36 is a statement by the Directors of their responsibilities in respect of the preparation of the Annual Report and Financial Statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report on pages 37 to 39. The Board has a responsibility to present a balanced and clear assessment of annual and interim reports, interim management statements, other price sensitive public reports, as well as to provide information required to be presented by statutory requirements. All such reports are reviewed and approved by the Board prior to their issue to ensure that this responsibility is fulfilled.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Board, assisted by the 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 their internal audit function and the work carried out by the Company's external Auditor, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

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

By means of the procedures set out above and in accordance with the FRC's "Internal Control: Revised Guidance for Directors", the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the risk management and internal control systems throughout the year ended 31 March 2014. This process continued to be in place up to the date of the approval of these Financial Statements and is expected to remain in place for the coming year.

WHISTLE-BLOWING PROCEDURE

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

BRIBERY ACT 2010

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

Corporate Governance Statement

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

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

RESPONSIBILITY AS AN INSTITUTIONAL SHAREHOLDER

The Board has adopted the Managers' 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 Managers, in their Principles of Ownership, expressly declare that they support 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.

RELATIONS WITH SHAREHOLDERS

The Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and other Directors are available to meet with major shareholders to discuss strategy and governance. The Board regularly monitors the shareholder profile of the Company and liaises with the Managers and the Company's broker to canvass shareholder opinion and communicate its views to shareholders. The Board aims to provide the maximum opportunity for dialogue between the Company and shareholders. It believes that the Company's institutional shareholders have proper access to the Managers at any time and to the Board if they so wish. If any shareholder wishes to contact a member of the Board directly they should contact the Company Secretary whose details are given on page 72.

All shareholders are encouraged to attend the Annual General Meeting at which there will be a presentation of the year's results by Anthony Bolton. Dale Nicholls, the new Portfolio Manager, will talk about his investment style and the prospects for the Company for the coming year. There will be an opportunity to meet both Portfolio Managers, representatives of the Managers and the Board. The Board is looking forward to having the opportunity to speak to shareholders.

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 Manager's website: www.fidelity.co.uk/its.

The Notice of Meeting on pages 63 and 64 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 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.

THE COMPANY'S ARTICLES OF ASSOCIATION

At the Annual General Meeting a special resolution shall be proposed to alter the Company's Articles of Association. Further details of the proposal can be found on page 24.

On behalf of the Board

John Owen
Chairman
5 June 2014

Report of the Audit Committee

As Chairman of the Audit Committee ("Committee") I am pleased to present the first formal report of the Committee to shareholders on the role and responsibilities and the effectiveness of the external audit process and how this has been assessed for the year ended 31 March 2014.

COMPOSITION

The Committee is chaired by me and consists of all of the independent Directors, namely John Owen, Nicholas Bull, Peter Pleydell-Bouverie and Elisabeth Scott. Mr Owen is a member of the Committee because the Board believes it to be appropriate for all independent Directors to have such responsibility. The Committee considers that collectively its members have sufficient recent and relevant financial experience to discharge their responsibilities fully.

ROLE AND RESPONSIBILITIES

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

- Discussing with the Company's independent Auditor the nature and scope of the audit and reviewing the independent Auditor's quality control procedures, reviewing and monitoring the effectiveness of the audit process and the 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 by seeking appropriate disclosures and comfort from the Auditor;

- Reviewing the provision of any non-audit services which is subject to prior Board approval. No work other than audit was carried out by the Company's independent Auditor during the year;

- Responsibility for making recommendations on the appointment, reappointment and removal of the Company's independent Auditor;

- Considering the scope of work undertaken by the Managers internal audit department; reviewing the Company's procedures for detecting fraud; and reviewing the effectiveness of the internal control system (including financial, operational and compliance controls and risk management);

- Monitoring the integrity of the financial statements of the Company and reviewing the half-yearly and annual financial statements of the Company prior to their submission to the Board for approval to ensure they are fair, balanced and understandable;

- Reviewing corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Sections 1158 and 1159 of the Corporation Tax Act 2010 status); and

- Reviewing the relationship with and the performance of third party service providers (such as the registrars and custodians) and the risks associated with audit firms withdrawing from the market which is considered in the Committee's risk evaluation and planning.

MEETINGS AND BUSINESS

The Committee, which consists of all the independent Directors, met three times during the reporting year and the Company's independent Auditor attended two of these meetings. Attendance by each independent Director is shown in the table on page 26.

The following matters were dealt with at these meetings:

June 2013	• Review of the Company's risk management and internal controls framework • Review of the risk associated with cybercrime • Review of performance fee calculations • Consideration of the Auditor's findings • Review of the Auditor's performance and independence • Review of the Annual Report and Financial Statements and recommendation of its approval to the Board • Recommendation of the final dividend payment to the Board • Review of the Committee's Terms of Reference
November 2013	• Review of the Company's risk management and internal controls framework • Review of the fair value process of investments, including review of the valuation of unlisted investments, in particular Alibaba Group • Review of the Management Agreement in relation to the performance fee and review of the performance fee calculations • Review of the Interim Financial Report and recommendation of its approval to the Board
February 2014	• Review of the Company's risk management and internal controls framework • Review of compliance with Corporate Governance and regulatory requirements • Review of the Auditor's engagement letter and audit plan for the Company's year ending 31 March 2014 • Review of Chinese capital gains tax on investments

Report of the Audit Committee

ANNUAL REPORT AND FINANCIAL STATEMENTS

The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors' Responsibilities is on page 36. The Audit Committee advises the Board on the form and content of the Annual Report and Financial Statements and any issues which may arise and on any specific areas which require judgement.

In respect of these Financial Statements, the Committee considered certain significant issues and how they were addressed.

Recognition of Investment Income	The recognition of investment income is undertaken in accordance with accounting policy Note 2(e) on page 44. The Audit Committee satisfied itself that adequate systems are in place for properly recording all of the Company's investment income and that this area was appropriately tested by the Company's independent Auditor.
Valuation, existence and ownership of investments (including derivatives)	The valuation of investments (including derivatives) is in accordance with accounting policy Notes 2(j) and 2(k) on pages 45 and 46. The Audit Committee satisfied itself that the Company's Auditor has verified the valuation of investments and derivatives by reference to independent sources and has also confirmed the existence and ownership of the investments with the Company's independent Custodian and that of the derivatives with the Company's Counterparties. Valuation of unlisted securities, in particular Alibaba Group, and the rationale behind the assumptions to fair value was considered.
Compliance with Sections 1158 and 1159 of the Corporation Tax Act 2010	Approval for the Company to carry on business as an investment trust has been obtained, subject to the Company continuing to meet eligibility criteria. The ongoing compliance with the eligibility criteria is monitored on a regular basis with the help and guidance of the Company's service providers or advisers.
Performance fee calculation	The independent audit includes a review of the Company's performance fee to ensure that this is calculated in accordance with the terms of the Management Agreement. The Managers report to the Board on any performance fee accruals that have been included in the Company's NAV on a regular basis. The Audit Committee seeks confirmation that the Company's performance fee has been calculated in accordance with the terms of the management agreement from the Company's Auditor.
Principal Risks and Uncertainties	The Audit Committee reviews the principal risks and uncertainties facing the Company and evaluates them according to the likelihood of the risk occurring and the impact the risk may have on the Company. Further details can be found on pages 13 and 14.

APPOINTMENT OF THE EXTERNAL AUDITOR

Grant Thornton UK LLP has acted as the Company's independent Auditor since the launch of the Company. The Committee reviewed the independence of the Auditor and the effectiveness of the audit process prior to recommending their reappointment to the Board and prior to the Board's proposal to reappoint Grant Thornton at the forthcoming Annual General Meeting.

With regard to the independence of the Auditor, the Committee reviewed:

- the personnel in the audit plan for the year;
- the Auditor's arrangements for any conflicts of interest;
- the extent of any non-audit services; and
- the statement by the Auditor that they remain independent within the meaning of the regulations and their professional standards.

With regard to the effectiveness of the audit process, the Committee reviewed:

- the fulfilment by the Auditor of the agreed audit plan;
- the audit report issued by the Auditor on the audit of the Annual Report and financial statements for the year ending 31 March 2014; and
- feedback from the Managers.

The Auditor's continued appointment is reviewed each year. The Company's audit partner cannot act for more than 5 years. There are no contractual obligations that restrict the Committee's choice of Auditor.

David Causer
Chairman of the Audit Committee
5 June 2014

Directors' Remuneration Report

CHAIRMAN'S STATEMENT

The Directors' Remuneration Report for the year ended 31 March 2014 has been prepared in accordance with Section 421 of the Companies Act 2006, the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 and the Enterprise & Regulatory Reform Act 2013. Ordinary resolutions to approve both the Remuneration Policy and the Directors' Remuneration Report will be put to shareholders for their consideration at the Annual General Meeting to be held on 18 July 2014. The Company's Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Independent Auditor's opinion is included in its report on pages 37 to 39.

The level of Directors' fees is determined by the Nomination and Remuneration Committee within the limit set out in the Articles of Association. As the Board is comprised entirely of non-executive Directors and has no employees, many parts of the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013, in particular those relating to Chief Executive Officer pay and employee pay, do not apply and are therefore not disclosed in this report.

DIRECTORS' FEE REVIEW

During the year ended 31 March 2014, the Board's fees were paid at the following rates: Chairman: £40,000; Senior Independent Director: £30,000; Chairman of the Audit Committee: £30,000; Chairman of the Investment Committee: £30,000 and Directors: £25,000. The level of fees paid to the Directors was last reviewed on 13 June 2013 and has remained unchanged since the launch of the Company. The review was based on information provided by the Company's Managers, research from third parties which included reference to the fees of other similar investment trusts and also by an external evaluator, Stephenson & Co. The external evaluator has no connections with the Company and advice received by the Board was independent. Levels of remuneration are competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

THE REMUNERATION POLICY

The Remuneration Policy is subject to a binding vote, in the form of an ordinary resolution at every third Annual General Meeting. A binding vote means that if it is not successful the Board will be obliged to revise the policy and seek further shareholder approval at a General Meeting specially convened for that purpose. The current policy is set out below.

The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this overall limit, and based on the recommendations of the Nomination and Remuneration Committee, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role individual Directors fulfil. Other than fees, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long-term incentive schemes or other taxable benefits. No other payments are made to Directors other than reasonable out-of-pocket expenses which have been incurred as a result of attending to the affairs of the Company. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

The level of Directors' fees is determined by the whole Board. Directors do not vote on their own fees. The Nomination and Remuneration Committee reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Managers and research from third parties and it includes information on the fees of other similar investment trusts. Every third year, in accordance with Code B.6.2 of the UK Corporate Governance Code, as a FTSE 350 company, the Board is required to carry out an externally facilitated evaluation of its performance. This evaluation process also provides input into the appropriate level of Directors' fees from an independent source.

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's Annual General Meetings and can be obtained from the Company's registered office.

In common with most investment trusts there is no Chief Executive Officer and no employees.

The opinion of shareholders has not been sought in preparing the Remuneration Policy and no communication has been received from shareholders with regard to the Company's Remuneration Policy or Directors' fees.

The Company's remuneration policy will apply to new Board members, who will be paid at the same level as current Directors.

This policy has been followed throughout the year under review but will be formalised for the first time at the Company's forthcoming Annual General Meeting to be held on 18 July 2014 and it will take effect from that date.

Directors' Remuneration Report

REPORT ON THE REMUNERATION POLICY

This refers to the way in which the Remuneration Policy has been implemented during the year ended 31 March 2014. The Directors' Remuneration Report will be put to shareholders by way of an ordinary resolution at each Annual General Meeting. This is a non-binding 'advisory' resolution. In the event that shareholders vote against the resolution, the Board will be required to put its Remuneration Policy for shareholder approval at the next Annual General Meeting, regardless of whether the Remuneration Policy was approved by shareholders within the last three years.

Voting at the Company's last Annual General Meeting

At the Annual General Meeting held on 24 July 2013, 97.73% of votes were cast in favour (or granted discretion to the Chairman of the meeting who cast them in favour) of the Directors' Remuneration Report for the year ended 31 March 2013, 1.61% of votes were cast against and 0.66% of votes were withheld. At the Annual General Meeting to be held on 18 July 2014, for the first time, the Company's Remuneration Policy and the Directors' Remuneration Report will be put to shareholders and the votes cast at that meeting with regard to the two new resolutions will be released to the market via a regulatory news service provider and disclosed in the Remuneration Report for the year to 31 March 2015 and on the Company's website.

Single Total Figure of Remuneration

The single total aggregate Directors' remuneration for the year under review was £155,000 (2013: £155,000). Information on individual Directors' fees is shown below.

REMUNERATION OF DIRECTORS	2015 Projected Fees (£)	2014 Fees (£) (Audited)	2013 Fees (£) (Audited)
John Owen	40,000	40,000	40,000
Nicholas Bull	30,000	30,000	30,000
David Causer	30,000	30,000	30,000
Peter Pleydell-Bouverie	30,000	30,000	30,000
Elisabeth Scott	25,000	25,000	25,000
Andrew Wells[1]	–	–	–
Total	**155,000**	**155,000**	**155,000**

[1] Waives his Directors' fees

Directors' fees are paid monthly in arrears. Directors do not serve a notice period if their appointment were to be terminated.

Expenditure on Remuneration and Distributions to Shareholders

The table below shows the total amount paid out in remuneration and distribution to shareholders for the financial years 31 March 2013 and 31 March 2014.

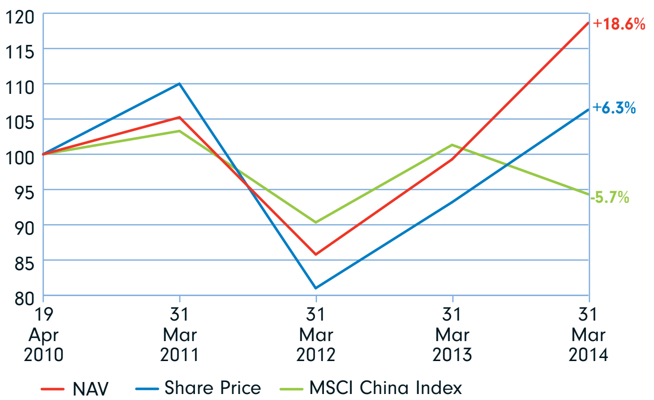
	31 March 2014 £	31 March 2013 £
Expenditure on Remuneration:		
Aggregate of Directors' Fees	155,000	155,000
Distribution to Shareholders:		
Dividend payments	6,233,000	4,934,000
Shares repurchased	78,323,000	5,216,000

Performance

The Company's investment objective is to achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies listed in China or Hong Kong and Chinese companies listed elsewhere.

The Company's performance is measured against the return of the MSCI China Index (in UK sterling terms) as this is the most appropriate Benchmark in respect of its asset allocation. The following graph shows performance since launch to 31 March 2014.

Performance from 19 April 2010 to 31 March 2014 (on a total return basis)



Basis: Prices rebased to 100
Sources: Fidelity and Datastream
Past performance is not a guide to future returns

Directors' Remuneration Report

Directors' Interest in Ordinary Shares

Whilst there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors is encouraged. The Directors' holdings in the Ordinary Shares of the Company are shown below. All of the Directors' shareholdings are beneficial.

Directors' Shareholdings (Audited)

	31 March 2014	31 March 2013	Change during year
John Owen	53,501	53,433	68[1]
Nicholas Bull	65,804	65,804	–
David Causer	65,804	65,804	–
Peter Pleydell-Bouverie	59,224	59,224	–
Elisabeth Scott	12,319	12,200	119[1]
Andrew Wells	nil	nil	–

[1] Shares acquired through dividend re-investment

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

On behalf of the Board

John Owen
Chairman
5 June 2014

Statement of Directors' Responsibilities

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

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

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to assume 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 Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report that comply with that law and those regulations.

The Directors have delegated responsibility 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 to the Managers. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

We confirm that to the best of our knowledge the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and the Strategic Report and Directors' Report include 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. We confirm that we consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 5 June 2014 and signed on its behalf.

John Owen
Chairman

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

We have audited the financial statements of Fidelity China Special Situations PLC for the year ended 31 March 2014 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.

This report is made solely to the Company's members, 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 members 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 members 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 36, 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 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 Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

AUDITOR COMMENTARY

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focused on obtaining an understanding of, and evaluating, internal controls at the Company and relevant third-party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at the relevant third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £6,562,000, which is 1% of the Company's net assets. For the revenue column of the income statement we determined that misstatements for a lesser amount than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for the income statement to be £1,640,000.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £328,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

Investments

The Company's business is investing in financial assets with a view to profit from the total return in the form of revenue and capital gains. Accordingly, the investment portfolio, which includes both quoted and unquoted companies and Contracts For Difference ("CFDs"), is a significant and material item in the Balance Sheet. We therefore identified the valuation and existence of these items as significant risks that required special audit consideration.

Existence and Valuation of Quoted Investments

Our audit work included, but was not restricted to, understanding management's process to recognise and measure the fair value of the investment portfolio of quoted investments in order to confirm compliance with relevant accounting standards, and verification of the existence of those investments. We agreed the valuation of all the quoted investments to an independent source of market prices and we tested the determination of the valuation of CFDs by agreement of the contract price to the report from the independent custodian and the settlement price to an independent source of market prices. We obtained confirmation of investments and CFDs held at the year-end directly from the independent custodian, tested the reconciliation of the custodian records to the records maintained by the Company's administrator, and tested a selection of investment and CFD additions and disposals shown in the Company's

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

records to supporting documentation. The Company's accounting policy on the valuation of quoted investments is included in Note 2, and its disclosures about quoted investments held at the year-end are included in Note 10.

Existence and Valuation of Unquoted Investments
Our audit work included, but was not restricted to, understanding management's process to recognise and measure the fair value of the investment portfolio of unquoted investments in order to confirm compliance with relevant accounting standards, and verification of the existence of those investments. We assessed the valuation of the unquoted investments by: obtaining an understanding of how the valuations were performed; consideration of whether the valuations were performed in accordance with International Private Equity and Venture Capital Valuation Guidelines issued in 2012; discussions with the investment manager; and reviewing and challenging the basis and reasonableness of the assumptions made by the investment manager in conjunction with available supporting information. We obtained confirmation of unquoted investments held at the year-end directly from the independent custodian and tested the reconciliation of the custodian records to the records maintained by the Company's administrator. The Company's accounting policy on the valuation of unquoted investments is included in Note 2, and its disclosures about unquoted investments held at the year-end are included in Note 10.

Recognition of income from Investments
Investment income is the Company's major source of revenue and a significant, material item in the Income Statement. Accordingly, the recognition of investment income, which materially comprises dividends received and receivable, is therefore a significant risk that requires special audit attention.

Our audit work included, but was not restricted to: assessing whether the Company's accounting policy for income recognition is in accordance with International Financial Reporting Standards; obtaining an understanding of management's process for recognising income in accordance with the stated accounting policy, for a sample of investments held in the period confirming that income that should have been received has been received and was recorded. We also assessed whether any of the dividends should have been treated as capital receipts.

The Company's accounting policy on the recognition of income from investments is included in Note 2 and the components of that revenue are included in Note 3.

Performance fee measurement
The investment management agreement between the Company and its investment manager includes provision for a performance fee to be paid to the manager in certain circumstances. The basis of the fee calculation is complex and therefore could be calculated incorrectly. We therefore identified the measurement of the performance fee as requiring particular audit consideration.

Our audit work included, but was not restricted to, reading the agreement with FIL Investments International and FIL Investment Management (Hong Kong) Limited containing the performance fee arrangements and obtaining an understanding of the basis of calculation. We then checked the calculation of the fee was consistent with the performance fee arrangements. In addition, we compared the performance to the MSCI China Index as a benchmark, which in turn had been agreed to an independent data provider.

The Company's accounting policy on the performance fee is included in Note 2 and the disclosures about the amount of the performance fee are included in Note 4.

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 2014 and of its net profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OTHER REPORTING RESPONSIBILITIES

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

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

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 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
6 June 2014

Income Statement for the year ended 31 March 2014

	Notes	revenue £'000	Year ended 31.03.14 capital £'000	total £'000	revenue £'000	Year ended 31.03.13 capital £'000	total £'000
Revenue							
Investment income	3	13,938	–	13,938	14,278	–	14,278
Other income	3	5	–	5	5	–	5
Net derivative (expense)/income	3	(25)	–	(25)	856	–	856
Total income		13,918	–	13,918	15,139	–	15,139
Gains on investments designated at fair value through profit or loss	10	–	99,249	99,249	–	87,198	87,198
Net gains/(losses) on derivative instruments held at fair value through profit or loss	11	–	2,619	2,619	–	(115)	(115)
Foreign exchange (losses)/gains on other net assets		(111)	(696)	(807)	(19)	890	871
Foreign exchange gains/(losses) on bank loans		–	8,776	8,776	–	(4,898)	(4,898)
Total income and gains		13,807	109,948	123,755	15,120	83,075	98,195
Expenses							
Investment management and performance fees	4	(3,846)	(10,262)	(14,108)	(4,187)	(4,187)	(8,374)
Other expenses	5	(1,635)	–	(1,635)	(1,573)	–	(1,573)
Profit before finance costs and taxation		8,326	99,686	108,012	9,360	78,888	88,248
Finance costs	6	(794)	(794)	(1,588)	(871)	(871)	(1,742)
Profit before taxation		7,532	98,892	106,424	8,489	78,017	86,506
Taxation	7	(358)	409	51	(289)	(809)	(1,098)
Net profit after taxation for the year		7,174	99,301	106,475	8,200	77,208	85,408
Earnings per Ordinary Share – basic and diluted	8	1.18p	16.39p	17.57p	1.25p	11.76p	13.01p

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

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

All of the profit 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 year.

The Notes on pages 44 to 62 form an integral part of these Financial Statements.

Statement of Changes in Equity for the year ended 31 March 2014

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
Equity shareholders' funds at 31 March 2012		6,598	211,569	29	449,909	(116,378)	7,248	558,975
Repurchase of Ordinary Shares	15	(66)	–	66	(5,216)	–	–	(5,216)
Net profit after taxation for the year		–	–	–	–	77,208	8,200	85,408
Dividend paid	9	–	–	–	–	–	(4,934)	(4,934)
Equity shareholders' funds at 31 March 2013		6,532	211,569	95	444,693	(39,170)	10,514	634,233
Repurchase of Ordinary Shares	15	(819)	–	819	(78,323)	–	–	(78,323)
Net profit after taxation for the year		–	–	–	–	99,301	7,174	106,475
Dividend paid	9	–	–	–	–	–	(6,233)	(6,233)
Equity shareholders' funds at 31 March 2014		5,713	211,569	914	366,370	60,131	11,455	656,152

The Notes on pages 44 to 62 form an integral part of these Financial Statements.

Balance Sheet as at 31 March 2014

Company number 7133583

	Notes	2014 £'000	2013 £'000
Non current assets			
Investments designated at fair value through profit or loss	10	735,319	712,898
Current assets			
Derivative assets held at fair value through profit or loss	11	11,810	8,592
Amounts held at futures clearing houses and brokers		–	4,056
Other receivables	12	183	3,131
Cash and cash equivalents		16,662	18,511
		28,655	34,290
Current liabilities			
Derivative liabilities held at fair value through profit or loss	11	(7,064)	(3,110)
Bank loans	13	(89,963)	(98,739)
Overseas capital gains tax payable		(637)	(1,046)
Other payables	14	(10,158)	(10,060)
		(107,822)	(112,955)
Net current liabilities		(79,167)	(78,665)
Net assets		656,152	634,233
Equity attributable to equity shareholders			
Share capital	15	5,713	6,532
Share premium account	16	211,569	211,569
Capital redemption reserve	16	914	95
Other reserve	16	366,370	444,693
Capital reserve	16	60,131	(39,170)
Revenue reserve	16	11,455	10,514
Total equity shareholders' funds		656,152	634,233
Net asset value per Ordinary Share	17	114.84p	97.09p

The Financial Statements on pages 40 to 62 were approved by the Board of Directors on 5 June 2014 and were signed on its behalf by:

John Owen
Chairman

The Notes on pages 44 to 62 form an integral part of these Financial Statements.

Cash Flow Statement for the year ended 31 March 2014

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
Operating activities		
Cash inflow from investment income	12,902	13,394
Cash inflow from net derivative income	74	867
Cash inflow from other income	5	5
Cash outflow from Directors' fees	(158)	(156)
Cash outflow from other payments	(9,552)	(9,618)
Cash outflow from the purchase of investments	(390,418)	(443,379)
Cash outflow from the costs of derivatives	(8,226)	(17,861)
Cash inflow from the sale of investments	465,349	445,595
Cash inflow from the proceeds of derivatives	11,581	20,054
Cash inflow/(outflow) from amounts held at futures clearing houses and brokers	4,306	(384)
Net cash inflow from operating activities before servicing of finance	85,863	8,517
Servicing of finance		
Cash outflow on interest on bank loans	(1,600)	(1,736)
Net cash inflow from operating activities and servicing of finance	84,263	6,781
Financing activities		
Cash outflow from the repurchase of Ordinary Shares	(79,183)	(4,349)
Cash outflow from dividends paid to shareholders	(6,233)	(4,934)
Net cash outflow from financing activities	(85,416)	(9,283)
Decrease in cash and cash equivalents	(1,153)	(2,502)
Net cash and cash equivalents at the start of the year	18,511	20,123
Effect of foreign exchange movements	(696)	890
Cash and cash equivalents at the end of the year	16,662	18,511

The Notes on pages 44 to 62 form an integral part of these Financial Statements.

Notes to the Financial Statements

1 PRINCIPAL ACTIVITY

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

2 ACCOUNTING POLICIES

The Company's Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union, the Companies Act that apply to companies reporting under IFRS, IFRIC interpretations and with the AIC's Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP"), issued January 2009. The accounting policies adopted in the preparation of these financial statements are summarised below.

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

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

b) Changes in accounting policy and disclosures – IFRS 13 Fair Value Measurement was adopted in the year. 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 (revised)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 14 Regulatory Deferral Accounts
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures

It is anticipated that the adoption of these Standards and Interpretations in future periods will have no material financial effect on the financial statements of the Company.

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

d) Significant accounting estimates and judgements – The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the possible valuations in the event of a listing and other marketability related risks.

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

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

Notes to the Financial Statements

2 ACCOUNTING POLICIES continued

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

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

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

h) Taxation – The taxation expense represents the sum of taxation currently payable and, if applicable, deferred taxation.

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

Taxation is charged or credited to the revenue column of the Income Statement, except when it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Companies which are approved as Investment Trusts under Section 1158 of the Corporation Tax Act 2010 are not liable for UK taxation on capital gains.

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

j) Valuation of investments – The Company's business is investing in financial assets with a view to profiting from their total return in the form of capital growth and income. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is measured as bid or last prices depending upon the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations. Investments which are not quoted or are not frequently traded are stated at the best estimate of fair value, based on recognised valuation techniques which may take account of the most recent arm's length transactions in the investment. Valuation reports are provided to the Board by the Manager's Fair Value Committee, which is independent of the Manager's Portfolio Management team.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within "Gains on investments designated at fair value through profit or loss" in the capital column of the Income Statement and has disclosed them in Note 10 below.

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

Notes to the Financial Statements

2 ACCOUNTING POLICIES continued

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

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

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

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

Dividends received and interest paid on long CFDs and interest received and dividends paid on short CFDs are included in "Net derivative (expense)/income" in the revenue column of the Income Statement.

l) Bank loans – Loans are initially included in the financial statements at cost, being the fair value of the consideration received net of any issue costs relating to the borrowing. After initial recognition, the loans are measured at amortised cost using the effective interest 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 transferred to capital reserve:

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

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10: "Distributable Profits", changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of level 3 investments with a fair value of £33,245,000 (2013: £19,366,000).

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

Notes to the Financial Statements

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
3 INCOME		
Investment income		
Overseas dividends	12,946	13,195
Overseas scrip dividends	686	526
UK dividends	127	284
UK scrip dividends	179	273
	13,938	14,278
Other income		
Deposit interest	5	5
Net derivative (expense)/income		
Dividends received on long CFDs	745	1,234
Less: interest paid on long CFDs	(328)	(328)
Interest received on short CFDs	–	8
Less: dividends paid on short CFDs	(442)	(58)
	(25)	856
Total income	13,918	15,139

	Year ended 31.03.14 revenue £'000	Year ended 31.03.14 capital £'000	Year ended 31.03.14 total £'000	Year ended 31.03.13 revenue £'000	Year ended 31.03.13 capital £'000	Year ended 31.03.13 total £'000
4 INVESTMENT MANAGEMENT FEE						
Investment management fee	3,846	3,846	7,692	4,187	4,187	8,374
Performance fee	–	6,416	6,416	–	–	–
	3,846	10,262	14,108	4,187	4,187	8,374

Under the Investment Management Agreements between the Company, FIL Investment Management (Hong Kong) Limited and FIL Investments International ("The Managers"), the Managers provided investment management services for an annual fee of 1.2% (2013: 1.5%) of the Net Asset Value ("NAV"). From 1 April 2014 the annual fee reduced from 1.2% to 1.0% of the NAV. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December.

In addition, the Managers are entitled to an annual performance fee of 15% of any change in the NAV per Ordinary Share attributable to performance which is more than 2% above the return on the MSCI China Index, subject to a maximum performance fee payable in any year equal to 1.0% (2013: 1.5%) of the arithmetic mean of the NAV calculated at the end of each month during the year. Any out-performance above this cap is lost. If the Company's performance is less than 2% of the return on the MSCI China Index in any year, the under-performance must be made good before any further performance fee becomes payable. Both the NAV per Ordinary Share and the MSCI China Index are calculated on a total return basis.

Notes to the Financial Statements

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
5 OTHER EXPENSES		
AIC fees	24	28
Custody fees	285	229
Directors' expenses	64	55
Directors' fees*	155	155
Legal and professional fees	78	110
Marketing expenses	180	133
Printing and publication expenses	126	120
Registrars' fees	57	53
Secretarial and administration fees	600	600
Other expenses	39	38
Fees payable to the Independent Auditor		
Audit services	27	25
Tax advice	–	27
	1,635	1,573

* Details of the breakdown of Directors' fees are provided within the Directors' Remuneration Report on page 34.

	Year ended 31.03.14 revenue £'000	Year ended 31.03.14 capital £'000	Year ended 31.03.14 total £'000	Year ended 31.03.13 revenue £'000	Year ended 31.03.13 capital £'000	Year ended 31.03.13 total £'000
6 FINANCE COSTS						
Interest and fees on bank loans	794	794	1,588	871	871	1,742

Notes to the Financial Statements

7 TAXATION

	revenue £'000	Year ended 31.03.14 capital £'000	total £'000	revenue £'000	Year ended 31.03.13 capital £'000	total £'000
a) Analysis of the taxation charge/(credit) for the year						
Overseas taxation charge	358	–	358	289	–	289
Overseas capital gains tax (credit)/charge	–	(409)	(409)	–	809	809
Total current taxation charge/(credit) for the year (see Note 7b)	358	(409)	(51)	289	809	1,098

b) Factors affecting the taxation charge/(credit) in the year

The taxation charge/(credit) for the year is lower than the standard rate of UK corporation tax for an investment trust company of 23% (2013: 24%). A reconciliation of the standard rate of UK corporation tax to the taxation charge/(credit) for the year is shown below:

	revenue £'000	Year ended 31.03.14 capital £'000	total £'000	revenue £'000	Year ended 31.03.13 capital £'000	total £'000
Profit before taxation	7,532	98,892	106,424	8,489	78,017	86,506
Profit before taxation multiplied by the standard rate of UK corporation tax of 23% (2013: 24%)	1,732	22,745	24,477	2,037	18,724	20,761
Effects of:						
Gains on investments not taxable*	–	(25,288)	(25,288)	–	(19,938)	(19,938)
Income not taxable	(3,071)	–	(3,071)	(3,244)	–	(3,244)
Excess expenses	1,352	2,543	3,895	1,225	1,214	2,439
Overseas taxation expensed	(13)	–	(13)	(18)	–	(18)
Overseas taxation	358	–	358	289	–	289
Overseas capital gains tax	–	(409)	(409)	–	809	809
Current taxation charge/(credit) (Note 7a)	358	(409)	(51)	289	809	1,098

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

c) Deferred taxation

There are excess management expenses of £44,747,000 (2013: £28,895,000) and excess finance costs of £2,044,000 (2013: £964,000), resulting in a deferred taxation asset of £10,762,000 (2013: £7,166,000) which has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

Notes to the Financial Statements

	Year ended 31.03.14 revenue	capital	total	Year ended 31.03.13 revenue	capital	total
8 EARNINGS PER ORDINARY SHARE						
Earnings per Ordinary Share – basic and diluted	1.18p	16.39p	17.57p	1.25p	11.76p	13.01p

Earnings per Ordinary Share are based on the revenue net profit after taxation for the year of £7,174,000 (2013: £8,200,000), the capital net profit after taxation for the year of £99,301,000 (2013: £77,208,000) and the total net profit after taxation for the year of £106,475,000 (2013: £85,408,000) and on 605,705,576 (2013: 656,533,795) Ordinary Shares being the weighted average number of Ordinary Shares in issue during the year. Basic and diluted earnings per share are the same as the Company has no dilutive financial instruments.

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
9 DIVIDENDS		
Dividend paid		
Dividend paid of 1.00 pence per Ordinary Share for the year ended 31 March 2013	6,233	–
Dividend paid of 0.75 pence per Ordinary Share for the year ended 31 March 2012	–	4,934
	6,233	4,934
Dividend proposed		
Dividend proposed of 1.15 pence per Ordinary Share for the year ended 31 March 2014	6,571	–
Dividend proposed of 1.00 pence per Ordinary Share for the year ended 31 March 2013	–	6,233
	6,571	6,233

The Directors have proposed the payment of a dividend for the year ended 31 March 2014 of 1.15 pence per Ordinary Share to be paid on 25 July 2014 to shareholders on the register at the close of business on 11 July 2014 (ex-dividend date 9 July 2014).

Notes to the Financial Statements

	2014 £'000	2013 £'000
10 INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Total investments*	735,319	712,898
Opening fair value of investments		
Opening book cost	680,845	685,879
Opening investment holding gains/(losses)	32,053	(56,170)
	712,898	629,709
Movements in the year		
Purchases at cost	386,239	435,526
Sales – proceeds	(463,067)	(439,535)
Sales – gains/(losses) in the year	52,404	(1,025)
Movement in investment holding gains in the year	46,845	88,223
Closing fair value of investments	735,319	712,898
Closing book cost	656,421	680,845
Closing investment holding gains	78,898	32,053
Closing fair value of investments	735,319	712,898

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

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
Gains on investments		
Gains/(losses) on sales of investments	52,404	(1,025)
Investment holding gains	46,845	88,223
	99,249	87,198

The portfolio turnover rate for the year was 59.0% (2013: 69.6%).

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 were as follows:

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
Purchases	1,120	942
Sales	972	1,002
	2,092	1,944

Substantial interest
As at 31 March 2014, the Company held 21,664 ordinary shares of 10 pence each in DJI Holdings Limited, a private company incorporated in the UK. This holding represented 6.1% (2013: 6.7%) of the issued share capital of that company which, in the opinion of the Directors, did not represent a participating interest.

Notes to the Financial Statements

	Year ended 31.03.14 £'000	Year ended 31.03.13 £'000
11 DERIVATIVE INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS		
Net gains/(losses) on derivative instruments held at fair value through profit or loss in the year		
Realised gains on CFDs	3,942	3,389
Realised gains/(losses) on options	950	(5,762)
Realised gains on forward currency contracts	–	237
Movement on investment holding (losses)/gains on CFDs	(2,173)	2,647
Movement on investment holding (losses)/gains on options	(519)	161
Movement on investment holding gains on warrants	419	–
Movement on investment holding losses on forward currency contracts	–	(787)
	2,619	(115)

	2014 £'000	2013 £'000
Fair value of derivative instruments recognised in the Balance Sheet		
Derivative assets recognised at fair value through profit or loss	11,810	8,592
Derivative liabilities recognised at fair value through profit or loss	(7,064)	(3,110)
	4,746	5,482

	2014		2013	
	fair value £'000	gross asset exposure £'000	fair value £'000	gross asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	5,834	43,465	5,121	50,296
Short CFDs	(2,525)	13,074	361	10,961
Call Options	1,018	14,108	–	–
Warrants	419	598	–	–
	4,746	71,245	5,482	61,257

Notes to the Financial Statements

12 OTHER RECEIVABLES

	2014 £'000	2013 £'000
Securities sold for future settlement	135	2,417
Accrued income	–	394
Other receivables	48	320
	183	3,131

13 BANK LOANS

	2014 £'000	2013 £'000
Variable rate unsecured US dollar loans		
US dollar 150,000,000 @ 1.44% (2013: 1.67%), repayable on 14 May 2014	89,963	98,739

On 14 February 2014, the Company renewed its existing revolving facility agreement for US$150,000,000 with Scotiabank Europe PLC for a further three years to 14 February 2017.

14 OTHER PAYABLES

	2014 £'000	2013 £'000
Securities purchased for future settlement	125	5,169
Amount payable on share repurchases	985	1,845
Performance fee payable	6,416	–
Other payables	2,632	3,046
	10,158	10,060

15 SHARE CAPITAL

	2014		2013	
	Number of shares	£'000	Number of shares	£'000
Issued, allotted and fully paid:				
Beginning of the year	653,229,480	6,532	659,754,480	6,598
Repurchase of Ordinary Shares of 1 penny each	(81,875,000)	(819)	(6,525,000)	(66)
End of the year	571,354,480	5,713	653,229,480	6,532

Notes to the Financial Statements

16 RESERVES

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

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

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

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

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

17 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on net assets of £656,152,000 (2013: £634,233,000) and on 571,354,480 (2013: 653,229,480) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

18 FINANCIAL INSTRUMENTS

MANAGEMENT OF RISK

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The Board with the assistance of the Managers, has developed a risk matrix which, as part of the internal control process, identifies the operational risks that the Company faces. Risks identified are strategic, marketing and business development, investment management, company secretarial, fund administration and operations and support function risks. Risks are identified and graded in this process, together with steps taken in mitigation of risks, and are updated and reviewed on an ongoing basis. Principal risks identified are in the Strategic Report on pages 13 and 14.

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

The Company's financial instruments comprise:

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

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

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

Market price risk

Other price risk

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

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

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

Interest rate risk

The Company finances its operations through share capital raised. In addition, the Company has long and short CFDs and a multicurrency revolving credit facility for US$150,000,000 expiring on 14 February 2017. The Company has drawn down the whole of this facility as disclosed in Note 13 above.

Interest rate risk exposure

The value of the Company's financial instruments that are exposed to movements in interest rates is shown below:

	2014 £'000	2013 £'000
Exposure to financial instruments that bear interest		
Long CFDs exposure less fair value	37,631	45,175
Bank loans	89,963	98,739
	127,594	143,914
Exposure to financial instruments that earn interest		
Short CFDs exposure	10,549	11,322
Cash at bank	16,662	18,511
Amounts held at futures clearing houses and brokers	–	4,056
	27,211	33,889
Net exposure to financial instruments that bear interest	100,383	110,025

Foreign currency risk

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

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

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

The Company will also be subject to short-term exposure from exchange rate movements, for example, between the date when an investment is bought or sold and the date when settlement of the transaction occurs.

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

Currency exposure of financial assets

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

	2014				
	investments designated at fair value through profit or loss £'000	exposure to long derivative instruments £'000	other receivables £'000	cash and cash equivalents £'000	total £'000
Australian dollar	4,527	–	–	–	4,527
Canadian dollar	3,030	598	–	–	3,628
Chinese renminbi	64,353	–	–	156	64,509
Hong Kong dollar	429,740	55,347	135	16,024	501,246
Singapore dollar	14,074	2,226	–	–	16,300
Taiwan dollar	8,679	–	–	322	9,001
UK sterling	37,348	–	48	160	37,556
US dollar	173,568	–	–	–	173,568
	735,319	58,171	183	16,662	810,335

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

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

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

Currency exposure of financial liabilities

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

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

	2014			
	exposure to short derivative instruments £'000	US dollar bank loans £'000	other payables £'000	total £'000
Chinese renminbi	–	–	638	638
Hong Kong dollar	13,074	–	124	13,198
UK sterling	–	–	9,871	9,871
US dollar	–	89,963	162	90,125
	13,074	89,963	10,795	113,832

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

Liquidity risk

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

Counterparty risk

All securities and derivative instruments are transacted with brokers and carry the risk that the counterparty to a transaction may not meet its financial obligations. All counterparties for any type of trading are assessed by an independent Credit Research and Analysis Function of the Manager. Exposures to counterparties are monitored frequently by the Manager. For the long CFDs and options and in accordance with terms outlined in the International Swap Dealers Association's ("ISDA") market standard derivative legal contracts, collateral is used to reduce the credit risk exposure for both parties to the transaction. Collateral is managed and monitored on a daily basis for all relevant transactions. At 31 March 2014, £4,300,000 (2013: £5,700,000) of government bonds were held on behalf of the Company, in a segregated collateral account to reduce the credit risk exposure of the Company.

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

Credit risk

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

Derivative instruments risk

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

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

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

RISK SENSITIVITY ANALYSIS

Other price risk sensitivity analysis

Changes in market prices, other than those arising from interest rate risk, may also affect both the Company's net profit after taxation for the year and the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found in the Strategic Report on pages 13 and 14.

An increase of 10% in the share prices of the investments designated at fair value through profit or loss at 31 March 2014 would have increased both the profit after taxation for the year and the net assets of the Company by £73,532,000 (2013: £71,290,000). A decrease of 10% in the share prices of the investments designated at fair value through profit or loss would have had an equal but opposite effect.

Derivative instruments exposure sensitivity analysis

The Company invests in CFDs, options and warrants to gain exposure to the equity market. An increase of 10% in the share prices of the investments underlying derivative instruments at 31 March 2014 would have increased both the profit after taxation for the year and the net assets of the Company by £4,510,000 (2013: £3,934,000). A decrease of 10% in the share prices of the investments underlying the derivative instruments would have had an equal but opposite effect.

Interest rate risk sensitivity analysis

Based on the financial assets and liabilities held and interest rates at the Balance Sheet date, an increase of 0.25% in interest rates throughout the year would have decreased both the profit after taxation for the year and the net assets of the Company by £251,000 (2013: £275,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

Foreign currency risk sensitivity analysis

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

	2014 £'000	2013 £'000
Australian dollar	412	400
Canadian dollar	314	47
Chinese renminbi	5,806	6,707
Hong Kong dollar	44,368	41,399
Singapore dollar	1,482	2,028
Taiwan dollar	818	410
US dollar	7,586	8,760
	60,786	59,751

If the UK sterling exchange rate had weakened by 10% against the other currencies, both the profit after taxation for the year and the net assets of the Company would have increased by the following amounts:

	2014 £'000	2013 £'000
Australian dollar	503	488
Canadian dollar	383	57
Chinese renminbi	7,097	8,198
Hong Kong dollar	54,228	50,599
Singapore dollar	1,811	2,479
Taiwan dollar	1,000	501
US dollar	9,272	10,707
	74,294	73,029

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	2014		2013	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Variable rate unsecured loan US dollar 150,000,000	90,283	89,963	99,283	98,739

FAIR VALUE HIERARCHY

Under IFRS 13 Fair Value Measurement, 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 (j) and (k) above. The table below sets out the Company's fair value hierarchy:

	2014			
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
Financial assets at fair value through profit or loss				
Investments – shares	681,149	–	33,245	714,394
Investments – equity linked notes	–	20,925	–	20,925
Derivative instruments	–	11,810	–	11,810
	681,149	32,735	33,245	747,129
Financial liabilities at fair value through profit or loss				
Derivative instruments	–	(7,064)	–	(7,064)

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

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

Level 3 investments

Level 3 investments include a holding of 25,000 convertible preference shares in Alibaba Group Holdings Limited ("Alibaba"), which represent 1.5% of the convertible preference shares in issue. Alibaba is an unlisted company incorporated in the Cayman Islands. Its turnover for the year ended 31 March 2013 was £3,655m, its pre-tax profits were £1,071m and its net assets at 31 March 2013 were £1,161m. During the year ended 31 March 2014, the Company received dividend income from Alibaba of £307,000 (2013: £165,000). The Company's holding in Alibaba was purchased in 2012 at a cost of £15,374,000 and at 31 March 2014 its fair value was £31,232,000 (2013: £16,457,000). Alibaba is a leading Chinese e-commerce company and plans an initial public offering later this year. The fair value of Alibaba is based on estimates of the Company's ownership interest in Alibaba and the market capitalisation of Alibaba.

The Company's ownership interest, conferred through its holding of convertible preference shares, has been estimated at about 0.05% with reference to analysts' reports and the preliminary prospectus issued by Alibaba. The market capitalisation of Alibaba has been estimated at about US$100bn, with reference to analysts' reports and any publicly reported information relating to transactions in the shares of Alibaba. An increase of 25% in the estimate of the market capitalisation of Alibaba at 31 March 2014, with the Company's ownership interest in Alibaba remaining constant, would have increased the profit after taxation and the net assets of the Company by £7,808,000 (2013: £4,115,000). A decrease of 10% in the estimate of the market capitalisation of Alibaba, with the Company's ownership interest in Alibaba remaining constant, would have decreased the profit after taxation and the net assets of the Company by £3,123,000 (2013: £1,646,000).

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

	2014 £'000	2013 £'000
Financial assets at fair value through profit or loss		
Level 3 investments at the beginning of the year	19,366	4,063
Purchases at cost	–	15,374
Investments suspended transferred from level 1 at fair value	723	5,765
Investments becoming listed transferred to level 1 at fair value	–	(6,919)
Movement in investment holding gains in the year	13,156	1,083
Level 3 investments at the end of the year	33,245	19,366

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS continued

	2014 £'000	2013 £'000
Financial liabilities at fair value through profit or loss		
Level 3 investments at the beginning of the year	–	(160)
Movement in investment holding gains in the year	–	160
Level 3 investments at the end of the year	–	–

19 CAPITAL RESOURCES AND GEARING

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital, reserves and gearing, which are disclosed in the Balance Sheet above. It is managed in accordance with its investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report on pages 11 and 12. The principal risks and their management are disclosed in the Strategic Report on pages 13 and 14 and in Note 18 above.

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

	2014 £'000	2013 £'000
Gross Asset Exposure		
Investments	735,319	712,898
Long derivatives	58,171	50,296
Short derivatives	13,074	10,961
	806,564	774,155
Net assets	656,152	634,233
Gearing (Gross Asset Exposure in excess of Net Assets)	22.9%	22.1%

20 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments at 31 March 2014 (2013: none).

21 RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE MANAGERS

FIL Investment Management (Hong Kong) Limited is the Manager and FIL Investments International is the unlisted securities Manager and the Secretary of the Company. Details of the investment management fee payable, are given in Note 4 above and the secretarial and administration fees payable are detailed in Note 5 above. Key management compensation paid was £167,000 (2013: £167,000). This included fees paid to the Directors, which are disclosed in the Directors' Remuneration Report on page 34, and £12,000 (2013: £12,000) of employer National Insurance Contributions.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity China Special Situations PLC will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on 18 July 2014 at 12 noon for the following purposes:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 March 2014.

2. To declare that a final dividend for the year ended 31 March 2014 of 1.15 pence per Ordinary Share be paid to shareholders who appear on the register as at close of business on 11 July 2014.

3. To re-elect Mr John Owen as a Director.

4. To re-elect Mr Nicholas Bull as a Director.

5. To re-elect Mr David Causer as a Director.

6. To re-elect The Hon Peter Pleydell-Bouverie as a Director.

7. To re-elect Ms Elisabeth Scott as a Director.

8. To re-elect Mr Andrew Wells as a Director.

9. To approve the Directors' Remuneration Report (excluding the Company's Remuneration Policy set out on pages 33 and 34) for the year ended 31 March 2014.

10. To approve the Company's Remuneration Policy, the full text of which is contained in the Directors' Remuneration Report for the year ended 31 March 2014 as set out on pages 33 and 34.

11. 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.

12. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following resolutions which will be proposed, in the case of Resolution 13 as an ordinary resolution and in the case of Resolutions 14, 15 and 16 as special resolutions.

Resolutions 13 and 14 will, if approved, authorise the Directors to allot a limited number of the currently unissued Ordinary Shares (or sell any Ordinary Shares which the Company elects to hold in Treasury) 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 5 June 2014. The Directors will only issue new Ordinary Shares, or dispose of Ordinary Shares held in Treasury, under this authority in order 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. Any Ordinary Shares held in Treasury would only be re-issued at NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the Ordinary Shares would enhance NAV per share.

13. 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 £571,354 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 5 June 2014) and so that the Directors may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, 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.

14. THAT, subject to the passing of resolution 13 set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said resolution 13 and/or to sell Ordinary Shares held by the Company as Treasury Shares for cash, as if Section 561 of the Act did not apply to any such allotment, or sale, 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, record dates, legal, regulatory or practical problems in, or 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 or sale of Treasury Shares up to an aggregate nominal amount of £571,354 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 5 June 2014); and

    c) in either case, by the condition that allotments of equity securities or sales of Treasury Shares may only be made pursuant to this authority at a price of not less than the Net Asset Value per share.

Notice of Meeting

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 15 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 (excluding Treasury Shares) on 5 June 2014 for immediate cancellation or for retention as Treasury Shares, at the determination of the Board. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. 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.

15. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of Ordinary Shares of 1 penny each in the capital of the Company (the "shares") provided that:

a) the maximum number of shares hereby authorised to be purchased shall be 85,646,036;

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.

Resolution 16 is a special resolution which, if approved, will adopt new Articles of Association of the Company which update the Company's existing Articles of Association. The new Articles of Association reflect recent changes to tax, regulation and company law which affect investment trusts and the Company, in particular (1) removing the prohibition on a distribution of realised capital profits, (2) incorporating provisions to ensure compliance with the Alternative Investment Fund Managers Directive, including conferring certain powers on the Board expressly, and (3) to amend the articles to include wider powers in future to facilitate payment of dividends electronically or by other means and to specify the default payment method. Further details can be found on page 24.

16. THAT with effect from the passing of this resolution, the draft regulations produced to the meeting and, for the purpose of identification, initialled by the chairman, be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

By Order of the Board
FIL Investments International
Secretary
5 June 2014

Notice of Meeting

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 16 July 2014. 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 notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF 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 16 July 2014. 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 16 July 2014.

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 5.30pm on 16 July 2014.

7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding three per cent or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.

9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members by 5.30pm on 16 July 2014. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at 5.30pm 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 5 June 2014 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 571,354,480 Ordinary Shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 5 June 2014 was 571,354,480.

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. No Director has a service contract with the Company.

15. 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

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

Glossary to the Annual Report

AIC
The Association of Investment Companies. The Company is a member of the AIC.

AIF
Alternative Investment Fund. The Company is an AIF.

AIFM
Alternative Investment Fund Manager. The Board has agreed, in principle, that FIL Investment Services (UK) Limited will act as the Company's AIFM.

AIFMD
The Alternative Investment Fund Managers Directive 2011/61/EU is a European Union Directive and came into force on 22 July 2013 and has a transitional implementation date of 22 July 2014.

AUDITOR
Grant Thornton UK LLP or such other auditor, as the Company may appoint from time to time.

BENCHMARK INDEX
The Benchmark Index is MSCI China Index total return (net) – in UK sterling and is a composite of China "B", "H", "Red Chip" and "P Chip" share classes.

CAPITA ASSET SERVICES
The Company's Registrar.

CENKOS SECURITIES
The Company's Broker.

CHINA "A" SHARES
Shares traded on the Chinese Stock Exchanges in Chinese renminbi. Foreign investors were unable to participate in the China "A" Shares market until the introduction of the QFII program in 2002 which provided a legal framework for licensed QFIIs to invest in China "A" shares on the Chinese Stock exchanges and certain other securities previously not eligible for investment by foreign investors.

CHINA "B" SHARES
Shares traded on the Shenzhen Stock Exchange and Shanghai Stock Exchange in Hong Kong dollars and US dollars, respectively. The shares were originally intended to be available only to foreign individuals and institutional investors, however, since February 2001 they have been available to domestic individual investors who trade through legal foreign currency accounts.

CHINA "H" SHARES
Shares in companies incorporated in the PRC and listed on the Hong Kong Stock Exchange. They are available to non-Chinese investors and are traded in Hong Kong dollars on the Hong Kong Stock Exchange.

CHINESE RENMINBI
Currency of the PRC.

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.

CONTRACT FOR DIFFERENCE (CFD)
A Contract For Difference is a derivative. It is a contract between the Company and an investment bank at the end of which the parties exchange the difference between the opening price and the closing price of the underlying asset of the specified financial instrument. It does not involve the Company buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A Contract For Difference allows the Company to gain access to the movement in the share price by depositing a small amount of cash known as margin. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the Company holds long positions, dividends are received and interest is paid. If the Company holds short positions, dividends are paid and interest is received.

CUSTODIAN
An entity that holds (as intermediary) the Company's assets, arranges the settlement of transactions and administers income, proxy voting and corporate actions. The Company's custodian is JPMorgan Chase bank.

DEBT
Bank borrowings and long Contracts For Difference.

DEPOSITARY
Entity that will oversee the custody, cash arrangements and other AIFM responsibilities of the Company. The Board has agreed, in principle, that J.P. Morgan Europe Limited will act as the Company's Depositary.

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 warrants, futures, and options.

DISCOUNT
If the share price of the Company is lower than the Net Asset Value per Ordinary Share, the Company's shares are said to be trading at a discount. It is shown as a percentage of the Net Asset Value per Ordinary Share.

EQUITY LINKED NOTES OR ELN
Debt instruments whose return on investment is linked to specific equities or equity markets. The return on equity linked notes may be determined by an equity index, a basket of equities, or a single equity.

FAIR VALUE
The carrying value in the Balance Sheet which represents the amount that would be received or paid on disposal of the financial asset or liability.

Glossary to the Annual Report

FIL
FIL Limited and each of its subsidiaries.

FIL LIMITED
The ultimate parent company of the FIL Group of companies. Incorporated in Bermuda.

FIDELITY
FIL Investments International.

FORWARD CURRENCY CONTRACT
An agreement to buy or sell a currency, commodity or other asset at a specified future date and at a predetermined price. It is not standardised and is not traded on organised exchanges.

FUTURE OR FUTURE CONTRACT
An agreement to buy or sell a stated amount of a security, currency or commodity at a specific future date and at a pre-agreed price.

GEARING
Gross asset exposure in excess of net assets.

GROSS ASSETS
Net Assets plus borrowings.

GROSS ASSET EXPOSURE
The value of the portfolio to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the derivatives, but excluding forward currency contracts).

HEDGING
A hedge position demonstrates risk reduction qualities by delivering short exposure to an asset which has regional congruence and a correlation of at least 80% to long exposures in the Company's portfolio. It therefore distinguishes itself from a "short" which is a position not opened with the objective of reducing the long exposure in the portfolio. Qualifying hedge exposures do not count towards the short exposure limits. For the purposes of calculating gross asset exposure, the exposure attributed to the hedge positions will be deducted from the exposure of the corresponding long positions. Short positions are added to long positions in arriving at the gross asset exposure.

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, represents the Investment Manager and the Unlisted Investment Manager.

MANAGEMENT AGREEMENT
The agreement between FIL Investment Management (Hong Kong) Limited and the Company regarding the management of the Company's investments dated 25 February 2010.

MANAGEMENT AGREEMENTS
Together, represents the Management Agreement and the Unlisted Management Agreement.

MANAGEMENT FEE
The annual management fee was 1.2% of the Net Asset Value of the Company for the year ended 31 March 2014. It reduced to 1.0% of the Net Asset Value on 1 April 2014.

MSCI CHINA INDEX
The Benchmark Index of the investment performance of the Company, UK sterling equivalent.

MSCI CHINA MID CAP INDEX
Designed to measure the performance of the mid cap segment of the China market. The Index represents approximately 15% of the free float-adjusted market capitalisation of the China equity universe.

MSCI CHINA SMALL CAP INDEX
Designed to measure the performance of the small cap segment of the China market. The Index represents approximately 14% of the free float-adjusted market capitalisation of the China equity universe.

NET ASSET VALUE (NAV)
Net Asset Value is sometimes described as "shareholders' funds" and is the total value of the Company's assets less the total value of its liabilities. For valuation purposes it is common to express the Net Asset Value on a per share basis.

NET ASSET VALUE (NAV) PER ORDINARY SHARE
The NAV per Ordinary Share is calculated as shareholders' funds divided by the number of Ordinary Shares in issue.

OPTIONS
An option is a contract which gives the right but not the obligation to buy or sell an underlying asset at an agreed price on or before an agreed date. Options may be call or put and are used to gain or reduce exposure to the underlying asset on a conditional basis.

P CHIPS
Companies controlled by mainland individuals, with the establishment and origin of the company in mainland China. P Chips are incorporated outside of the People's Republic of China (PRC) and traded on the Stock Exchange of Hong Kong with a majority of revenues or assets derived from Mainland China.

PERFORMANCE FEE
The Investment Managers are entitled to an annual performance fee of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index total return (net) – in UK sterling (after making good any cumulative under-performance, including the 2% hurdle, carried forward from previous years), subject to a maximum performance fee payable in any year equal to 1.0% of the arithmetic mean of the value of assets with the valuation calculated at the end of each month during the year.

Glossary to the Annual Report

PRC
The People's Republic of China (excluding Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC).

PRE-EMPTION RIGHTS
Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held by existing shareholders. At each annual general meeting, the Board seek shareholder approval to disapply pre-emption rights provision, up to 10% of the Company's issued share capital.

PORTFOLIO
The Company's portfolio which may be made up of equities, index linked securities, equity linked notes and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions and other interests including derivative instruments (such as futures, options and Contracts For Difference.

PREMIUM
If the share price of the Company is higher than the Net Asset Value per Ordinary Share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the Net Asset Value per Ordinary Share.

PROSPECTUS
The Prospectus of the Company dated 7 January 2011.

QFII
The Investment Manager is a QFII (a Qualified Foreign Institutional Investor) 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 China but which are based in mainland China. Red Chips are listed on, and are required to observe the filing and reporting requirements of, the Hong Kong Stock Exchange. Red Chips typically have a significant portion of their business interests located in mainland China and many are owned, either directly or indirectly, by organisations or enterprises controlled by the Chinese state, provinces or municipalities.

REGISTRAR
Entity that manages the Company's shareholders register. The Company's registrar is Capita Asset Services.

RETURN
The return generated in a given period from investments:

- **Revenue Return** reflects the dividends and interest from investments and other income, net of expenses, finance costs and taxation;

- **Capital Return** reflects the on capital, excluding any capital return; and

- **Total Return** reflects the aggregate of revenue and capital returns.

SECRETARIAL AGREEMENT
The agreement between the Secretary and Company regarding the provision of company secretarial and administrative services dated 25 February 2010.

SECRETARY
FIL Investments International.

SHAREHOLDERS' FUNDS
Also described as Net Asset Value, shareholders' funds represent the total value of the Company's assets less the total value of its liabilities as shown in the balance sheet.

SHORT STOCK EXPOSURE
The position of the Company when it has sold a security or derivative that it does not own but is now committed to eventually purchase in order to satisfy its obligation to sell. It is a strategy used to capitalise on an expected decline in the security's or derivative's price.

TREASURY SHARES
Ordinary Shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not pay dividends, have no voting rights and are excluded from the Net Asset Value calculation.

UNLISTED 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
These are securities not listed on a regulated stock exchange. They are stated at best estimate of fair value, based on recognised valuation techniques which may take account of recent arm's length transactions in the investments.

UNLISTED SECURITIES
A derivative security that gives the Company a right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame.

WARRANTS
A derivative security that gives the Company the right to purchase securities (usually equity) from the issuer at a specific price and within a certain time frame.

Investing in Fidelity China Special Situations PLC

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

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

INVESTING INSIDE AN ISA

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

Between 6 April and 30 June 2014, the maximum investment in a stocks and shares ISA is £11,880. 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. With effect from 1 July 2014, ISAs will be reformed into a simpler product, the 'New ISA' ("NISA"), with equal limits for cash, and stocks and shares. The overall subscription limit will be £15,000.

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

MOVING MONEY FROM A PREVIOUS ISA

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

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

INVESTING OUTSIDE AN ISA

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

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

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

BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

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

INVESTING ONLINE

Whilst you cannot use a Debit Card online to invest through an ISA, Junior ISA or Share Plan the application forms you need are all available via www.fidelity.co.uk/its. You can also invest online in Fidelity China Special Situations PLC shares via the share trading facility available via www.fidelity.co.uk/sharenetwork. 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.

Investing in Fidelity China Special Situations PLC

FURTHER INFORMATION

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

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

You can also find out more by visiting fidelity.co.uk/its or contacting your Financial Adviser.

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

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. 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.

Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and the ₣ symbol are trademarks of FIL Limited.

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

Shareholder Information

CONTACT INFORMATION

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

Financial advisers: call free to 0800 41 41 81, 8am to 6pm, Monday to Friday.
www.fidelity.co.uk/its

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 Asset Services, Registrars to Fidelity China Special Situations PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8.30am – 5.30pm Monday to Friday) email: shareholderenquiries@capita.co.uk

Details of individual shareholdings and other information can also be obtained from the Registrars' website: www.capitaassetservices.com

Fidelity Share Plan investors

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

Fidelity ISA investors

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

General enquiries

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

ONLINE SHAREHOLDER SERVICES – SHARE PORTAL

Through the website of our Registrars, Capita Asset Services, 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 Asset Services website at: 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

Capita Share Dealing Services

You can make use of a low cost share dealing service provided by Capita Asset Services to buy or sell shares. Further information is available at www.capitadeal.com, or by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open 8.00am – 4.30pm 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 or call Capita IRG Trustees on 0871 664 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 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 www.fidelity.co.uk/its. You can also obtain current price information by telephoning Fidelity on 0800 41 41 10 (freephone) 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).

Shareholder Information

MANAGERS AND ADVISORS

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

Unlisted Investment Manager, Secretary and Registered Office
FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

Financial Advisers and Stockbrokers
Cenkos Securities plc
6,7,8 Tokenhouse Yard
London
EC2R 7AS

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

Custodian and Bankers
JPMorgan Chase Bank
125 London Wall
London
EC2Y 5AJ

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

Lawyers
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Speechly Bircham LLP
6 New Street Square
London
EC4A 3LX

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

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

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

Investors can also obtain current share price information by telephoning Fidelity for free on 0800 41 41 10 or FT Cityline on 0905 817 1690 (voice activated service – calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters Code for Fidelity China Special Situations PLC is FCSS, the SEDOL is B62Z3C7 and the ISIN is GB00B62Z3C74.

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

UK CAPITAL GAINS TAX
Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of Ordinary Shares, acquired at the time of the Company's launch, is 100.00 pence. All UK individuals under present legislation are permitted to have £11,000 of capital gains in the current tax year 2014/2015 (2014/2013: £10,900) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

Warning to Shareholders

SHARE FRAUD WARNING

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

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

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

PROTECT YOURSELF

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

1. Get the name of the person and organisation contacting you.

2. Check the FCA Register at **www.fca.org.uk/register** to ensure they are authorised.

3. Use the details on the FCA Register to contact the firm.

4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.

5. Search the FCA's website for a list of unauthorised firms and individuals to avoid doing business with.

6. **REMEMBER: if it sounds too good to be true, it probably is!**

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

REPORT A SCAM

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

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

0300 123 2040

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100% of the inks used are vegetable oil based 95% of press chemicals are recycled for further use and on average 99% of any waste associated with this production will be recycled.

The FSC® logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council®.

This document is printed on Cocoon Silk; a paper made using 50% recycled fibre from genuine waste paper and 50% virgin fibre.

The unavoidable carbon emissions generated during the manufacture and delivery of this document, have been reduced to net zero through a verified, carbon offsetting project.

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