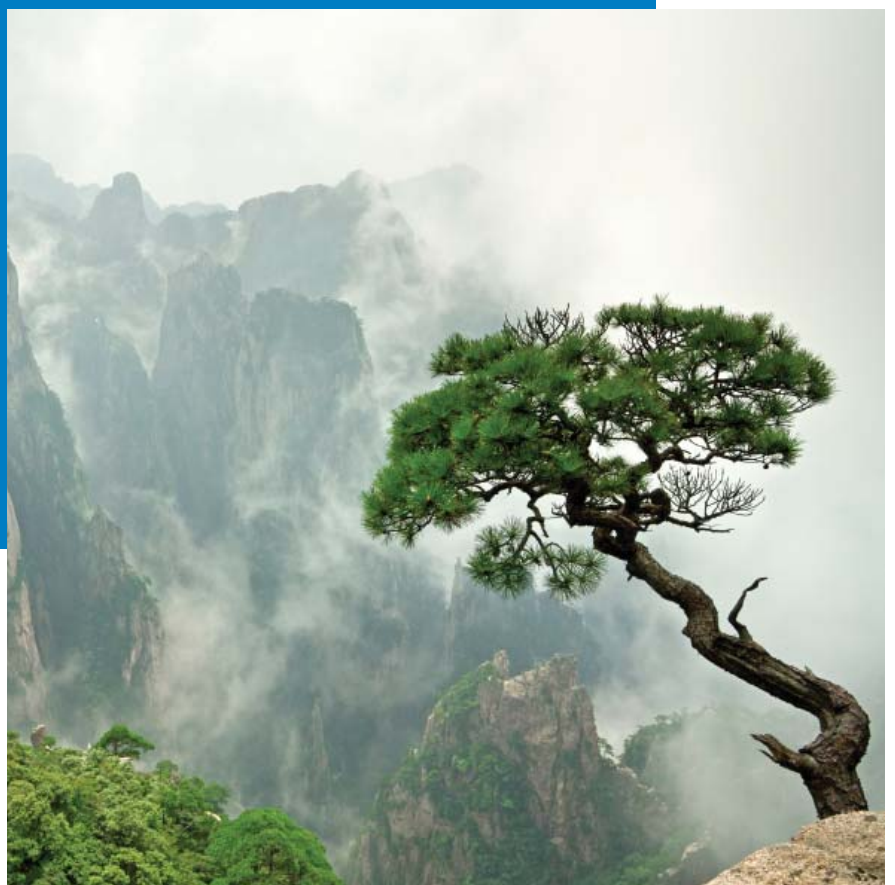


Fidelity China Special Situations PLC

Annual Report

For the year ended 31 March 2012



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The Investment Objective and Performance

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

Investment Performance (year to 31 March 2012)

Net Asset Value ("NAV") per Share total return	-18.5%
Share Price total return	-26.4%
MSCI China Index total return	-12.5%

As at 31 March 2012

Equity Shareholders' Funds	£559.0m
Market Capitalisation	£533.1m
Capital Structure: Ordinary Shares of 1 penny	659,754,480

Standardised Performance Total Return %	01/04/2011 to 31/03/2012	19/04/2010* to 31/03/2011
NAV	-18.5	+5.2
Share Price	-26.4	+10.0
MSCI China Index	-12.5	+3.3

* Date of launch

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

Summary of Results

	2012	2011
Assets at 31 March		
Gross Asset Exposure	£628.5m	£791.4m
Net Assets	£559.0m	£684.0m
Bank loans and long CFDs as % of net assets	23.8%	14.6%
Gross Asset Exposure as % of Net Assets	112.4%	115.7%
Net Asset Value per Share	84.72p	104.20p
Number of Ordinary Shares in issue	659,754,480	656,404,480
Stock market data at 31 March		
Share Price at year/period end	80.80p	110.00p
Share Price year/period high	114.00p	128.70p
Share Price year/period low	70.00p	92.25p
(Discount)/premium at year/period end	(4.6%)	5.6%
Premium year/period high	8.8%	13.1%
(Discount) year/period high	(8.8%)	(1.7%)
Earnings/(losses) for the year/period to 31 March		
Revenue return per Ordinary Share ¹	0.99p	0.47p
Capital (loss)/return per Ordinary Share ¹	(20.33p)	3.67p
Total (loss)/return per Ordinary Share ¹	(19.34p)	4.14p
Dividend for the year/period ended 31 March		
Final dividend proposed per Ordinary Share	0.75p	0.25p
Total Expense Ratio²	1.70%	1.93%

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

2 Total expenses, including management fees but excluding finance costs, for the reporting period expressed as a percentage of average net assets. For 2011 the expenses include the one-off costs associated with the offer for subscription and placing, which represented 0.18% of average net assets

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

Chairman's Statement



John Owen
Chairman

I present the second Annual Report of Fidelity China Special Situations PLC.

PERFORMANCE REVIEW

During the year ended 31 March 2012 the net asset value of the Company fell by 18.5%, under-performing the MSCI China benchmark index by 6.0%. The Company's share price fell by 26.4% (all figures on a total return basis). This is clearly a disappointing outcome for shareholders.

The exposure to small and medium cap stocks was the largest detractor from performance as these experienced an unprecedented level of volatility during the year under review. The Company's decision to use bank borrowings to increase exposure to the market while valuations remain attractive detracted further from relative performance. Both of these factors are expected to enhance the performance of the Company relative to the market in more favourable conditions.

For much of the year under review, there was an intense debate between those predicting a "hard landing" for the Chinese economy and those expecting a more benign outcome. Investors focused on forecasts for an overall slowing of GDP growth in China, despite the fact that expected growth this year is in line with the Chinese Government's five-year plan and comfortably higher than the growth rates forecast for the developed economies. The Company, advised by the Portfolio Manager, believes the Chinese Government will take the necessary measures to ensure a stable growth environment, especially in light of the transition of leadership scheduled for late 2012.

Compared to its Western counterparts, the Chinese Government has more freedom to use the tools at its disposal to manage inflation, interest rates, local government and bank debt, credit expansion, exchange rates, and the property market and we expect it to continue to use these tools to effect the desired "soft landing" for the economy. Nevertheless the market impact of such measures will continue to be influenced by shifts in global risk appetite, especially with regard to the ongoing debt crisis in Europe.

The Board's annual due diligence trip to China confirmed its continuing confidence in the long-term prospects for the Chinese economy and in the Company's ability to generate attractive returns to its shareholders over the long-term.

I would encourage you to read some of the stock examples detailed in the Manager's Report on pages 5 to 9.

PORTFOLIO MANAGER

The Board is pleased that Anthony Bolton has decided to extend his minimum tenure to at least April 2014.

DISCOUNT AND PREMIUM

The Board believes it is in the best interests of shareholders and of liquidity if the share price of the Company tracks closely the underlying Net Asset Value, which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy shares back at a discount to NAV for cancellation. During the year, in furtherance of this policy, the Board authorised the issue of 6,250,000 Ordinary Shares at a premium to NAV and repurchased at a discount and cancelled 2,900,000 Ordinary Shares. The Board is seeking shareholder consent to continue these powers, at the forthcoming Annual General Meeting.

GEARING

On 17 February 2012, the Company entered into a revolving facility agreement with Scotiabank Europe PLC for US\$150,000,000, which has been fully drawn down. The US\$100,000,000 revolving facility with JP Morgan Chase Bank has been repaid in full.

The Company also uses derivatives to achieve further gearing by the use of Contracts for Difference on a number of the holdings in the Company's portfolio, totalling a further £39,329,000 as at 31 March 2012 (2011: £38,127,000).

REGULATORY CHANGES FOR INVESTMENT COMPANIES

Regulatory changes continue to present a challenge for all boards of UK listed companies. For UK investment companies, the two key items are the Alternative Investment Fund Managers Directive ("AIFMD") and the Retail Distribution Review ("RDR").

It is widely acknowledged that the AIFMD will add to the complexity of the governance framework for investment companies and substantially increase operational costs. However, the AIC, FIL and others in the investment trust industry, continue to lobby regulators on the draft proposals, in an effort to make the proposed regulations less onerous.

With the advent of RDR, Companies will no longer be able to pay commission on new assets from adviser intermediaries. This may also mean independent financial advisers will take a fresh look at the investment trust sector.

THE BOARD

The Board is pleased to welcome Elisabeth Scott as a new member of the Board as of 1 November 2011. Ms Scott has extensive investment experience, particularly in Hong Kong, where she was Managing Director and Country Head of Schroder Investment Management (Hong Kong) Limited.

The Board wishes to thank Gary Shaughnessy for his valuable contribution following his decision to resign from the Board on 26 March 2012, having left employment with FIL.

Chairman's Statement

On 21 May 2012, the Board announced the appointment of Andrew Wells, who is FIL's Global Chief Investment Officer, Fixed Income and Investment Solutions Group, and a member of FIL's Global Operating Committee.

Elisabeth Scott and Andrew Wells will be subject to election at the forthcoming Annual General Meeting and all other Directors will be subject to re-election at that time, in accordance with corporate governance requirements for FTSE 250 companies. A biography of each Director is included on page 17.

DIVIDEND

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

The Board recommends a final dividend of 0.75 pence per Ordinary Share to be approved by shareholders at the forthcoming Annual General Meeting.

The dividend will be payable on 3 August 2012 to shareholders on the register on 20 July 2012 (ex dividend date 18 July 2012).

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 64.

THE ANNUAL GENERAL MEETING – 24 JULY 2012

The Annual General Meeting of the Company will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on Tuesday 24 July 2012 at 11.00am.

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



John Owen CMG MBE DL

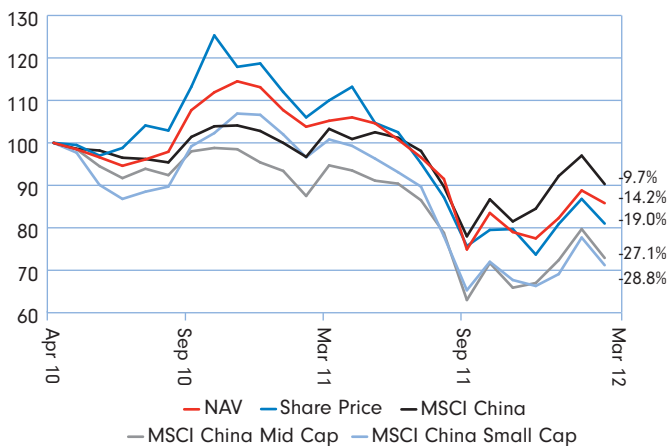
Chairman
12 June 2012

Manager's Report



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

It is now just over two years since the launch of Fidelity China Special Situations PLC and I admit I am not where I had hoped to be. The value of the fund's net assets (NAV) has fallen by 20.0% since launch and the share price by 26.3% (as at 11 June 2012). There has been a recovery in the second half of the reporting year, with the NAV up 14.6%, but the share price is up by only 7% over that period but markets have again been difficult in the last couple of months. As outlined in the interim financial report, the fund has suffered from its ability to employ bank borrowings, which has magnified the impact of market movements, and from a relatively high exposure to more volatile medium and smaller companies in an environment where for much of the last 18 months their performance has been disappointing. Below is a chart showing the share price and NAV against the performance figures of the Hong Kong-listed Chinese mid and small cap indices, which I believe are better short-term benchmarks.



I hope these figures will help explain the performance of the Company, although I must stress that if I did not believe my strategy could out-perform the broader MSCI China Index in the medium to long-term, I would not be pursuing it. To recap, there are four main planks to my investment strategy:

1. To be exposed mainly to the consumption and service sectors which depend on the domestic economy in China. After two years here I feel even more strongly about the attractions of these areas. Not a week goes by without statements from Chinese politicians and leaders or evidence from our company meetings that support this stance. The fact that April was China's national consumption promotion month says it all.

2. I am focusing on private medium and small-sized businesses rather than the large state owned enterprises. These are the entrepreneur-run businesses on which I believe China's long-term prospects are based. Yes, they can be more risky but the good ones have the potential to be much more rewarding.
3. I am trying to find business models with which I am familiar from my experience of investing in the UK and continental Europe. These are the models that I know work. If well run, they should be able to do well for the next 5-10 years as they are normally at an early stage of their development in China.
4. I am trying to buy shares in these companies on reasonable or, if possible, cheap valuations. At the time of writing, I believe that there are many bargains available among the smaller stocks. I particularly like stocks that look cheap against their international peers or where the sum of the parts is much greater than the valuation of the whole.

In the next section of my report on pages 6 to 9 I describe a number of companies the fund holds, all of which fit these criteria. I have picked fourteen companies from a selection of sectors I like and I hope these examples will give a better understanding of the types of business I am focusing on.

Let me start with a few words about the macro situation in China. As the Chairman has already mentioned, for most of the last year or so the debate has continued between those who expect a "soft" landing for the Chinese economy and those who expect a "hard" one, albeit that the definitions of what constitutes a "hard" landing differ. The consensus expects GDP growth of 8-8.5% this year, with many thinking that the second quarter will be the trough. I have to say that I am not as optimistic as this. When I look at economic growth from a bottom-up perspective, I get to a somewhat lower figure (although it's possible that we may never see lower numbers published). Yes, consumption will remain strong, but fixed asset investment, particularly residential property, and exports are likely to see significant reductions in their growth rates. I am not in the "hard" landing camp (which generally expects growth of 5% or less) but I am below the consensus. This does not make me negative about the outlook for Chinese equities, for which the key measure is growth 6-12 months hence rather than growth now, but it does make me even keener to be in the areas that are doing best.

I continue to believe that the biggest medium-term challenges for China are social and political as it shifts from being a poor society to a wealthier one, as the middle classes' aspirations grow, as it changes from a rural to an urban economy and from a closed to a more open society and as it shifts out of low-value exports into higher-value manufacturing as well as domestic consumption and services. As I have argued in previous reports, I think the financial challenges that worry some of the most vocal China bears are generally surmountable - China has the financial resources and resolve to address them. Let me give you a quick update on some of these.

Inflation has fallen back sharply in recent months as I thought it would and many now expect it to fall further to 3% or lower later

Manager's Report

this year. Although the short-term outlook for prices is good, the high wage increases expected over the next few years in China mean the structural level in the medium-term is likely to be higher, at say 5-7%. In my view this is not an alarming rate but something that will need to be monitored closely.

The bad debts of the local government financing vehicles have, as expected, been pushed into the future. I continue to feel the authorities have enough financial fire power at the centre to manage these. Also, this problem is well understood today by regulators and investors.

I remain cautious on the outlook for Chinese residential property developers and the Company holds none of these (although it does hold shares in several Hong Kong-based developers). Despite the fact that the stocks have recovered strongly from their lows and many argue that the worst is over, I am not so sure about this. Also, unlike in 2009, I think the recovery, if it has started, will be a slow one. With the exception of support for property purchases by first time buyers, I expect the Chinese authorities to keep their current property controls in place for some time.

I maintain my view that the current backcloth of falling inflation and a slow loosening of monetary policy should be a favourable one for the stock market.

I often get asked about the quality of corporate governance in China, including the quality of management and of published financial data. I strongly believe that the best companies are as good as any in the West but the worst can be much worse and there are more of these in China. The very worst are scams or frauds as we have seen from some high-profile examples over the last year or two. This is why I have put an increasing effort into our due-diligence process, both internally but also externally, using several specialised firms in this area. I am sure we will not spot every problem but I hope we can spot most. I recently did a five-day trip to Hong Kong and China with half a dozen leading UK financial journalists. We met about 18 companies, mainly companies the Company holds, and the journalists appeared to be impressed by the quality of the managements they saw and this was reflected in their generally positive coverage.

I continue to see Hong Kong as a major beneficiary of the trends in China. The population is about 7 million people but 42 million people visited Hong Kong last year, including 28 million mainlanders – a number that is likely to continue to grow. The Company has exposure to Hong Kong-based banks, small property companies, hotel companies, the largest telephone company and the leading TV company that is expanding its involvement in the mainland.

To date the road has been hard but my enthusiasm for this amazing country remains unabated. Every time I visit mainland China my conviction about it increases and I return more impressed about the investment opportunities there. I strongly believe that China is not the house of cards some have suggested and it is not about to collapse. Of course, like most places it is not risk-free. One of the regional risks I have written about before is North Korea. Here the situation has deteriorated again after a period of improvement.

I still believe world equity markets offer attractive returns over the next few years, even more so since the last ten years or so have been so disappointing. Specifically on Chinese stocks, valuations are still near their ten-year lows and sentiment has again become very negative. Sentiment regarding the "A" share market remains especially depressed despite a new policy in China designed to help it recover – a significant policy change. I continue to believe that those who stick the course in China will be amply rewarded.

I am very pleased that we have recently been able to announce that my tenure in managing the portfolio is extended for at least one further year to April 2014.

As referenced earlier in my report, I list below fourteen companies from a selection of sectors, all of which I like, and I hope they will give you a greater understanding of the types of businesses I focus on.

REXLot (Market capitalisation: £460m) (Portfolio weighting: 3.1%)

There is only one legalised form of gambling in China – the two state-owned lotteries, namely the Welfare Lottery and the Sports Lottery. These raise money by selling a range of products such as scratch cards, computer-generated tickets, bets on single-match sports games and on video lottery terminals. Interestingly the total size of the two lotteries in terms of take is about US\$35bn, a bit larger than the size of the total take in Macau and this figure is growing at about 30% a year. Exciting new products are being brought in that will allow tickets to be sold via mobile phones and the internet. Because of the involvement of the state the area is not without risks. REXLot is one of the largest service providers to the lottery sector and is actively involved in developing the newer products. It is growing at about 20% a year, but only sells at about 8 times this year's estimated earnings.

AsialInfo-Linkage (£520m) (2.3%)

This is a US-listed Chinese company that Fidelity's Chinese private-equity business invested in before it listed on the stock market. Its main business is providing IT services and systems for the three large telecom carriers in China. It is a similar business to the US-listed Amdocs. The stock has done poorly over the last 12 months or so until recently due to general fears about US-listed Chinese companies and some softness in its business at a time when costs have continued to rise. The growth rate is about 15% while the shares sell at about 11 times this year's estimated earnings (or only 6.6 times, stripping out the company's net cash from the market capitalisation). Amdocs is growing at about 6% and sells on a similar valuation. The company has recently been approached by Chinese private equity investors who are looking to buy out the company.

CSI Properties (£205m) (1.2%)

CSI is a small Hong Kong-based property developer. I was originally attracted to it because of the very cheap valuation of the shares which sold at a 75% discount to net assets, a level of discount I have only rarely come across in the West. I thought that if this could sell at a 50% discount (still a very high level) the shares could double in price. The portfolio also owns several other small Hong Kong property developers on similarly high discounts. What makes CSI different is the fact that it is run

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by an entrepreneur who is active in the property market and wants to see a higher share price over time. Some of the others are controlled by families, who appear to have little interest in the share price (although I believe in a better stock market environment the shares might still do well). CSI Properties shares have risen recently and now sell on a discount of 69%. I believe that in the developer market small companies can often be more attractive than larger ones as they are more geared to successful property deals, provided they are well-financed as CSI is.

Hutchison China MediTech (£230m) (1.2%)

I have spent some time trying to find Chinese companies developing Western-type small molecule drugs in China. My searches led me to this company (and an "A" listed company I also hold in the portfolio). It is a 71% subsidiary of a large Hong Kong-listed conglomerate, Hutchison Whampoa Group, and is, somewhat surprisingly, listed in the UK on the AIM market. It has three main businesses: a drug-discovery business which has some very interesting drugs in the pipeline, including one the company has recently joint-ventured with AstraZeneca on very attractive terms, and a later-stage drug aimed at colitis (which the company estimates has the potential to have US\$1bn in sales). The company also has a healthcare division growing at about 20% a year selling traditional Chinese medicines in China. This is a partnership with local pharmaceutical state-owned enterprises which themselves are poor at marketing. The company also owns a smaller consumer business selling food and beverages, beauty care and baby care products. The valuation of the shares can be justified by the latter two businesses alone while the drug discovery business, which could be very valuable if it finds a winner, is thrown in effectively for free.

3SBio (£180m) (1.5%)

Sadly, one of the fastest-growing diseases in China is diabetes. This is due to the changing nature of the Chinese diet as the country becomes better off and the fact that, in general, Chinese people are not particularly focused on healthy eating. Diabetes is the most common cause of kidney failure for which the usual treatment is kidney dialysis. A large number of people who need kidney dialysis go untreated in China due to a lack of dialysis centres, although this is slowly changing. To benefit from these favourable industry dynamics, I used to own United Laboratories in the portfolio, a company that had developed an analogue insulin product, but I sold this holding as I became less sure about the prospects for its traditional antibiotic business. 3SBio's main product is Erythropoietin ("EPO") which is used to help maintain red blood cell counts. All patients who go through dialysis need to take an EPO. 3SBio's EPO has a 41% share by value of the EPO market in China, nearly 3 times that of its nearest competitor. It is also developing a number of other drugs and, in the future, is looking to sell its EPO outside China. The stock is growing at about 20% a year and sells on about 14 times this year's earnings (or 8.4 times excluding cash).

WuXi PharmaTech (£640m) (1.3%)

WuXi, a US-listed Chinese company, is another business Fidelity knows well as its China-based private equity business was a shareholder before it listed. It is the largest contract research

organisation ("CRO") in China, several times bigger than its nearest rival. As global pharmaceutical companies find the going tougher, with product patent expiries and the cost of developing new drugs escalating, they are putting more focus on cost control and a lot of the development process they used to do internally is now being outsourced to companies like WuXi. Costs in China, even with wages rising, are still considerably below those in Western economies. India, which has been very successful in other outsourcing businesses, has made little impact in the CRO area, which needs a highly-skilled scientific workforce. The largest listed CRO business in America, Covance, is growing revenues at a rate in the mid to high single digits and sells at about 17 times this year's earnings. WuXi has guided investors towards 15-20% revenue growth this year and sells on about 12 times this year's earnings (or 9.7 times excluding cash). Last year, Charles River, another US-listed CRO, tried unsuccessfully to take over WuXi and in the long run we may see further consolidation in this industry.

Daphne International (£1,425m) (1.2%)

Daphne is a shoe retailer with 5,600 stores in China and over half of these are in the smaller tier 4 to 6 cities. It is one of the best ways, in my view, to play the growth of consumption in these lower tier cities, which in some cases is growing faster than in the tier 1 and 2 cities. TPG, the private equity house, became a 14.5% shareholder in 2009 via the issue of convertible bonds and warrants. It revitalised the management and improved operations through areas such as supply chain management, IT systems and product focus. Today the company is growing earnings at about 20% a year and the shares sell at about 17 times this year's estimated earnings. They have performed well recently and the Company purchased stock at lower levels.

Natural Beauty Bio-Technology (£240m) (1.1%)

The cosmetics industry in China has excellent growth prospects as women become more affluent and take greater interest in their appearance. Unfortunately, from this Company's point of view, it is largely dominated by large multinationals such as L'Oréal and Estée Lauder. As a result I became quite excited when I came across this small company that was historically based in the spa business. In 2010 the founding family sold half its shareholding to the private equity group Carlyle. Carlyle changed the management, bringing in experienced Chinese businessmen and women who had previously worked for large multinationals and completely revamped the store look and layout. The stores are mainly run by franchisees and Natural Beauty makes its money by selling products to them, the stores today being more focused on product sales than in the past. It is also developing a counter business in department stores. The store conversion to the new style is progressing apace, a new advertising campaign is just starting and the number of stores is growing quickly. New stores' refurbishment typically pays back in about six months. The earnings are growing at about 25% a year and the valuation is about 20 times this year's earnings (or 16.5 times excluding cash). Although not at bargain levels I think this will look attractive as returns improve. Natural Beauty aims to be the number one beauty spa business in China by 2014. This is a brand about which I expect we will hear a lot more in the future.

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Kingdee International Software (£365m) (0.9%)

Kingdee is one of the leading software companies in China. Its origins were in packaged software products but it is also now in middleware and enterprise resource planning systems. As Chinese businesses modernise there is great demand for better systems particularly amongst the smaller and medium-sized companies ("SMEs"). Last year was a difficult one for the company; it let costs expand significantly at a time when there was some softness among its SME clients due to China's financial tightening. The stock performed poorly and the chief executive was replaced. This has given the opportunity for me to increase the fund's holding. The long-term growth rate should be around 25-30% while the stock is on about 15 times this year's estimated earnings. Kingdee has some similarities to the UK's Sage when I first came across it in the 1980s and 1990s.

China Lodging Group (£480m) (1.0%)

As the Chinese become more affluent and travel more, the hotel sector should benefit. The sector is dominated by traditional state-owned inns and small lodging houses and the chains with purpose-built product only account for 2% of the market, a much lower proportion than in the developed world. There are three US-listed companies in the budget chain area. I believe China Lodging is the most impressive and it was started by the founder of Ctrip (the leading travel internet site). Today it has 675 hotels in 100 cities consisting of three brands: 'Hanting Express' in the economy area, 'Hanting hi inn' in the budget area and 'Hanting Seasons Hotels' in the mid-scale, limited service area. The company has very ambitious plans, looking to open 2,000 hotels by 2016 and 5,000 by 2021 and it believes the rollout can be funded by net cash, new debt and cash flow. Customers are split 60% business and 40% leisure and two-thirds of bookings come from a 4.4m strong loyalty scheme membership. China Lodging is growing at about 35% a year and sells on about 35 times this year's earnings or 10 times earnings before interest, taxes, depreciation and amortisation. However, earnings are being penalised by new opening costs and without these the 5% operating profit margin would be nearer 13%.

SouFun (£900m) (1.2%)

SouFun, a US-listed Chinese business, owns the leading residential property website in China with an estimated 40% market share. The number of unique daily users is about 2.9m. Because most property transactions today are in new properties, property developers are the biggest advertisers and information providers but, as a secondary market grows in China, estate agents will become a bigger source of revenue. The downturn in the residential property market has given a chance to buy this leader growing long-term at about 25% a year on only 11.5 times this year's estimated earnings (or 10 times excluding cash). Although I do not own any Chinese residential property developers in the portfolio at the moment, as I believe the market will be tough for a while, I am happy to hold this very attractive franchise. We could be seeing a Chinese Rightmove in development (the UK website that dominates property search).

Modern Media (£90m) (0.9%)

I came across this company quite by chance as I screened Chinese media businesses listed in Hong Kong. I asked my assistant to have a quick look and on the back of this we

arranged a meeting. Its main business is magazines, including the leading current affairs weekly magazine in China called "Modern Weekly". Three years ago saw the launch of a women's magazine, "U+ Weekly", and this has become the most popular women's magazine in China, overtaking international titles like Marie Claire and Cosmopolitan. In 2011 Modern launched a business magazine jointly with Bloomberg. The most exciting growth area is its move into digital delivery. It has one of only seven national digital publishing licenses in China. In 2010 it acquired the Chinese media application "iWeekly" and this is now the most popular media app in China, with 6 million downloads. Modern has other interesting plans in the digital, TV (called "iTV" which was a case of *déjà vu* for me!) and e-commerce areas. It is growing at about 30% a year and sells on about 10 times this year's earnings. The chairman is one of the most impressive media people I have met in China.

Ajisen (£765m) (0.6%)

Ajisen is an example of how I hope I can transfer the techniques of buying recovery shares from the UK to China. It is a restaurant chain with 670 outlets in 118 cities in China selling a Japanese, Ramen-style menu. It has expanded strongly with a logistics-based model of central kitchens and noodle factories which keeps cooking preparation in the restaurants to a minimum. In July last year an article was published saying their soups were not fresh and prepared on the spot but made from powder (they are not actually made from powder but from paste). In a market that is very focused on food quality and ingredients, sales were adversely affected especially in Ajisen's Shanghai base. It came as a surprise to many customers that the ingredients were not fresh (despite the fact that many chains use this model). The share price collapsed from \$18 to \$10 and I repurchased a holding (I had held it earlier but sold out when the valuation reached a high level). Sales have since been recovering, not as fast as the company had hoped, but I take encouragement that same-store sales in Hong Kong (where they have a few units) turned positive in November and in Beijing earlier this year. The company admits it was slow to react to the article, particularly as it had never experienced anything like it in its history and, for example, it now has a public relations office which it did not before. The company is continuing with its rollout and plans 1,000 units by 2013. The stock should return to growth of 25% a year and currently sells at about 22 times this year's earnings (or 17.5 times excluding cash), not a cheap level but this reflects the fact that earnings are depressed by the incident.

PAX Global Technology (£110m) (0.5%)

Credit card use will mushroom in China over the next 5-10 years. Banks will benefit from this trend but, in my view, a better way to play this is via the growth of electronic payment systems. The penetration of these in China is about 3 per 1,000 inhabitants compared with 20-30 per 1,000 in the West. The global industry is dominated by two big listed international companies, VeriFone in the US and Ingenico in France (a company I used to follow when I was running European funds). Although a small company, PAX Global is one of the biggest in China with about 70% of its revenue arising there. Ingenico, often recommended by brokers for its emerging market exposure, is growing earnings at 10-15% a year and sells on 18 times this year's estimated earnings. PAX

Manager's Report

is growing at about 30% and sells on 8 times this year's estimated earnings (or, amazingly, only 1 times excluding cash). Provided the management continues to execute its strategy well, I believe at some stage the valuation could be materially higher.

These investments have been chosen from the hundreds that our team in Hong Kong analyse on a continuing basis and are only a small proportion of the companies that I personally visit in China and in Hong Kong. Since arriving in China I have conducted over 780 company meetings, and the ones we like are then researched before the Company makes an investment.

(all data as at 27th April 2012)

Anthony Bolton
Portfolio Manager
12 June 2012

Forty Largest Holdings

as at 31 March 2012

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% ¹
Ping An Insurance (Group) Company of China Insurance company	30,706	30,706	4.9
China Unicom (Hong Kong) Limited* Integrated telecommunications provider	20,474	28,601	4.6
HSBC Holdings plc (Hong Kong listed)* Global banking and financial services company	22,223	28,231	4.5
HKT Trust and HKT Limited Telecommunications services provider	24,186	24,186	3.8
Bank of China Hong Kong Limited* A subsidiary of the Bank of China based in Hong Kong	17,902	22,649	3.6
AIA Group* Insurance company based in Hong Kong	15,430	20,136	3.2
REXLot Holdings Limited Lottery related systems, machines and services provider to the Chinese lottery market	19,220	19,220	3.1
TVB Hong Kong television broadcaster	19,080	19,080	3.0
Zhaojin Mining Industry Company Gold mining company	15,237	15,237	2.4
AsialInfo-Linkage Telecommunications software solutions provider in China	14,444	14,444	2.3
CITIC Securities Company Limited Broker and asset manager	13,039	13,039	2.1
China Minsheng Banking Chinese bank	12,944	12,944	2.1
Baidu Chinese web services company	11,263	11,263	1.8
Wing Hang Bank Limited Hong Kong-based bank	10,871	10,871	1.7
Gome Electrical Appliances Holdings Electrical appliances and consumer electronic products retailer	9,947	9,947	1.6
3SBio Biopharmaceutical company based in China	9,256	9,256	1.5
WuXi PharmaTech Largest Chinese pharmaceutical contract research organisation	8,482	8,482	1.3
China Foods Limited Food processing and trading company	7,932	7,932	1.3
CSI Properties Limited* Hong Kong property company	7,453	7,793	1.2
Daphne International Holdings Limited Manufacturer and distributor of footwear, apparel and accessories in China	7,722	7,722	1.2
China Mengniu Dairy Company Limited Manufacturer and distributor of dairy products and ice cream in China	7,590	7,590	1.2
Golden Eagle Retail Group Limited A leading retail chain in China	7,325	7,325	1.2
SouFun Holdings Limited Real estate and home furnishing and improvement internet websites operator	7,315	7,315	1.2

Forty Largest Holdings as at 31 March 2012

Forty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% ¹
Hutchison China MediTech Limited Pharmaceutical and healthcare group operating primarily in China	7,276	7,276	1.2
BaWang International (Group) Holdings Limited Chinese herbal personal care and household products company	7,208	7,208	1.1
Lee & Man Paper Manufacturing Limited Paper making company	7,203	7,203	1.1
ChinaCast Education Corporation Post-secondary education services provider in China	7,141	7,141	1.1
Suning Appliances Company Limited One of the largest electrical appliance retailers in China	6,901	6,901	1.1
Chow Sang Sang Holdings International Limited Manufacturer and retailer of jewellery	6,866	6,866	1.1
Natural Beauty Bio-Technology Limited Personal care products company	6,849	6,849	1.1
Brilliance China Automotive Holdings Limited Auto company that is BMW's Chinese partner	6,696	6,696	1.1
Ports Design* Designer, manufacturer and retailer of ladies' and men's fashion garments	4,305	6,659	1.1
China Lodging Group Operator of a chain of economy hotels	6,484	6,484	1.0
SAIC Motor Corporation Limited Automobile manufacturer and distributor	6,336	6,336	1.0
Lee's Pharmaceutical Holdings Limited Pharmaceutical company	5,879	5,879	0.9
PCCW Limited Telecommunications company based in Hong Kong	5,525	5,525	0.9
Biosensors International Group Limited Medical device company specialising in cardiology procedures	5,480	5,480	0.9
Modern Media Holdings Limited Integrated media related holding company	5,386	5,386	0.9
Kingdee International Software Group* Software company	3,655	5,366	0.9
China Haidian Holdings Limited Watch importer, manufacturer and distributor	5,332	5,332	0.7
Forty Largest Holdings (2011: 64.3%)	424,563	452,556	72.0

* Includes investment via contracts for difference

¹ % of total gross asset exposure

Distribution of the Portfolio as at 31 March 2012

	% of Gross Asset Exposure	Benchmark %
Industry		
Consumer Discretionary	29.3	6.1
Financials	24.6	34.4
Information Technology	11.8	6.7
Healthcare	10.4	0.9
Telecommunication Services	9.5	13.4
Consumer Staples	7.6	5.7
Materials	3.9	5.2
Industrials	2.3	6.8
Energy	0.6	18.5
Utilities	-	2.3
Total	100.0	100.0
Country of principal business		
China	59.7	100.0
Hong Kong	37.9	-
Singapore	1.5	-
South Korea	0.6	-
United Kingdom	0.3	-
Total	100.0	100.0
Share Type		
Stocks listed in Hong Kong	52.4	24.1
China stocks listed in the US	16.4	-
China "A" Shares	12.1	-
Red-Chips	10.6	27.0
China "H" Shares	3.4	47.8
China stocks listed in Singapore	2.3	-
China stocks listed in the UK including AIM	1.2	-
China "B" Shares	0.6	1.1
Stocks listed in South Korea	0.6	-
Unlisted stocks	0.4	-
Total	100.0	100.0

Distribution of the Portfolio as at 31 March 2012

	% of Gross Asset Exposure	Benchmark %
Denominated Currency		
Hong Kong dollar	64.8	99.5
US dollar	24.4	0.5
Chinese renminbi	6.5	-
Singapore dollar	2.0	-
UK sterling	1.6	-
Korean won	0.7	-
Total	100.0	100.0

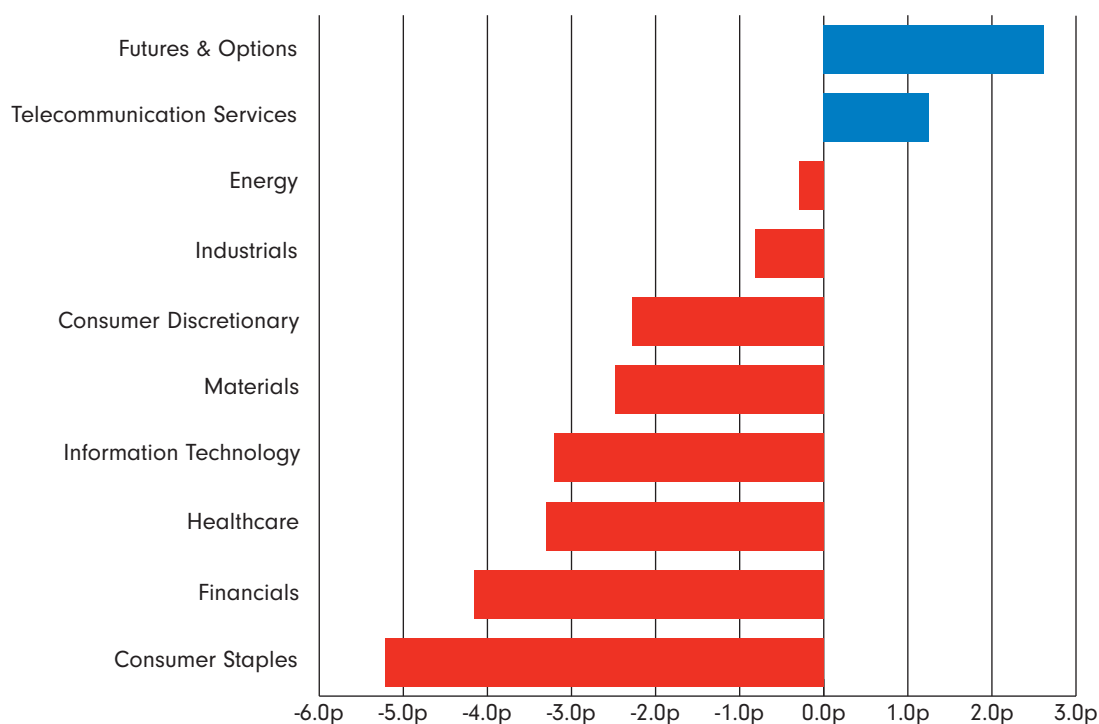
In addition, the Company had open forward currency contracts at 31 March 2012, to convert US dollars to Chinese renminbi equivalent to 16.2% of gross asset exposure.

	% of Gross Asset Exposure	Benchmark %
Size of Company (Market Cap (UK £))		
Large - above £5bn	29.0	81.6
Medium - between £1bn - £5bn	28.3	17.8
Small - below £1bn	42.7	0.6
Total	100.0	100.0

Attribution Analysis

Analysis of change in NAV during the year ended 31 March 2012		Pence per share
NAV at 31 March 2011		104.20p
Impact of MSCI China Index – UK sterling equivalent		-13.07p
Impact of Portfolio Management		-2.90p
Impact of Gearing		-1.90p
Impact of Share Issues and Share Repurchases		+0.05p
Impact of Dividend		-0.25p
Impact of Other Costs		-1.46p
Impact of Cash/Currency		+0.01p
Residual		+0.04p
NAV at 31 March 2012		84.72p

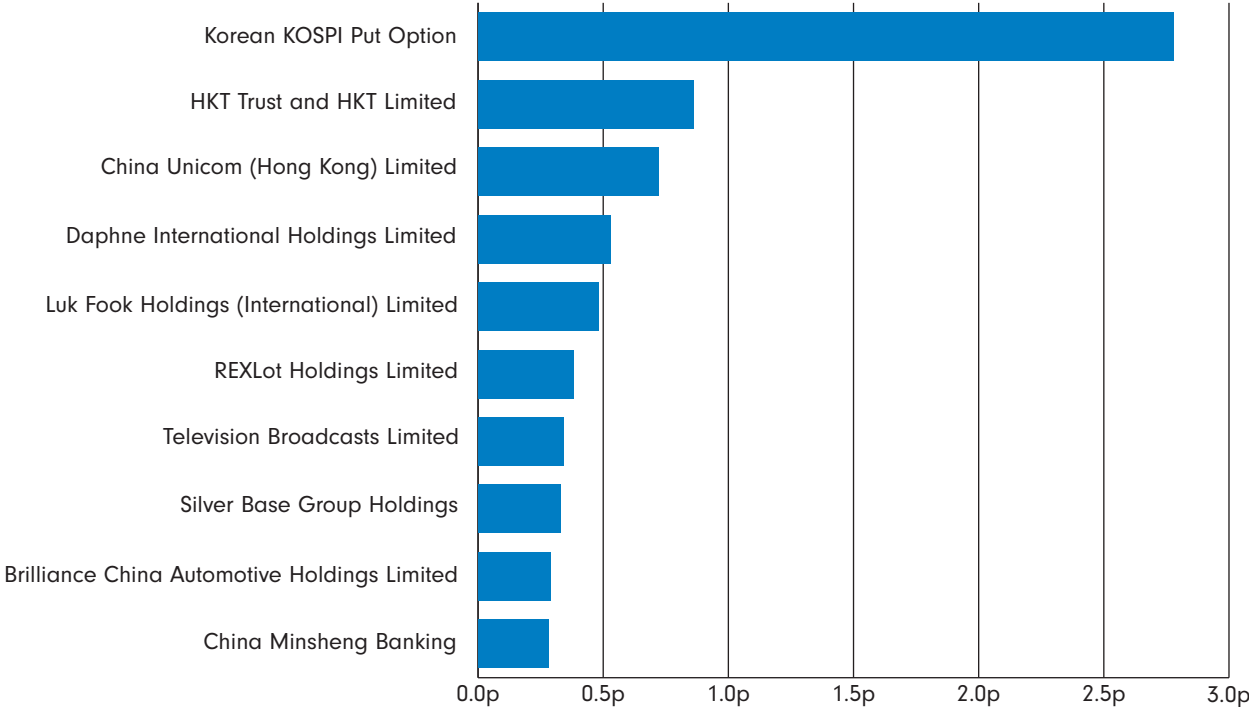
Industry contributors and detractors (pence per share)



Source: Fidelity

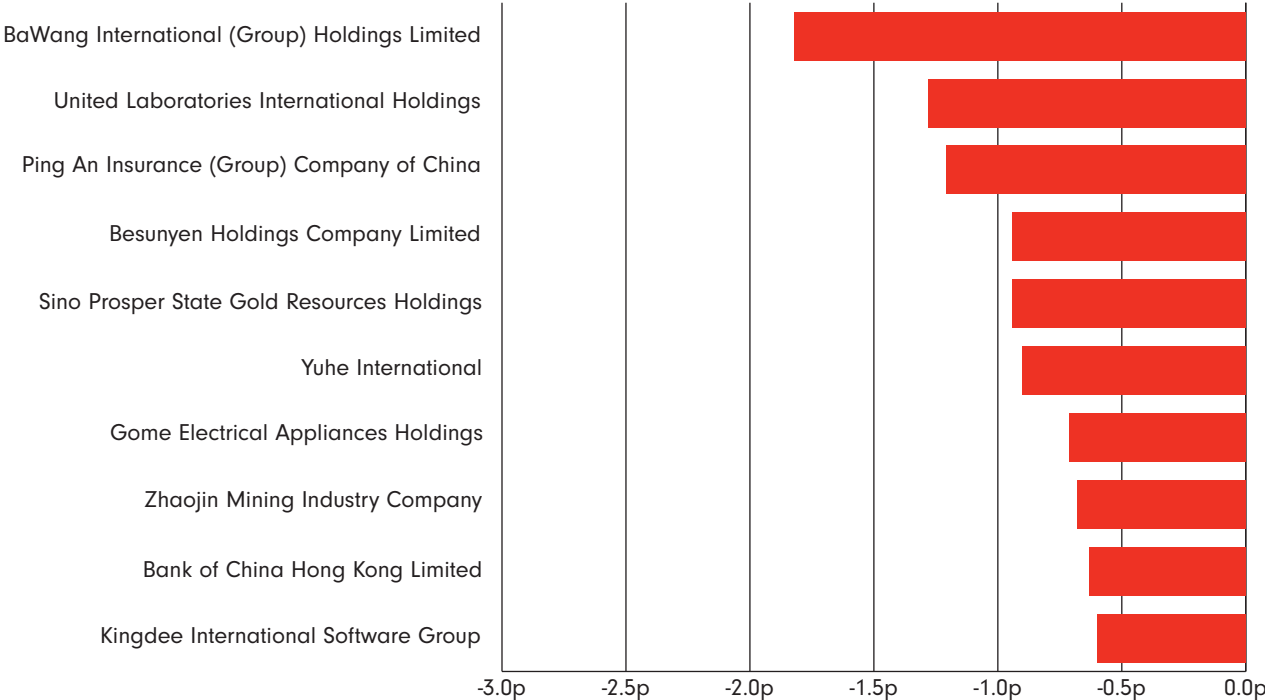
Attribution Analysis

10 Highest contributors by investment positions
(pence per share)



Source: Fidelity

10 Highest detractors by investment positions
(pence per share)



Note: Derivatives positions are included in the above investment positions.
Source: Fidelity

Corporate Information

Investment Manager

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

Unlisted Investment Manager, Secretary and Registered Office

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

Financial Advisers and Stockbrokers

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

Independent Auditor

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

Custodian and bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Registrars

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

Lawyers

Slaughter and May
One Bunhill Row
London EC1Y 8YY

PRICE INFORMATION

The share price of Fidelity China Special Situations PLC appears daily in The Financial Times. Price and performance information is also available at fidelity.co.uk/its.

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

NAV INFORMATION

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

CAPITAL GAINS TAX

Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of Ordinary Shares, acquired at the time of the Company's launch, is 100.00 pence. All UK individuals under present legislation are permitted to have £10,600 of capital gains in the current tax year 2012/2013 (2011/2012: £10,600) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

Board of Directors



John Owen CMG MBE DL^{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 Advisors Limited, an investment advisory company specialising in investment in the developing markets of Asia. He has a number of directorships including Queensgate Bank Limited and Queensgate Trust Company Limited. Mr Owen is also chairman of the Friends of Cayman in London. He is an Honorary Fellow of the University of Wales and also a Deputy Lieutenant of the County of Isle of Wight.



Nicholas Bull FCA^{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 a non-executive director of the AIM quoted Westhouse Holdings plc and chairman of its division Smith's Corporate Advisory. 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 a trustee on investment committees for family and charitable trusts. He is also a Deputy Lieutenant of the County of Wiltshire. Previously, Mr Pleydell-Bouverie spent ten years with FIL where he was investment director until 1996, managing Japanese-focused unit trusts, offshore funds, pension funds and the Fidelity Emerging Markets Fund. Prior to this, he was an associate director at Kleinwort Grieveson Investment Management and fund manager at Grieveson, Grant and Co, where he also managed Asia-focused investment funds.



Elisabeth Scott^{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

The Board's Policies

INVESTMENT POLICY

The Company invests in a diversified portfolio consisting primarily of securities issued by companies listed in China or Hong Kong and China related companies listed on other stock exchanges.

The Company may also obtain exposure to other listed companies which have significant interests in China or Hong Kong.

Investment instruments

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

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

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

Borrowing and gearing policy

During the year, the gross asset exposure of the Company did not exceed the 30% limit of net assets.

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

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

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

Derivative instruments

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

The Board has adopted a policy that the gross notional value of short exposures 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 offsetting positions and allowing for any collateral placed by the counterparty with the Company.

Unlisted investments

During the year the Company held one unlisted investment with a value of £2.5m, representing 0.4% of Gross Assets.

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

Foreign exchange hedging policy

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

Cash management

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

DIVIDEND POLICY

The Board recommends the payment of a final dividend of 0.75 pence per Ordinary Share for the year ended 31 March 2012.

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 the income it derives from shares and securities.

INVESTMENT IN OTHER INVESTMENT COMPANIES: LIMIT OF 15%

As at 31 March 2012, the Company held no investments in other investment companies.

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

PREMIUM & DISCOUNT MANAGEMENT

During the year to 31 March 2012, the Company issued 6,250,000 Ordinary Shares and repurchased 2,900,000 Ordinary Shares through its share issue and repurchase authorities approved by shareholders at the 2011 Annual General Meeting.

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

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

CORPORATE ENGAGEMENT

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

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 March 2012.

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

STATUS

The Company carries on business as an investment company and has been granted approval as such by HM Revenue & Customs under Section 1159 of the Corporation Tax Act 2010 for the accounting period to 31 March 2011. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment company under that Section.

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

DIRECTORS' REPORT – BUSINESS REVIEW

INTRODUCTION

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

OBJECTIVE & STRATEGY

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

ACTIVITY

The Company's activity is to pursue the above objective through operating as an investment company. A review of the year's activities and an indication of likely future developments and the factors likely to affect this are given in the Chairman's Statement on pages 3 and 4 and in the Manager's Report on pages 5 to 9. The Board supports these views.

FIL'S INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

The Board has appointed FIL as Investment Managers.

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

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

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

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

KEY PERFORMANCE INDICATORS ("KPIs")

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

For the year ended to 31 March 2012

Net Asset Value total return	-18.5%
Share price total return	-26.4%
MSCI China Index total return	-12.5%

As at 31 March 2012

Discount to Net Asset Value	4.6%
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PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The Board, with the assistance of the Managers, has developed a risk matrix which, as part of the internal controls process, identifies the key risks that the Company faces. The matrix has identified strategic, marketing and business development, investment management, company secretarial, fund administration and operations and support function risks. These risks are identified and graded. The Board reviews and agrees policies for managing these risks. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive internal controls reports considered by the Audit Committee in accordance with the FRC's "Internal Control: Revised Guidance for Directors". The Board also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

Directors' Report

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

Top Risks	Risk Mitigation
Political and legislative change in China. Emerging market risk in China.	The Board reviews material economic, market and legislative changes at each Board meeting. An Investment Review report is also produced at each meeting to assess the Company's portfolio performance.
Loss of reputation in the market place.	Reputational risks are often the consequence of risk events in another category, such as investment performance, corporate governance rules or regulatory issues. The Board performs reviews of such risks on a periodic basis.
Poor management of assets or long-term under-performance.	The Company has a clearly defined strategy and investment remit. Performance is reviewed at each Board meeting, including performance attribution and income forecasts. There is a clearly defined management agreement, and borrowing/derivative limits are also set by the Board. The portfolio is managed by a highly experienced Portfolio Manager. FIL's Asia Pacific Investment Management team supports the Portfolio Manager, and FIL's Asia Pacific Chief Investment Officer and the Board review performance regularly.
Key man risk.	The Portfolio Manager has committed to manage the portfolio until at least 2014. Succession plans will be developed at an appropriate time and in the interim there is an experienced Asia Pacific Investment team in place supporting the Portfolio Manager.
Investment Research fraud/poor governance.	Losses were incurred in 2011 with respect to US reverse merger stock frauds. The Portfolio Manager has increased the use and number of external research providers and due diligence firms in order to improve oversight controls and to help mitigate further losses of this nature.
Regulatory change.	There are a number of prospective regulations which could impact the Company, although in most cases the legislation is still being finalised. Of greatest significance is the Alternative Investment Fund Managers ("AIFM") Directive. The processes the Company uses to manage regulatory change initiatives continue to operate effectively.

Further risks identified within the risk matrix are:

EXTERNAL RISKS

Market risk

The Company's assets consist mainly of listed securities in China and Hong Kong and the principal risks are therefore market related such as market recessions, interest rate movements, deflation/inflation, terrorism and protectionism. Risks to which the Company is exposed and which form part of the market risks category are included in Note 18 to the Financial Statements on pages 47 to 53 together with summaries of the policies for managing these risks. These comprise: market price risk (including other price risk, interest rate risk and foreign currency risk); liquidity risk; counterparty risk; credit risk; and derivative instruments risk.

On 17 February 2012, the Company entered into a revolving facility agreement with Scotiabank Europe PLC ("the Lender") for US\$150,000,000 and this has been fully drawn down.

On 21 February 2012 the Company repaid the outstanding US\$100,000,000 under the revolving facility with JPMorgan Chase Bank.

Risks related to the PRC

Investing in an emerging market such as the PRC subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory

risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets.

Share price risk

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

Investment management risk

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 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.

Currency risk

The functional currency of the Company in which it reports its results, is UK sterling, however, 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

Directors' Report

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 47 to 53.

Financial and financial instrument risks

The financial instrument risks faced by the Company are shown in Note 18 to the Financial Statements on pages 47 to 53. Other risks monitored on a regular basis include derivative positions, which are subject to daily monitoring, together with the Company's cash position.

Counterparty risk

The Company relies on a number of main counterparties, namely the Managers, Registrar and Custodian. The Managers are the members of a privately owned group of companies on which a regular risk report is provided to the Board. The Managers, Registrar and Custodian are subject to regular audits by Fidelity's internal controls teams and the counterparties' own internal controls are received by the Board and any concerns investigated.

Governance, operational, financial, compliance, administration etc

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

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY MATTERS

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

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

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

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

DIRECTORS' REPORT – GENERAL

All appointments to the Board, elections, re-elections and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. Details of the Directors who served in the year ended 31 March 2012 are set out on page 17.

Elisabeth Scott and Andrew Wells are subject to election at the forthcoming Annual General Meeting.

All other 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.

On 1 November 2011, Elisabeth Scott was appointed as a non-executive Director and on 26 March 2012 Gary Shaughnessy resigned as a non-executive Director of the Company. On 21 May 2012, the Board appointed Andrew Wells as a non-executive Director.

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

The interests of FIL Limited and the Directors in the Ordinary Shares of the Company as at 31 March 2012 are shown below and on page 22.

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

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

ARTICLES OF ASSOCIATION

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

SUBSTANTIAL SHARE INTERESTS

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

	Holding at 31 March 2012	Holding at 12 June 2012
FIL Limited	45.31% ¹	44.97% ²

1 Direct holding on own account (6.37%) and indirect holdings for Fidelity's ISA and Share Plan clients (38.94%)

2 Direct holding on own account (6.40%) and indirect holdings for Fidelity's ISA and Share Plan clients (38.57%)

Directors' Report

An analysis of ordinary shareholders as at 31 March 2012 is detailed in the table below.

Analysis of ordinary shareholders as at 31 March 2012	% of issued share capital
Institutions and wealth managers	49.09
Private shareholders ¹	40.35
Pension companies	5.60
Insurance companies	4.30
Other	0.66

¹ Includes Fidelity Share Plan and ISA investors

SHARE CAPITAL

The Company's share capital comprises Ordinary Shares of 1 penny each. As at 31 March 2012 the total number of shares in issue was 659,754,480 (2011: 656,404,480). Each share carries one vote. Deadlines for the exercise of voting rights and details of arrangements by which someone other than the shareholder can exercise voting rights are detailed in the Notes to the Notice of Meeting on pages 56 and 57. The Company's Ordinary Shares have a premium listing on the London Stock Exchange and the Company is a constituent member of the FTSE 250 Index.

SHARE ISSUES

During the year to 31 March 2012, the Company issued 6,250,000 Ordinary Shares.

The authority to issue shares and disapply pre-emption rights granted by the shareholders at the Annual General Meeting, held on 27 July 2011, expires at the conclusion of the next Annual General Meeting and therefore, resolutions renewing the authority will be put to shareholders at the Annual General Meeting to be held on 24 July 2012.

DIRECTORS' SHAREHOLDINGS

There have been no changes to Directors' shareholdings since the year ended 31 March 2012.

	Shares held at 31 March 2012	Shares held at 31 March 2011
John Owen	53,433	53,433
Nicholas Bull	65,804	65,804
David Causer	65,804	65,804
Peter Pleydell-Bouverie	59,224	59,224
Elisabeth Scott ¹	12,200	n/a
Andrew Wells ²	n/a	n/a
Gary Shaughnessy ³	66,993	66,993

¹ appointed on 1 November 2011

² appointed on 21 May 2012

³ resigned on 26 March 2012

SHARE REPURCHASES

During the year to 31 March 2012, the Company repurchased 2,900,000 Ordinary Shares for cancellation. Since the year end, the Company has repurchased a further 1,875,000 Ordinary

Shares for cancellation. The total number of Ordinary Shares in issue at the date of this report is 657,879,480.

At the Annual General Meeting held on 27 July 2011, the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 99,331,900 Ordinary Shares in the market for cancellation. The authority expires on 24 July 2012 and a special resolution to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

Pursuant to this authority, during the period from 1 August 2011 to 31 March 2012, 2,900,000 Ordinary Shares of 1 penny each were repurchased for cancellation. In aggregate the total shares repurchased during the year ended 31 March 2012 was 2,900,000 Ordinary Shares of 1 penny each (2011: nil) representing 0.44% of the issued share capital as at 31 March 2012 (2011: nil) and for a total consideration of £2,323,000 (2011: nil).

POLITICAL AND CHARITABLE DONATIONS

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

PAYMENT OF CREDITORS

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

The Company's policy for the year to 31 March 2012 and 31 March 2013, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year under review and to date. Other suppliers are paid in accordance with the individual payment terms agreed with them.

MANAGEMENT COMPANY

During the year ended 31 March 2012, 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 2012, the respective Management Agreements provided for an annual management fee of 1.5% of the net asset value of the Company which totalled £8,312,000. In addition, the Investment Managers are entitled to an annual performance fee of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index, subject to a maximum performance fee payable in any year equal to 1.5% of the arithmetic mean of the value of assets with valuations calculated at the end of each month during the year. Any out-performance above this cap will be carried forward. If the Company under-performs, the under-performance must be made good before any further

Directors' Report

performance fee becomes payable. For the year ended 31 March 2012, no performance fee was payable.

In addition, FIL Investments International provides accounting, administrative and secretarial services to the Company pursuant to the Secretarial Services Agreement dated 25 February 2010 under which the Company has agreed to pay a secretarial fee of up to £600,000 per annum, payable quarterly in arrears. For the year to 31 March 2012, a secretarial fee of £600,000 was payable (2011: £568,000).

The Board reviews the services provided by the Manager and also the terms of the Management Agreement on a regular basis. The Management Agreement will continue unless and until terminated by either party giving to the other not less than six months' notice in writing. The Management Agreement may, however, be terminated without compensation if the Company is liquidated in 2012, or in any subsequent year thereafter, 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 six months' notice if the Manager ceases to be a subsidiary of FIL Limited or if the Board shall resolve at two successive quarterly meetings that there has been a material and continuing under-performance in the portfolio of assets.

The Management Engagement Committee has reviewed the performance of the Investment Managers – taking into consideration those items in the Corporate Governance Statement on page 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.

RESPONSIBILITY AS AN INSTITUTIONAL SHAREHOLDER

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

SOCIALLY RESPONSIBLE INVESTMENT

The Manager's primary objective is to produce superior financial returns for the Company's shareholders. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes

social, environmental and ethical issues into account when, in the Manager's view, these have a material impact on either investment risk or return.

ANNUAL GENERAL MEETING

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

The Board is recommending to shareholders resolutions which give the Directors authority to allot securities in the Company. The authorities sought by these resolutions are to provide the Directors with the flexibility to issue further Ordinary Shares if they deem it appropriate to do so. However, these authorities will expire on the date of the next Annual General Meeting ("AGM") in 2013. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 12 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £657,879. If passed, this resolution will enable the Directors to allot a maximum of 65,787,900 Ordinary Shares which represents approximately 10% of the issued Ordinary Share capital of the Company as at 12 June 2012. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so.

Resolution 13 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £657,879 (approximately 10% of the issued Ordinary Share capital of the Company as at 12 June 2012).

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of Ordinary Shares in issue on 12 June 2012 for cancellation. Purchases of Ordinary Shares will be at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increased Net Asset Value per share.

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

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement, which forms part of the Directors' Report, on pages 26 to 30.

Director's Report

AUDITOR'S RIGHT TO INFORMATION

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

AUDITOR'S APPOINTMENT

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

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 19 to 21. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Statements and Notes thereto on pages 33 to 54.

The Company's objectives, policies and processes for managing its capital, financial risk management objectives, details of financial instruments and its exposures to credit and liquidity risk are also set out on pages 19 to 21 and in Note 18 to the Financial Statements on pages 47 to 53.

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

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

By Order of the Board

FIL Investments International

Secretary

12 June 2012

Statement of Directors' Responsibilities

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

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

In preparing these Financial Statements the Directors are required to:

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

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

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

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

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

Approved by the Board on 12 June 2012 and signed on its behalf.



John Owen
Chairman
12 June 2012

Corporate Governance Statement

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

ASSOCIATION OF INVESTMENT COMPANIES CODE

The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance (the "AIC Code"), by reference to the AIC Corporate Governance Guide (the "AIC Guide"). The AIC Code, as explained in the AIC Guide, addresses all of the principles set out in Section 1 of the UK Corporate Governance Code ("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 taking into account of the AIC Guide, will be useful to shareholders. The AIC Code and AIC Guide may be found on the AIC's website 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, the relevant provisions of the UK Code and associated disclosure requirements of the Listing Rules except as set out below. The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Guide and in the preamble to the UK Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The Company has therefore not reported in respect of these provisions.

THE BOARD AND ITS COMMITTEES

THE BOARD

The Board of Directors has overall responsibility for the Company's affairs and for promoting the long-term success of the Company. All matters which are not delegated to the Company's Managers under the Management and Secretarial Services Agreements are reserved for the Board's decision. Matters reserved for the Board include, amongst other things, decisions on strategy, management, structure, capital, share issues, share repurchases, gearing, financial reporting, risk management, investment performance, share price discount, corporate governance, the appointment of the Company Secretary and Board appointments. The Company's investment policy is detailed on page 18.

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

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

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

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
John Owen	4/4	1/1	2/2	1/1
Nicholas Bull	4/4	1/1	2/2	1/1
David Causer	4/4	1/1	2/2	1/1
Peter Pleydell-Bouverie	4/4	1/1	2/2	1/1
Elisabeth Scott ¹	2/2	0/0	1/1	0/0
Andrew Wells ²	0/0	0/0	0/0	0/0
Gary Shaughnessy ³	4/4	1/1	0/0	0/0

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

- 1 Appointed on 1 November 2011
- 2 Appointed on 21 May 2012
- 3 Resigned on 26 March 2012

Corporate Governance Statement

SENIOR INDEPENDENT DIRECTOR

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

BOARD COMPOSITION

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

Biographical details of all Directors including their relevant directorships are given on page 17 of this report.

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

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

BOARD BALANCE

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

Further details on how the Nomination and Remuneration Committee implement the Board's policy on diversity, including gender can be found on page 29.

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. Details of the changes to the Board which have taken place during the year and since the year end are outlined in the Directors' Report on page 21.

TRAINING

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

PERFORMANCE EVALUATION

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

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

ELECTION AND RE-ELECTION

As a constituent member of the FTSE 250 Index, the Directors of the Company are subject to election and then 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 election or re-election for the forthcoming year. As part of their deliberations, the Committee conducts annual evaluations of each Director.

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

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

Corporate Governance Statement

The names of Directors submitted for election or re-election are accompanied by sufficient biographical details 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.

DIRECTORS' REMUNERATION

Levels of remuneration are competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review. The level of Directors' fees is determined by the Nomination and Remuneration Committee within the limit governed by the Articles of Association. Directors' fees are disclosed fully in each Annual Report (see the Directors' Remuneration Report on page 31). Shareholdings in the Company by Directors are encouraged and the Directors' share interests are disclosed in the Directors' Report on page 22. The Directors do not receive performance related remuneration.

THE COMPANY SECRETARY

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

COMMITTEES

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

THE AUDIT COMMITTEE

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

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

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

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

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

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

THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of all the Directors, namely Nicholas Bull, David Causer, John Owen, Peter Pleydell-Bouverie, Elisabeth Scott and Andrew Wells, and Nicholas Bull, Senior Independent Director, acts as the Chairman of the Committee.

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

Corporate Governance Statement

makes itself aware of the directors' fees of other investment trust companies and other comparable entities.

On 25 July 2011, the Board announced its aim to achieve a ratio of two-thirds men and one-third women for new Director appointments by 2013, with at least one quarter of Directors of the Board being women by 2015. On 1 November 2011, the Board announced the appointment of Elisabeth Scott as a non-executive Director.

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

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

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, and John Owen, Chairman of the Company, also chairs this Committee. The Committee is charged with reviewing and monitoring the performance of the Investment Managers and the Secretary in respect of their contracts and the fees they are paid. This Committee meets at least once a year and reports to the Board, making recommendations where appropriate.

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

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

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

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

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

THE INVESTMENT COMMITTEE

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

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

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

FINANCIAL REPORTING

Set out on page 25 is a statement by the Directors of their responsibilities in respect of the financial statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report on page 32. 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 Manager. The systems of risk management and internal control are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

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

The Board, assisted by the Manager, has undertaken regular risk and controls assessments. The business risks have been

Corporate Governance Statement

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

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

By means of the procedures set out above and in accordance with the FRC's "Internal Control: Revised Guidance for Directors on the Combined Code", the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the risk management and internal control systems throughout the year ended 31 March 2012. This process continued to be in place up to the date of the approval of these Financial Statements and is expected to remain in place for the coming year.

WHISTLE-BLOWING PROCEDURE

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

BRIBERY ACT 2010

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

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

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

SHAREHOLDERS

The Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and other Directors are available to meet with major shareholders to discuss strategy and governance. The Board regularly monitors the shareholder profile of the Company and liaises with the Managers and the Company's broker to canvass shareholder opinion and communicate its views to shareholders. The Board aims to provide the maximum opportunity for dialogue between the Company and shareholders. It believes that the Company's institutional shareholders have proper access to the Managers at any time and to the Board if they so wish. If any shareholder wishes to contact a member of the Board directly they should contact the Company Secretary whose details are given on pages 16 and 64.

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

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

The Notice of Meeting on pages 55 to 57 sets out the business of the Annual General Meeting. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Chairman of the Board and the other members of the Board, will be available to answer questions at the Annual General Meeting. The Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the Meeting.

DISCLOSURE AND TRANSPARENCY RULES

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules is set out in the Directors' Report on pages 19 to 24 because it is information which refers to events that have taken place during the course of the year. The following is a list of that information:

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



On behalf of the Board
John Owen
Chairman
12 June 2012

Directors' Remuneration Report

This report has been prepared in accordance with Sections 420 – 422 of the Companies Act 2006 in respect of the year ended 31 March 2012. An ordinary resolution for the approval of this report will be put to the shareholders at the forthcoming Annual General Meeting. The Companies Act 2006 requires the Company's Auditor to audit certain parts of the disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on page 32.

REMUNERATION

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

The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this, the Nomination and Remuneration Committee makes recommendations to the Board regarding the level of Directors' fees, having regard to their duties and responsibilities, to their time commitments, to their potential liabilities (both financial and reputational) and finally to levels of fees in the investment company industry generally. It is intended that this policy will continue for the year ending 31 March 2013 and subsequent years.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION PER ANNUM

	2012 £'000	2011 £'000
Chairman	40	40
Senior Independent Director	30	25
Chairman of the Audit Committee	30	30
Chairman of the Investment Committee	30	30
Director	25	25

REMUNERATION OF DIRECTORS (audited)

	2012 £'000	2011* £'000
John Owen	40	46
Nicholas Bull	30	31
David Causer	30	35
Peter Pleydell-Bouverie	30	35
Elisabeth Scott ¹	10	n/a
Andrew Wells ²	-	-
Gary Shaughnessy ³	-	-
Total	140	147

* Fees since appointment on 4 February 2010

1 Appointed on 1 November 2011

2 Waives Directors' fees. Appointed 21 May 2012

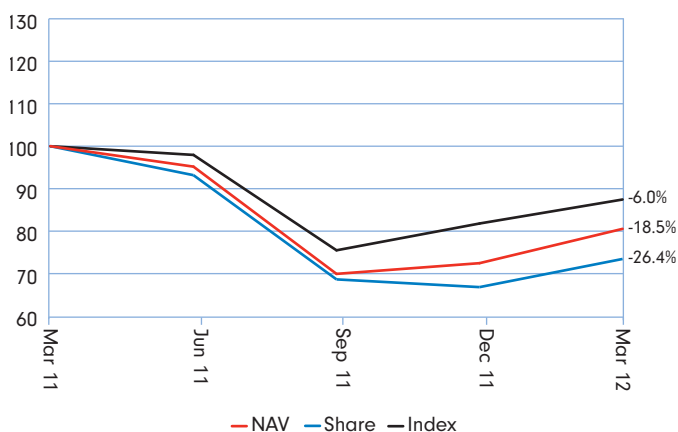
3 Waived Directors' fees. Resigned on 26 March 2012

No Director received bonuses, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 March 2012.

COMPANY PERFORMANCE

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

Comparison of NAV and Share Price total return performance against the MSCI China Index from 1 April 2011 to 31 March 2012



Sources: Fidelity and Datastream

On behalf of the Board
John Owen
 Chairman
 12 June 2012

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

We have audited the Financial Statements of Fidelity China Special Situations PLC for the year ended 31 March 2012 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

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 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on pages 23 and 24, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Marcus Swales

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
12 June 2012

Income Statement for the year ended 31 March 2012

	Notes	Year ended 31.03.12			Period from 19.04.10 to 31.03.11		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Revenue							
Investment income	3	12,912	-	12,912	9,447	-	9,447
Other income	3	9	-	9	23	-	23
Net derivative income	3	550	-	550	30	-	30
Total revenue		<u>13,471</u>	<u>-</u>	<u>13,471</u>	<u>9,500</u>	<u>-</u>	<u>9,500</u>
(Losses)/gains on investments designated at fair value through profit or loss	10	-	(155,156)	(155,156)	-	32,177	32,177
Net gains/(losses) on derivative instruments held at fair value through profit or loss	11	-	27,460	27,460	-	(12,211)	(12,211)
Foreign exchange gains/(losses) on other net assets		80	6	86	(39)	(513)	(552)
Foreign exchange (losses)/gains on bank loans		-	(1,605)	(1,605)	-	3,004	3,004
Total revenue and gains/(losses)		<u>13,551</u>	<u>(129,295)</u>	<u>(115,744)</u>	<u>9,461</u>	<u>22,457</u>	<u>31,918</u>
Expenses							
Investment management fee	4	(4,156)	(4,156)	(8,312)	(3,746)	(3,746)	(7,492)
Other expenses	5	(1,655)	-	(1,655)	(2,435)	-	(2,435)
Profit/(loss) before finance costs and taxation		<u>7,740</u>	<u>(133,451)</u>	<u>(125,711)</u>	<u>3,280</u>	<u>18,711</u>	<u>21,991</u>
Finance costs							
Interest on bank loan	6	(878)	(878)	(1,756)	(523)	(523)	(1,046)
Profit/(loss) before taxation		<u>6,862</u>	<u>(134,329)</u>	<u>(127,467)</u>	<u>2,757</u>	<u>18,188</u>	<u>20,945</u>
Taxation	7	(289)	(237)	(526)	(426)	-	(426)
Net profit/(loss) after taxation for the year/period		<u>6,573</u>	<u>(134,566)</u>	<u>(127,993)</u>	<u>2,331</u>	<u>18,188</u>	<u>20,519</u>
Earnings/(loss) per Ordinary Share	8	<u>0.99p</u>	<u>(20.33p)</u>	<u>(19.34p)</u>	<u>0.47p</u>	<u>3.67p</u>	<u>4.14p</u>

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

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

All of the profit/(loss) 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 Company was incorporated on 22 January 2010 and operations commenced when its shares were listed on the London Stock Exchange on 19 April 2010.

The Notes on pages 37 to 54 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 March 2012

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
Period from 19.04.10 to 31.03.11								
Proceeds from offer for subscription and placing	15	4,600	455,400	-	-	-	-	460,000
Fees and expenses of the offer for subscription and placing		-	(3,168)	-	-	-	-	(3,168)
Cancellation of share premium account*		-	(452,232)	-	452,232	-	-	-
Issue of Ordinary Shares	15	387	42,262	-	-	-	-	42,649
Additional share listing costs		-	(200)	-	-	-	-	(200)
Proceeds from "C" Share offer and placing	15	1,577	164,673	-	-	-	-	166,250
Fees and expenses of the "C" Share offer and placing		-	(2,087)	-	-	-	-	(2,087)
Net profit after taxation for the period		-	-	-	-	18,188	2,331	20,519
Equity shareholders' funds at 31 March 2011		6,564	204,648	-	452,232	18,188	2,331	683,963
Issue of Ordinary Shares	15	63	6,921	-	-	-	-	6,984
Repurchase of Ordinary Shares	15	(29)	-	29	(2,323)	-	-	(2,323)
Net (loss)/profit after taxation for the year		-	-	-	-	(134,566)	6,573	(127,993)
Dividend paid	9	-	-	-	-	-	(1,656)	(1,656)
Equity shareholders' funds at 31 March 2012		6,598	211,569	29	449,909	(116,378)	7,248	558,975

* Court approval was given on 21 April 2010 for the Company's "share premium account" to be cancelled. As a result £452,232,000 was transferred to "other reserve".

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

The Notes on pages 37 to 54 form an integral part of these Financial Statements.

Balance Sheet

as at 31 March 2012

Company No. 7133583

	Notes	2012 £'000	2011 £'000
Non current assets			
Investments designated at fair value through profit or loss	10	629,709	720,287
Current assets			
Derivative assets held at fair value through profit or loss	11	11,582	2,729
Amounts held at futures clearing houses and brokers		3,922	3,280
Other receivables	12	9,146	7,388
Cash and cash equivalents		20,123	25,184
		44,773	38,581
Current liabilities			
Derivative liabilities held at fair value through profit or loss	11	(3,792)	(1,582)
Bank loans	13	(93,841)	(62,013)
Other payables	14	(17,874)	(11,310)
		(115,507)	(74,905)
Net current liabilities		(70,734)	(36,324)
Net assets		558,975	683,963
Equity attributable to equity shareholders			
Share capital	15	6,598	6,564
Share premium account	16	211,569	204,648
Capital redemption reserve	16	29	-
Other reserve	16	449,909	452,232
Capital reserve	16	(116,378)	18,188
Revenue reserve	16	7,248	2,331
Total equity shareholders' funds		558,975	683,963
Net Asset Value per Ordinary Share	17	84.72p	104.20p

The Financial Statements on pages 33 to 54 were approved by the Board of Directors on 12 June 2012 and were signed on its behalf by:



John Owen
Chairman

The Notes on pages 37 to 54 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 March 2012

	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000
Operating activities		
Cash inflow from investment income	11,063	7,736
Cash inflow/(outflow) from net derivative income	508	(26)
Cash inflow from other income	11	21
Cash outflow from Directors' fees	(146)	(105)
Cash outflow from other payments	(9,933)	(6,645)
Cash outflow from the purchase of investments	(613,873)	(1,066,951)
Cash outflow from the costs of derivatives	(13,711)	(16,857)
Cash inflow from the sale of investments	554,516	380,884
Cash inflow from the proceeds of derivatives	34,528	3,499
Cash outflow from amounts held at futures clearing houses and brokers	(642)	(3,280)
Net cash outflow from operating activities before servicing of finance	<u>(37,679)</u>	<u>(701,724)</u>
Servicing of finance		
Cash outflow on interest on bank loans	(1,594)	(1,040)
Net cash outflow from operating activities and servicing of finance	<u>(39,273)</u>	<u>(702,764)</u>
Financing activities		
Cash inflow from the offer for subscription and placing	-	460,000
Cash inflow from the issue of Ordinary Shares	6,984	42,649
Cash inflow from the "C" Share offer and placing	-	166,250
Cash outflow from the costs of the offer for subscription and placing	-	(3,168)
Cash outflow from the costs of the issue of Ordinary Shares	-	(200)
Cash outflow from the costs of the "C" Share offer and placing	-	(2,087)
Cash outflow from the repurchase of Ordinary Shares	(1,345)	-
Cash inflow from bank loans	30,223	62,013
Cash outflow from dividend paid to shareholders	(1,656)	-
Net cash inflow from financing activities	<u>34,206</u>	<u>725,457</u>
(Decrease)/increase in cash and cash equivalents	<u>(5,067)</u>	<u>22,693</u>
Net cash and cash equivalents at the start of the year/period	25,184	-
Effect of foreign exchange movements	6	2,491
Cash and cash equivalents at the end of the year/period	<u>20,123</u>	<u>25,184</u>

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

The Notes on pages 37 to 54 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. PRINCIPAL ACTIVITY

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

2. ACCOUNTING POLICIES

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

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

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

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

- IFRS 9 Financial Instruments (effective 1 January 2013);
- IFRS 13 Fair Value Measurement (effective 1 January 2013); and
- Mandatory Effective Rate and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) (effective 1 January 2015).

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

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

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

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

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

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

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

Notes to the Financial Statements

2. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

i) Valuation of investments – The Company's business is investing in financial assets with a view to profiting from their total return in the form of capital growth and income. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key management personnel. Accordingly, upon initial recognition, the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost. Subsequently, the investments are valued at fair value, which is measured as bid or last prices depending upon the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations.

The fair value of unlisted investments is established by using a combination of valuation techniques, including broker quotations. If this information is insufficient or unavailable, fair value is estimated at cost, subject to any provision for impairment.

In accordance with the AIC SORP, the Company includes transaction costs within investment movements and has disclosed them in Note 10 on page 44.

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

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

As part of an established policy, premiums received on written options are taken to capital and are recognised within "net gains/(losses) on derivative instruments" via the capital column of the Income Statement.

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

Notes to the Financial Statements

2. ACCOUNTING POLICIES (continued)

CFDs are measured at fair value which is the difference between the settlement price and the value, calculated in accordance with accounting policy 1(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.

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

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

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

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

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10: "Distributable Profits", changes in fair value of investments which are readily convertible to cash, without accepting adverse terms at the balance sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the balance sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of unlisted investments with a fair value of £2,500,000 (2011: nil).

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

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

Notes to the Financial Statements

	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000
3. INCOME		
Income from investments designated at fair value through profit or loss		
Overseas dividends	11,145	8,783
Overseas scrip dividends	1,252	664
UK dividends	515	-
	<u>12,912</u>	<u>9,447</u>
Other income		
Deposit interest	9	12
Income from Fidelity Institutional Liquidity Fund plc	-	11
	<u>9</u>	<u>23</u>
Net derivative income		
Dividends received on long CFDs	1,064	68
Interest paid on long CFDs	(390)	(38)
Interest received on short CFDs	10	-
Dividends paid on short CFDs	(134)	-
	<u>550</u>	<u>30</u>
Total income	<u>13,471</u>	<u>9,500</u>
	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000

4. INVESTMENT MANAGEMENT FEE

Investment management fee charged to revenue	4,156	3,746
Investment management fee charged to capital	4,156	3,746
	<u>8,312</u>	<u>7,492</u>

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

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

No performance fee is payable for the year ended 31 March 2012 (2011: nil).

Notes to the Financial Statements

	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000
5. OTHER EXPENSES		
AIC fees	14	16
Custody fees	310	187
Directors' expenses	30	34
Directors' fees*	140	147
Legal and professional fees	148	144
Marketing expenses	174	167
Printing and publication expenses	119	114
Registrars' fees	55	56
Secretarial and administration fees	600	568
Other expenses	38	35
Costs incurred on the offer for subscription and placing charged to revenue return	-	910
Fees payable to the Independent Auditor**		
For audit services	25	33
For other services:		
Review of the performance fee	2	-
Review of the Interim Report	-	9
Review of the derivative charter and contracts	-	15
	<u>1,655</u>	<u>2,435</u>

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

** During the period ended 31 March 2011, the Independent Auditor also received £15,000 for services related to the offer for subscription and placing and £35,000 for services related to the 'C' Share offer.

	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000
6. FINANCE COSTS		
Interest on bank loans payable within one year:		
Charged to revenue	878	523
Charged to capital	878	523
	<u>1,756</u>	<u>1,046</u>

Notes to the Financial Statements

7. TAXATION	Year ended 31.03.12			Period from 19.04.10 to 31.03.11		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
a) Analysis of the taxation charge in the year/period						
Overseas taxation	289	-	289	426	-	426
Overseas capital gains tax	-	237	237	-	-	-
Total current taxation for the year/period (see Note 7b)	<u>289</u>	<u>237</u>	<u>526</u>	<u>426</u>	<u>-</u>	<u>426</u>

b) Factors affecting the taxation charge in the year/period

The taxation assessed for the year/period is lower than the standard rate of corporation tax in the UK for an investment trust company of 26% (2011: 28%).

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

	Year ended 31.03.12			Period from 19.04.10 to 31.03.11		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Profit/(loss) before taxation	<u>6,862</u>	<u>(134,329)</u>	<u>(127,467)</u>	<u>2,757</u>	<u>18,188</u>	<u>20,945</u>
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 26% (2011: 28%)	1,784	(34,926)	(33,142)	772	5,093	5,865
Effects of:						
Losses/(gains) on investments not taxable*	-	33,617	33,617	-	(6,288)	(6,288)
Income not taxable	(3,161)	-	(3,161)	(2,425)	-	(2,425)
Expenses not allowable	-	-	-	259	-	259
Excess expenses	1,388	1,309	2,697	1,416	1,195	2,611
Overseas taxation expensed	(11)	-	(11)	(22)	-	(22)
Overseas taxation	289	-	289	426	-	426
Overseas capital gains tax	-	237	237	-	-	-
Current taxation charge (Note 7a)	<u>289</u>	<u>237</u>	<u>526</u>	<u>426</u>	<u>-</u>	<u>426</u>

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

c) Deferred taxation

There are excess management expenses of £18,966,000 (2011: £9,078,000) and excess finance costs of £733,000 (2011: £247,000), resulting in a deferred taxation asset, which has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

Notes to the Financial Statements

8. EARNINGS/(LOSS) PER ORDINARY SHARE	Year ended 31.03.12			Period from 19.04.10 to 31.03.11		
	revenue	capital	total	revenue	capital	total
Earnings/(loss) per Ordinary Share	<u>0.99p</u>	<u>(20.33p)</u>	<u>(19.34p)</u>	<u>0.47p</u>	<u>3.67p</u>	<u>4.14p</u>

Earnings/(loss) per Ordinary Share are based on the revenue net profit after taxation in the year of £6,573,000 (2011: £2,331,000), the capital net loss after taxation in the year of £134,566,000 (2011: £18,188,000 profit) and the total net loss after taxation in the year of £127,993,000 (2011: £20,519,000 profit) and on 661,971,830 (2011: 495,842,187) Ordinary Shares being the weighted average number of Ordinary Shares in issue during the year/(period).

9. DIVIDENDS	Year ended	Period from
	31.03.12	19.04.10 to
	£'000	31.03.11
		£'000
Dividend paid		
Final dividend paid of 0.25 pence per Ordinary Share for the period ended 31 March 2011	<u>1,656</u>	<u>-</u>
Dividend proposed		
Final dividend of 0.75 pence per Ordinary Share (2011: 0.25 pence per Ordinary Share) proposed for the year ended 31 March 2012	<u>4,934</u>	<u>1,656</u>

The Directors have proposed the payment of a final dividend of 0.75 pence per Ordinary Share for the year ended 31 March 2012 with a payment date of 3 August 2012 to shareholders on the register at the close of business on 20 July 2012 (ex dividend date 18 July 2012).

Notes to the Financial Statements

	2012 £'000	2011 £'000
10. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Total investments*	<u>629,709</u>	<u>720,287</u>
Opening book cost	695,593	-
Opening investment holding gains	<u>24,694</u>	-
Opening fair value of investments	<u>720,287</u>	-
Movements in the year/period		
Purchases at cost	620,969	1,075,592
Sales - proceeds	(556,391)	(387,482)
Sales - realised (losses)/gains	(74,292)	7,483
Movement in investment holding (losses)/gains in the year/period	<u>(80,864)</u>	<u>24,694</u>
Closing fair value of investments	<u>629,709</u>	<u>720,287</u>
Closing book cost	685,879	695,593
Closing investment holding (losses)/gains	<u>(56,170)</u>	<u>24,694</u>
Closing fair value of investments	<u>629,709</u>	<u>720,287</u>
(Losses)/gains on investments		
(Losses)/gains on sales of investments	(74,292)	7,483
Investment holding (losses)/gains	<u>(80,864)</u>	<u>24,694</u>
	<u>(155,156)</u>	<u>32,177</u>

*The fair value hierarchy of the investments is shown in Note 18 on page 53.

The portfolio turnover rate for the year to 31 March 2012 was 91.2%. The rate for the period from commencing operations on 19 April 2010 to 31 March 2011 was 129.6% and included the initial investment of the funds raised through the offer for subscription and placing and the "C" Share offer.

Cost of investment transactions

Transaction costs are incurred in the acquisition and disposal of investments. These are included in the (losses)/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 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'000
Purchases	1,380	2,387
Sales	<u>1,311</u>	<u>790</u>
	<u>2,691</u>	<u>3,177</u>

Notes to the Financial Statements

	Year ended 31.03.12 £'000	Period from 19.04.10 to 31.03.11 £'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/period				
Realised gains on forward currency contracts	3,280	2,060		
Realised losses on futures	(621)	(8,316)		
Realised gains/(losses) on options	17,626	(5,262)		
Realised gains on CFDs	2,795	225		
Movement on investment holding gains on forward currency contracts	279	508		
Movement on investment holding (losses)/gains on futures	(502)	502		
Movement on investment holding gains/(losses) on options	1,349	(1,509)		
Movement on investment holding gains/(losses) on CFDs	3,254	(419)		
	<u>27,460</u>	<u>(12,211)</u>		
	2012 £'000	2011 £'000		
Fair value of derivative instruments recognised in the balance sheet				
Derivative assets recognised at fair value through profit or loss	11,582	2,729		
Derivative liabilities recognised at fair value through profit or loss	(3,792)	(1,582)		
	<u>7,790</u>	<u>1,147</u>		
	2012	2011		
	fair value £'000	gross asset exposure £'000		
	fair value £'000	gross asset exposure £'000		
At the year/period end the Company held the following derivative instruments				
Long CFDs	2,825	39,329	(129)	38,127
Short CFDs	10	(1,551)	(290)	(3,466)
Options	4,168	(42,104)	556	(10,764)
Futures	-	-	502	18,735
Forward currency contracts	787	787	508	508
	<u>7,790</u>	<u>(3,539)</u>	<u>1,147</u>	<u>43,140</u>

Notes to the Financial Statements

	2012 £'000	2011 £'000
12. OTHER RECEIVABLES		
Securities sold for future settlement	8,477	6,602
Accrued income	633	652
Other receivables	36	134
	<u>9,146</u>	<u>7,388</u>

	2012 £'000	2011 £'000
13. BANK LOANS		
Fixed rate unsecured US dollar loans		
Repayable on 21 May 2012 @ 1.87%	62,561	-
Repayable on 21 May 2012 @ 1.85%	31,280	-
Repaid on 6 April 2011 @ 1.63%	-	40,012
Repaid on 6 April 2011 @ 1.88%	-	22,001
	<u>93,841</u>	<u>62,013</u>

On 19 April 2010, the Company entered into a 364 day revolving credit facility for HK\$775,000,000. On 1 April 2011, this facility was replaced by a 364 day revolving credit facility for US\$150,000,000. On 17 February 2012, this facility was replaced by a two year, multicurrency revolving credit facility for US\$150,000,000.

	2012 £'000	2011 £'000
14. OTHER PAYABLES		
Securities purchased for future settlement	13,821	7,977
Amount payable on share repurchases	978	-
Other payables	3,075	3,333
	<u>17,874</u>	<u>11,310</u>

	2012 shares	£'000	2011 shares	£'000
15. SHARE CAPITAL				
Issued, allotted and fully paid				
Beginning of the year/period	656,404,480	6,564	-	-
Issue of Ordinary Shares of 1 penny each at launch on 19 April 2010	-	-	460,000,000	4,600
Issue of Ordinary Shares of 1 penny each following conversion of the "C" Shares on 1 March 2011	-	-	157,654,480	1,577
Issue of Ordinary Shares of 1 penny each	6,250,000	63	38,750,000	387
Repurchases of Ordinary Shares of 1 penny each	(2,900,000)	(29)	-	-
End of the year/period	<u>659,754,480</u>	<u>6,598</u>	<u>656,404,480</u>	<u>6,564</u>

Notes to the Financial Statements

16. RESERVES

The share premium account represents the amount by which the proceeds from share issues, less the associated costs, exceeds the nominal value of the Ordinary Shares issued. As a result of the offer for subscription and placing, £452,232,000 was transferred to the share premium account. Court approval was given on 21 April 2010 to cancel the account and as a result this amount 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. 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 and was created on 21 April 2010 when Court approval was given for the share premium account at that date to be cancelled. As a result £452,232,000 was transferred from the share premium account to the other reserve. It is distributable by way of dividend and it can be used to fund share repurchases.

The capital reserve reflects 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 but it can be used to fund share repurchases.

The revenue reserve reflects the income less the expenses recognised in the revenue column of the Income Statement. 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 £558,975,000 (2011: £683,963,000) and on 659,754,480 (2011: 656,404,480) Ordinary Shares, being the number of Ordinary Shares in issue at the year/period 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 the steps taken in mitigation of risks, and are updated and reviewed on an ongoing basis. Key risks identified fall into two broad categories. The first, external risks, are stock market, share price and discount and the second, internal risks, are portfolio and governance, operational, financial, compliance, administration etc.

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

The Company's financial instruments comprise:

- Equity shares and equity linked notes;
- Derivative instruments which comprise CFDs, forward currency contracts and futures and options written on stocks and equity indices;
- Cash, liquid resources and short-term debtors and creditors that arise from the Company's 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 on pages 48 to 52. These policies have remained unchanged since the beginning of the accounting period.

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

Market price risk

Other price risk

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

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

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

Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through a two year, multicurrency revolving credit facility for US\$150,000,000 taken out on 17 February 2012. The Company has drawn down the whole of this facility as disclosed in Note 13 on page 46. When this loan becomes repayable, it is exposed to a fair value interest rate risk if interest rates change.

Interest rate risk profile of financial assets and liabilities

The Company is exposed to cash flow interest rate risk on cash at bank and amounts held at futures clearing houses and brokers. The Company is exposed to a fair value interest rate risk on the fixed rate bank loan of US\$150,000,000 (2011: US\$99,500,000). The cash at bank and amounts held at futures clearing houses and brokers are shown in the Balance Sheet on page 35.

Foreign currency risk

The Company's total return and balance sheet can be affected by exchange rate movements because the Company has assets, liabilities and income 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
- Movements in currency exchange rates affecting income received

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

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

Currency exposure of financial assets

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

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

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

In addition, the Company had open forward currency contracts to sell US dollar 119 million for Chinese renminbi 756 million.

	2011				
	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
Hong Kong dollar	493,865	56,862	4,648	25,655	581,030
Korean won	8,125	-	10	-	8,135
Japanese yen	16,322	-	23	-	16,345
Singapore dollar	7,495	-	-	-	7,495
Taiwan dollar	1,632	-	2,014	-	3,646
UK sterling	4,676	-	136	2,809	7,621
US dollar	188,172	-	557	-	188,729
	<u>720,287</u>	<u>56,862</u>	<u>7,388</u>	<u>28,464</u>	<u>813,001</u>

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

In addition, the Company had open forward currency contracts to sell US dollar 279 million for Chinese renminbi 1,830 million.

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

Currency exposure of financial liabilities

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

The Company's financial liabilities comprise short positions on derivative instruments, US dollar denominated bank loans and other payables.

The currency cash flow profile of these financial liabilities is shown below.

	2012			
	exposure to short derivative instruments £'000	US dollar bank loans £'000	other payables £'000	total £'000
Chinese renminbi	-	-	237	237
Hong Kong dollar	43,655	-	11,086	54,741
UK sterling	-	-	3,661	3,661
US dollar	-	93,841	2,890	96,731
	<u>43,655</u>	<u>93,841</u>	<u>17,874</u>	<u>155,370</u>
	2011			
	exposure to short derivative instruments £'000	US dollar bank loans £'000	other payables £'000	total £'000
Hong Kong dollar	3,466	-	5,241	8,707
Korean won	10,764	-	-	10,764
UK sterling	-	-	3,313	3,313
US dollar	-	62,013	2,756	64,769
	<u>14,230</u>	<u>62,013</u>	<u>11,310</u>	<u>87,553</u>

Liquidity risk

The Company's assets comprise readily realisable securities, to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in Note 13 on page 46.

Counterparty risk

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

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

Credit risk

Investments may be adversely affected if any of the institutions with which money is deposited suffers insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Managers and are settled on a delivery versus payment basis. Limits are established for each broker which 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 Manager. This Charter was approved by the Board and allows the use of derivative instruments for the following purposes:

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

The risk and investment performance of these instruments are managed by an experienced, specialist derivative team of the Manager 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 the Company's net profit/(loss) after taxation and the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found in the Directors' Report on pages 19 to 21.

An increase of 10% in the share prices of the investments designated at fair value through profit or loss at 31 March 2012 would have decreased the net loss for the year and increased the net assets of the Company by £62,971,000 (2011: £72,029,000). A decrease of 10% in the share prices of the investments designated at fair value through profit or loss would have had an equal but opposite effect.

Derivative instruments exposure sensitivity analysis

The Company invests in CFDs to gain exposure to the equity market. An increase of 10% in the share prices of the investments underlying the CFDs at 31 March 2012 would have decreased the net loss for the year and increased the net assets of the Company by £3,778,000 (2011: £3,466,000). A decrease of 10% in the share prices of the investments underlying the CFDs would have had an equal but opposite effect.

Interest rate risk sensitivity analysis

Based on the financial assets and liabilities held and the interest rates at the balance sheet date, an increase of 0.5% in interest rates throughout the year would have increased the loss after taxation for the year and decreased the net assets by £349,000 (2011: £153,000). A decrease of 0.5% in interest rates would have decreased the loss after taxation for the year and increased the net assets by £449,000 (2011: £271,000).

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk sensitivity analysis

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

	2012 £'000	2011 £'000
Chinese renminbi	3,729	-
Hong Kong dollar	38,143	52,029
Korean won	378	(239)
Japanese yen	-	1,486
Singapore dollar	1,163	681
Taiwan dollar	-	331
US dollar	5,529	11,269
	<u>48,942</u>	<u>65,557</u>

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

	2012 £'000	2011 £'000
Chinese renminbi	4,557	-
Hong Kong dollar	46,619	63,591
Korean won	463	(292)
Japanese yen	-	1,816
Singapore dollar	1,422	833
Taiwan dollar	-	405
US dollar	6,758	13,773
	<u>59,819</u>	<u>80,126</u>

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Note 2 (i) and (j) on pages 38 and 39, investments are shown at fair value which is bid or last market price. In the case of cash, book value approximates to fair value due to the short maturity of the instruments. The exceptions are the US dollar denominated bank loans whose fair value has been calculated by discounting future cash flows at current US dollar interest rates.

	2012		2011	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured bank loan @ 1.87% per annum	62,835	62,561	-	-
Fixed rate unsecured bank loan @ 1.85% per annum	31,417	31,280	-	-
Fixed rate unsecured bank loan @ 1.63% per annum	-	-	40,025	40,012
Fixed rate unsecured bank loan @ 1.88% per annum	-	-	22,009	22,001
	<u>94,252</u>	<u>93,841</u>	<u>62,034</u>	<u>62,013</u>

Notes to the Financial Statements

18. FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY

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

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

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

The valuation techniques used by the Company are explained in the Accounting Policies Note 2 (i) and (j) on pages 38 and 39. The table below sets out the Company's fair value hierarchy:

	2012			
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
Financial assets at fair value through profit or loss				
Investments – shares*	586,970	-	-	586,970
Investments – shares transferred to level 3	(1,563)	-	1,563	-
Investments – equity linked notes	-	40,239	-	40,239
Derivative instruments	-	11,582	-	11,582
Unlisted investments	-	-	2,500	2,500
	<u>585,407</u>	<u>51,821</u>	<u>4,063</u>	<u>641,291</u>
Financial liabilities at fair value through profit or loss				
Derivative instruments	-	(3,792)	-	(3,792)
Derivative instruments transferred to level 3	-	160	(160)	-
	<u>-</u>	<u>(3,632)</u>	<u>(160)</u>	<u>(3,792)</u>
	2011			
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
Financial assets at fair value through profit or loss				
Investments – shares	658,800	-	-	658,800
Investments – equity linked notes	-	61,487	-	61,487
Derivative instruments	-	2,729	-	2,729
	<u>658,800</u>	<u>64,216</u>	<u>-</u>	<u>723,016</u>
Financial liabilities at fair value through profit or loss				
Derivative instruments	-	(1,582)	-	(1,582)

* See Note 22 on page 54

Notes to the Financial Statements

19. CAPITAL RESOURCES AND GROSS ASSET EXPOSURE

The Company does not have any externally imposed capital requirements. The capital resources of the Company are managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 18 and 19 of the Directors' Report. The principal risks and their management are disclosed on pages 19 to 21 and in Note 18.

The Company's capital resources were:

	2012 £'000	2011 £'000
Bank loans	93,841	62,013
Long CFDs	39,329	38,127
Total of bank loans and long CFDs	<u>133,170</u>	<u>100,140</u>
Net assets		
Share capital	6,598	6,564
Other reserves and retained earnings	552,377	677,399
	<u>558,975</u>	<u>683,963</u>
Bank loans and long CFDs as % of net assets	<u>23.8%</u>	<u>14.6%</u>
	2012 £'000	2011 £'000
Gross asset exposure*		
Investments	629,709	720,287
Long derivatives	39,329	56,862
Exposure to short derivatives	1,551	14,230
	<u>670,589</u>	<u>791,379</u>
Less: exposure to put options hedging the above	(42,104)	-
Gross asset exposure	<u>628,485</u>	<u>791,379</u>
Gross asset exposure as % of net assets	<u>112.4%</u>	<u>115.7%</u>

*Forward currency contracts are excluded

20. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments at 31 March 2012 (2011: none).

21. RELATED PARTY TRANSACTIONS

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 on page 40 and the secretarial and administration fees payable are detailed in Note 5 on page 41. Fees paid to the Directors are disclosed on page 31 in the Directors' Remuneration Report.

22. SUBSEQUENT EVENT

On 2 April 2012, trading in the shares of ChinaCast Education Corporation was suspended. As a result of this event a 75% provision for impairment has been applied to the holding reducing its value, subsequent to the year end, by £5,356,000.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity China Special Situations PLC will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB, on 24 July 2012 at 11.00am for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 March 2012.
2. To approve the final dividend.
3. To re-elect John Owen as a Director.
4. To re-elect Nicholas Bull as a Director.
5. To re-elect David Causer as a Director.
6. To re-elect Hon Peter Pleydell-Bouverie as a Director.
7. To elect Elisabeth Scott as a Director.
8. To elect Andrew Wells as a Director.
9. To approve the Directors' Remuneration Report for the year ended 31 March 2012.
10. To reappoint Grant Thornton UK LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
11. To authorise the Directors to determine the Auditor's remuneration.

SPECIAL BUSINESS

Resolutions 12 and 13 will, if approved, authorise the Directors to allot a limited number of the currently unissued Ordinary Shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of Ordinary Shares of the Company in issue on 12 June 2012. The Directors will only issue new Ordinary Shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

To consider and, if thought fit, to pass the following resolutions which will be proposed, resolution 12 as an ordinary resolution and resolution 13 as a special resolution:

12. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £657,879 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 12 June 2012) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after

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

13. THAT, subject to the passing of resolution 12 set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority given by the said resolution 12 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:
 - a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);
 - b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £657,879 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 12 June 2012); and
 - c) to the allotment of equity securities at a price of not less than the net asset value per share.

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

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of Ordinary Shares in issue on 12 June 2012 for cancellation. Purchases of Ordinary Shares will be at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing Net Asset Value per share, thereby resulting in an increased Net Asset Value per share.

14. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 693 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act)

Notice of Meeting

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 98,616,100;
- b) the minimum price which may be paid for a share is 1 penny;
- c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;
- d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
- e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board
FIL Investments International
Secretary
20 June 2012

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

Notes:

1. A member of the Company entitled to attend and vote at the Annual General meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 11.00am on 22 July 2012. 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 Registrars, PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
4. In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11.00am on 20 July 2012. 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 11.00am on 20 July 2012.
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 11.00am on 20 July 2012.
7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

Notice of Meeting

8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding three per cent or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Services Authority.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members by 6.00pm on 20 July 2012. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at 6.00pm on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.
10. As at 12 June 2012 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 657,879,480 Ordinary Shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 12 June 2012 was 657,879,480.
11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
12. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.
14. Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 12 June 2012, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.
15. No Director has a service contract with the Company.
16. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at www.fidelity.co.uk/its.

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

Glossary to the Annual Report

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

Glossary to the Annual Report

Directors	Directors of the Company listed in the section headed "Corporate Information", and Director shall mean any one of them
Debt	Bank borrowings
Derivatives	financial instruments whose value is derived from the value of an underlying asset or other financial instruments such as stocks, bonds, currency exchange rates, real estate and commodities, or market benchmarks such as interest rates. The main categories of derivatives are Contracts For Difference, futures, options and swaps
Disclosure and Transparency Rules	the disclosure rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 as amended from time to time
Equity Linked Notes or ELN	debt instruments whose return on investment is linked to specific equities or equity markets. The return on equity linked notes may be determined by an equity index, a basket of equities, or single equities
Fair Value	represents the carrying value on the Balance Sheet and it is also the difference between settlement price and the underlying value of the security
FIL	FIL Limited and each of its subsidiaries
FIL Limited	FIL Limited (incorporated in Bermuda), the ultimate parent company of the FIL Group of companies
Fidelity	FIL Investments International
Form of Proxy	the form of proxy for use by shareholders in respect of the Annual General Meeting
Forward/Future Contract	a forward is an agreement to buy or sell a currency, commodity or other asset at a specified future date and at a predetermined price. It is not standardised and is not traded on organised exchanges. A future is an agreement to buy or sell a stated amount of a security, currency or commodity at a specific future date and at a pre-agreed price
FRC	Financial Reporting Council
Gearing	debt either through bank borrowings or through derivatives including CFDs
Gross Asset Exposure	the value of the portfolio to which the investor (i.e. the Company) is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the derivatives, but excluding forward currency contracts)
Hedging	a hedge position will demonstrate risk reduction qualities by delivering short exposure to an asset which has regional congruence and a correlation of at least 80% to long exposures in the Company's portfolio. It therefore distinguishes itself from a "short" which is a position not opened with the objective of reducing the long exposure in the portfolio. Qualifying hedge exposures do not count towards the short exposure limits. For the purposes of calculating Gross Asset Exposure the exposure attributed to the hedge positions will be deducted from the exposure of the corresponding long positions
IFRS	International Financial Reporting Standards
Index linked securities	debt instruments whose return on investment is linked to changes in interest rates, stock exchanges, or other price indices
Investment Manager or Manager	FIL Investment Management (Hong Kong) Limited
Investment Managers or Managers	together, the Investment Manager and the Unlisted Investment Manager
KOSPI	The Korea Composite Stock Price Index. Index of all common shares traded on the Stock Market Division, previously known as the Korea Stock Exchange
Management Agreement	the agreement between FIL Investment Management (Hong Kong) Limited and the Company regarding the management of the Company's investments dated 25 February 2010

Glossary to the Annual Report

Management Agreements	together the Management Agreement and the Unlisted Management Agreement
Management Fee	the annual management fee which is calculated as 1.5% of NAV
Marked-to-market	assigning a value based on the current fair market price
Money market instruments	short-term debt instruments that provide the unconditional right to receive a stated, fixed sum of money on a specified date. Money market instruments include treasury bills, bonds, commercial and financial paper, banker's acceptances, negotiable certificates of deposit and short-term notes issued under note issuance facilities
MSCI China Index	the benchmark of the investment performance of the Company is the Morgan Stanley China Index, UK sterling equivalent
Net Asset Value or NAV per share	the NAV is calculated as shareholders' funds divided by the number of shares in issue
Options or options contract	options provide the right to acquire or sell instruments at an agreed price at an agreed date
Ordinary Shares	ordinary shares of nominal value of 1 penny each in the capital of the Company and "Ordinary Share" means any one of them
Performance Fee	the Investment Managers are entitled to an annual Performance Fee of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index, subject to a maximum Performance Fee payable in any year equal to 1.5% of the arithmetic mean of the value of assets with the valuation calculated at the end of each month during the year
Portfolio Manager	Anthony Bolton
Pre-emption rights	Section 561 of the Companies Act 2006 provides that a company which offers equity securities must first make an offer of those securities, (on the same or more favourable terms) in proportion to the nominal value held by existing shareholders
Prospectus	the Prospectus of the Company dated 7 January 2011
QFII	a Qualified Foreign Institutional Investor. The Investment Manager is a QFII and as such has been granted a QFII licence by the China Securities Regulatory Commission ("CSRC") which permits the Company to invest in China A Shares through the Investment Manager and has received an allocation of quota for onshore investment from the State Administration of Foreign Exchange of the PRC ("SAFE")
Red Chips	Red Chip is the term used to describe companies incorporated outside China but which are based in mainland China. Red Chips are listed on, and are required to observe the filing and reporting requirements of, the Hong Kong Stock Exchange. Red Chips typically have a significant portion of their business interests located in mainland China and many are owned, either directly or indirectly, by organisations or enterprises controlled by the Chinese state, provinces or municipalities
Registrar	Capita Registrars
Renminbi	currency of the PRC
Secretarial Agreement	the agreement between the Secretary and the Company regarding the provision of company secretarial and administrative services dated 25 February 2010
Secretary	FIL Investments International
Shareholders' funds	the value of the Company's assets less all its liabilities as shown in the balance sheet
Short stock exposure	the position of an investor that has sold a security or derivative that it did not own but is now committed to eventually purchase to satisfy its obligation to sell, being a strategy used to capitalise on an expected decline in the security's or derivative's price
SIPP	Self Invested Personal Pension

Glossary to the Annual Report

SORP	Statement of Recommended Practice
UCITS Directive	the European Council Directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 85/611/EEC) (as amended)
Unlisted Investment Manager	FIL Investments International
Unlisted Management Agreement	the Agreement between FIL Investments International and the Company regarding the management of the Company's unlisted investments
Unlisted securities	securities which are not listed on a regulated stock exchange

Investing in Fidelity China Special Situations PLC

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

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

INVESTING INSIDE AN ISA

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

The maximum investment in a stocks and shares ISA for the 2012/2013 tax year is £11,280. The full amount may be invested in a Stocks and Shares ISA, or you can invest up to half the ISA allowance in a Cash ISA and the balance in a Stocks and Shares ISA. The minimum investment per fund in the Fidelity ISA is £1,000 as a lump sum, £250 as a top-up, or £50 a month per company in a regular savings plan.

Charges – The standard initial charge for the Fidelity ISA is 3.5% but if you use the online application form you will pay just 1.25% initial charge. Fidelity pays stamp duty from the initial charge. There are no other charges for the Fidelity ISA, but the Company pays an annual management charge of 1.5% plus a performance related fee, as set out in the Annual Report.

MOVING MONEY FROM A PREVIOUS ISA

If you have opened ISAs with other investment companies, you can move them into the Fidelity ISA and invest in Fidelity China Special Situations PLC without losing any tax benefits. 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. Just give Fidelity a call and it will help you sort it out. Please note this offer does not apply to the share dealing service. The annual management charge is as described above in the "Investing inside an ISA" section.

INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust Share Plan offers you an alternative low cost and convenient way to put money into Fidelity China Special Situations PLC. The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month in a regular savings plan.

Holding shares within the Share Plan allows you to reinvest your dividends and make further investments without having to pay brokerage fees. You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.

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

INVESTING FOR CHILDREN

You may invest in the Company's shares on behalf of a child or grandchild using the Fidelity Junior ISA (JISA) or the Fidelity Investment Trust Share Plan. The maximum investment in a Junior ISA is £3,600 and it can only be opened by a parent or guardian. The Share Plan can be designated for the child and transferred to their name when they reach 18.

For further information on investing for children visit www.fidelity.co.uk/its

BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

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

INVESTING ONLINE

Whilst you cannot use a Debit Card online to invest through an ISA, JISA or Share Plan the application forms you need are all available via www.fidelity.co.uk/its. 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.

Investing in Fidelity China Special Situations PLC

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

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 is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by FIL Investments International. Both companies are regulated by the Financial Services Authority.

The 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.

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

Information for Investors

CONTACT INFORMATION

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

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

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

Holders of Ordinary Shares

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

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

Fidelity Share Plan investors

Fidelity Investment Trust Share Plan, PO Box 24035, 12 Blenheim Place, Edinburgh EH7 9DD. 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 Registrars, shareholders are able to manage their shareholding online by registering for the Share Portal, a free, secure, online access to your shareholding. Facilities include:

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

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

To make use of any of these facilities, please log on to the Capita Registrars website at: www.capitashareportal.com

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 Registrars 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 8.30am – 5.30pm Monday to Friday). Using Capita Share Dealing Services you will also be able to deal in the shares of other companies for which Capita acts as Registrar, provided you are already a shareholder in the relevant company, and that company offers the Share Dealing facility to its shareholders.

Dividend Reinvestment Plan

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

ShareGift

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

KEEPING YOU UPDATED

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

Warning to Shareholders

SHARE FRAUD WARNING

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

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

The Financial Services Authority (FSA) 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 FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised.
3. Use the details on the FSA Register to contact the firm.
4. Call the FSA Consumer Helpline on **0845 606 1234** if there are no contact details on the Register or you are told they are out of date.
5. Search our 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 FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0845 606 1234**.

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

0300 123 2040



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