

**FIDELITY CHINA SPECIAL SITUATIONS PLC**  
INVESTMENT TRUST PROSPECTUS



**THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.** When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank, solicitor, accountant, fund manager or other appropriately qualified independent financial adviser authorised under the Financial Services and Markets Act 2000 ("FSMA").

This document, which comprises a prospectus relating to Fidelity China Special Situations PLC (the "Company") and a circular seeking Shareholder approval for the matters summarised on pages 1 to 5 of this document and set out in full in the Notice of General Meeting on page 153, has been prepared in accordance with the Prospectus Rules made under section 84 of FSMA in order to make an offer of transferable securities to the public and to admit transferable securities to trading on the main market of the London Stock Exchange. Application has been made to the London Stock Exchange for all the C Shares which are the subject of the Issue and all the Ordinary Shares into which they convert to be admitted to trading on the London Stock Exchange's main market for listed securities. The C Shares will have a standard listing category. This document has been approved by and filed with the FSA and made available to the public in accordance with the Prospectus Rules. This document and the information herein relates expressly to the C Shares. The distribution of this document and/or accompanying documents in jurisdictions other than the UK may be restricted by law, and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

If you have sold or otherwise transferred all of your Ordinary Shares, you should send this document and the accompanying documents as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee.

The Company and its Directors, whose names appear on page 26 of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

---

# FIDELITY CHINA SPECIAL SITUATIONS PLC

(Incorporated in England and Wales with company number 07133583 and registered as an investment company under section 833 of the Companies Act 2006)

## OPEN OFFER, OFFER FOR SUBSCRIPTION AND PLACING OF UP TO 166,250,000 C SHARES AT AN ISSUE PRICE OF 100p PER C SHARE AND RELATED NOTICE OF GENERAL MEETING

Investment Managers

**FIL Investment Management (Hong Kong) Limited and FIL Investments International**

Sponsor and Placing Agent  
**Cenkos Securities plc**

---

Cenkos Securities, which is authorised and regulated by the Financial Services Authority, is acting for the Company in connection with the Open Offer, Offer for Subscription and Placing and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Cenkos Securities or for advising any such person in connection with the Open Offer, Offer for Subscription and Placing and the contents of this document. Cenkos Securities is not responsible for the contents of this document. This does not exclude or limit any responsibility which Cenkos Securities may have under FSMA or the regulatory regime established thereunder.

**Completed Application Forms and payments under the Open Offer must be received by 11 a.m. on 15 February 2011. The procedure for application and payments is set out on pages 87 to 95 of this document.**

**Completed Application Forms and payments under the Offer for Subscription must be received by 11 a.m. on 15 February 2011. The procedure for application and payments is set out on pages 156 and 157 of this document.**

**This document should be read in its entirety before making any decision whether to subscribe for the C Shares. In particular, your attention is drawn to the section headed "Risk Factors" on pages 6 to 18 of this document.**

**It is expected that Admission will become effective and that unconditional dealings in the C Shares on the London Stock Exchange's main market for listed securities will commence at 8 a.m. on 28 February 2011.**

The Issue is conditional on approval by Shareholders. Notice of General Meeting of the Company to be held at 3 p.m. on 11 February 2011 at 25 Cannon Street, London EC4M 5TA is set out on pages 153 to 155 of this document. To be valid, the enclosed Form of Proxy for use at the General Meeting must be completed and returned by Shareholders in accordance with the instructions printed on it to the Company's Registrars, Capita Registrars Limited at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible, and in any event so as to arrive no later than 3 p.m. on 9 February 2011. Completion and return of the Form of Proxy will not preclude the relevant Shareholder from attending and voting in person at the meeting should they wish to do so.

The C Shares will not be registered under the relevant laws of any country except the United Kingdom. Subject to certain exceptions, the C Shares issued under the Open Offer, Offer for Subscription or the Placing may not, directly or indirectly, be offered, sold, taken up, delivered or transferred in or into any country other than the United Kingdom or to, or for the account or benefit of, US Persons (as defined in Regulation S under the US Securities Act). The C Shares have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, and no regulatory authority has passed comment upon or endorsed the merits of the Offer for Subscription or the Placing or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The attention of Overseas Investors and other recipients of this document who are residents or citizens of any country outside the United Kingdom is drawn to the section entitled "Overseas Investors" on page 19 of this document. Potential investors should inform themselves as to (a) the possible tax consequences; (b) the legal requirements; and (c) any foreign exchange restrictions or exchange control requirements, which they might encounter under the laws of the countries of their citizenship, residence or domicile, and which might be relevant to the subscription for, holding or disposal of C Shares.

Dated: 7 January 2011

## TABLE OF CONTENTS

SUMMARY .....	1
RISK FACTORS .....	6
IMPORTANT INFORMATION .....	19
EXPECTED TIMETABLE OF PRINCIPAL EVENTS .....	24
DIRECTORS, INVESTMENT MANAGER, SECRETARY AND ADVISERS .....	26
PART I: LETTER FROM THE CHAIRMAN .....	28
PART II: INFORMATION ON THE COMPANY .....	34
PART III: CHINA AND THE INVESTMENT OPPORTUNITY .....	44
PART IV: HISTORICAL FINANCIAL INFORMATION .....	53
PART V: ISSUE ARRANGEMENTS .....	78
PART VI: DETAILS OF THE C SHARES AND THE CONVERSION RATIO .....	81
PART VII: TERMS AND CONDITIONS OF THE ISSUE .....	85
PART VIII: TAXATION .....	109
PART IX: ADDITIONAL INFORMATION .....	115
PART X: DEFINITIONS .....	144
GLOSSARY .....	151
NOTICE OF GENERAL MEETING .....	153
PROCEDURE FOR APPLICATION FOR OFFER FOR SUBSCRIPTION .....	156
APPLICATION FORM FOR OFFER FOR SUBSCRIPTION .....	159

## SUMMARY

**This summary section should be read as an introduction to the Prospectus which comprises the whole of this document. Any decision to invest in the C Shares should be based on a consideration of the Prospectus as a whole by the investor.**

**Where a claim relating to the information contained in the Prospectus is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.**

### **Introduction**

The Company proposes to issue up to 166,250,000 C Shares at a price of 100p per C Share by way of the Open Offer, Offer for Subscription and Placing.

### **The Company**

The Company is a closed-ended investment company incorporated in England and Wales on 22 January 2010. The Company carries on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company's website is [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china)

### **Investment objective**

The Company's investment objective is to achieve long-term capital growth.

### **Investment Policy — Summary**

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

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

### **Borrowing and gearing**

The Company may borrow up to 25% of NAV. Any borrowing, except for short-term liquidity purposes, will be used for investment. The Company may also use derivative instruments for gearing purposes, in which case the investment restrictions will be calculated on the basis that the Company has acquired the securities to which the derivatives are providing exposure.

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

As at 30 December 2010 the Company's borrowings were £64,722,637 and the Gross Asset Exposure £626,081,725, representing 11.53% and 111.5% of NAV respectively.

### **Background and reasons for the Issue**

On 9 November 2010, the Board announced that it was considering increasing the number of the shares in issue, subject to Shareholder approval, through a public issue of shares in which priority will be given to Shareholders. The Board considers that the issue should help meet the demand for Shares as well as benefiting the long term interests of Shareholders.

If the Issue is fully subscribed, the net proceeds will be approximately £162.1 million. The Company will invest the Net Proceeds in investments consistent with the investment objective and Investment Policy of the Company.

The Board believes that, notwithstanding the risks, China represents a compelling investment opportunity. The Issue will provide Shareholders with the opportunity to increase their investment exposure to China.

## **The Issue**

The Company is proposing to issue up to 166,250,000 C Shares in aggregate under the Issue with an aggregate value, at the Issue Price, of up to £166.25 million before fees and expenses of the Issue. The Issue will commence on the date of this document. The Ordinary Shares arising on the Conversion of C Shares will rank *pari passu* with the existing Ordinary Shares then in issue.

The costs and expenses incurred by the Company in connection with the Issue will be attributable to the C Shareholders to a maximum of 2.5% of the Issue proceeds with FIL meeting any excess. If the costs and expenses are less than 2.5% of the Issue proceeds the difference will be retained by the Company and attributed to the Ordinary Shares in issue immediately prior to Conversion.

### *Open Offer*

The Directors recognise the importance of pre-emption rights to Shareholders. Consequently the C Shares are being offered to existing Shareholders by way of the Open Offer. This offers an opportunity for Shareholders to participate in the equity raising by subscribing at the Issue Price for their Open Offer Entitlements on the basis of one C Share for every three Ordinary Shares held at the Record Date.

Non-CREST Shareholders who wish to apply for C Shares must return their Open Offer Application Form to be received by 11 a.m. on 15 February, 2011. CREST Shareholders wishing to apply for C Shares must send (or, if they are a CREST sponsored member, procure that the CREST sponsor sends) a USE Instruction to Euroclear in respect of their Open Offer Entitlements so as to settle on or before 11 a.m. on 15 February, 2011.

### *Offer for Subscription*

Shareholders wishing to apply for C Shares in excess of their Open Offer Entitlements and investors who are not Shareholders may participate in the equity raising pursuant to the Offer for Subscription.

Offer for Subscription Application Forms must be received by 11 a.m. on 15 February, 2011. Applications must be for a minimum of £1,000. Applications in excess of the minimum subscription amount must be in multiples of £1. Individual investors may apply for C Shares through their existing financial advisers or ISA or Share Plan managers.

### *Placing*

Commitments under the Placing must be received by Cenkos Securities by no later than 4:30 p.m. on 16 February, 2011. Commitments under the Placing must be for a minimum subscription amount of £50,000.

### *Basis of allocation*

The basis of allocation will be:

- (i) to each Ordinary Shareholder who applies, up to his full entitlement under Open Offer; and
- (ii) any C Shares not taken up under the Open Offer, to applicants under the Offer for Subscription or the Placing, with applications scaled back pro-rata to the extent valid applications exceed the number of C Shares not taken up under the Open Offer.

### **Conversion**

The C Shares are expected to convert into Ordinary Shares on 28 February 2011, with the number of Ordinary Shares into which each holding converts based on the Conversion Ratio.

### **Benefits of the Issue**

The Board believes that the Issue has the following principal benefits for Shareholders:

- the Open Offer provides Shareholders with the ability to acquire Shares without incurring stamp duty, dealing costs or paying the current market premium for the Shares as well as potentially receiving a small enhancement to the NAV attributable to their holding;
- the issued share capital will increase, which will help meet investor demand for Ordinary Shares and could increase the market capitalisation and liquidity of the Ordinary Shares;

- the long term prospects for investing in China are compelling; and
- an increase in the size of the Company will spread its fixed operating expenses over a larger issued share capital.

### **ISAs/SIPPs**

Shares issued pursuant to the Open Offer and the Offer for Subscription will be qualifying investments for a stocks and shares ISA. Shares acquired pursuant to the Open Offer, the Offer for Subscription and Placing may be eligible for inclusion in SIPPs.

### **Investment Managers**

The investments of the Company other than in unlisted securities are managed by FIL Investment Management (Hong Kong) Limited. Anthony Bolton leads the management team and has confirmed he intends to continue until at least April 2013. He 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 FIL 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).

The Company's investments in unlisted securities are managed by FIL Investments International which also manages the assets of four other UK investment trusts with aggregate assets under management as at 30 December 2010 (being the latest practicable date prior to the publication of this document) of approximately £1.225 billion.

Both Investment Managers are subsidiaries of FIL Limited. As at 30 December 2010, FIL had total assets under management exceeding US\$232 billion.

Under their respective Management Agreements, the Investment Managers have agreed to provide investment management services to the Company for an annual fee equal to 1.5% of the NAV. 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 valuation calculated at the end of each month during the year. Any outperformance above this cap will be carried forward. If the Company underperforms, the underperformance must be made good before any further Performance Fee becomes payable.

### **Material risk factors**

The material risk factors affecting the Company, the C Shares and Ordinary Shares which are known to the Directors are:

#### **A. General risks**

- The price of the Shares can go down as well as up and changes in economic conditions and other factors may adversely affect the Company's business and the value of the Shares.
- Although the Ordinary Shares have been trading at a premium to NAV for most of the period since Initial Listing, this premium may not continue and may never be repeated.

#### **B. Risks relating to the Company and its business**

- The Shares may be illiquid, the market price may be volatile and Shareholders may be unable to realise their Shares at the quoted market price, the prevailing NAV per Share or at all.
- The Company may be unable to invest its capital on attractive terms or to generate returns for Shareholders, and the investment strategies used may be unsuccessful under all or any market conditions.
- The calculation of the Company's NAV may be based on estimates of the value of the Company's investments, and there can be no assurance that the reported valuations of the investments will reflect actual share prices even if an investment is sold shortly after the relevant valuation date.

- The Company expects to generate negligible distributable reserves, and the level of dividends, if any, is likely to be low.
- The Company does not intend, as a matter of policy, to hedge foreign exchange exposure and, as the Company is exposed to currency risk, this could have an adverse effect upon the Company's performance and the NAV.
- Any change in the Company's tax status or in taxation legislation could result in the Company being liable for UK taxation on any realised capital gains which could affect the market value of the Shares and alter the returns to Shareholders.
- Exchange controls and withholding tax may be imposed with respect to certain of the Company's investments, reducing the income received by the Company on such investments.

#### **C. Risks relating to the Company's investments**

- The Investment Manager has been granted a QFII license 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 State Administration of Foreign Exchange of the PRC ("SAFE"). However, the quota is likely to be insufficient to allow the Company to obtain the exposure to China A Shares sought by the Investment Manager and there can be no assurance that the Investment Manager will be able to continue to satisfy the terms of the QFII license and/or maintain the QFII license.
- Derivatives may be used by the Company for efficient portfolio management and hedging and may also be used to enhance portfolio performance. The use of derivatives may lead to a higher volatility in the NAV and the Share price than might otherwise be the case.
- Certain of the financing arrangements and derivative instruments in which the Company may invest are not traded on exchanges but are instead traded between counterparties based on contractual relationships. The Company is therefore subject to the risk that a counterparty may not perform its obligations under the related contracts.
- The Company may invest in unlisted investments. Such investments, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in quoted securities and they may be more difficult to realise.

#### **D. Risks relating 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 to, among other things, the existence of greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, and more governmental limitations on foreign investment than are typically found in developed markets.
- Any depreciation of the Renminbi will decrease the value of any dividends that the Company may receive from its PRC investments and the Company's NAV, which will be quoted in Sterling.
- The tax laws, regulations and practices in the PRC are constantly changing, and they may be changed with retrospective effect, potentially disadvantaging the Company and Shareholders.
- Adverse political or economic impacts, consequences of wars, local or regional conflicts or terrorist attacks in the PRC may adversely affect the investments and profitability of the Company.

#### **E. Risks relating to Hong Kong**

- The Company's financial position could be adversely affected by economic, political and legal developments in Hong Kong.
- If the Hong Kong Dollar ceased to be pegged to the US Dollar, as has been the case since 1983, there is a risk that the value of the Hong Kong dollar, as well as the corresponding value of the Company's investments, could be subject to market movements against the US Dollar as well as against other currencies, including Sterling.

***F. Risks relating to the Investment Managers***

- The loss of key personnel, including Anthony Bolton from the Investment Manager could have an adverse effect on the Company's performance and prospects.
- FIL has other interests in China and FIL companies manage other companies, funds or accounts that may have similar investment objectives and/or policies to those of the Company. There is a risk that transactions by the Company with other entities managed by or affiliated with an Investment Manager may benefit the other entities and/or that Investment Manager to the detriment of the Company, or may be less advantageous to the Company, in either case, to an extent which is greater than would be the case if the transactions were with independent parties.

## RISK FACTORS

Potential investors should carefully consider all the information in this document, including the risks described below, and consult with their professional advisers authorised under FSMA, before deciding to invest in the Company. The Directors have identified these risks as the material risks relating to the Company and an investment in the C Shares (and the Ordinary Shares on Conversion) and the Ordinary Shares and to investing in, or being exposed to, Chinese securities and interests of which the Directors are aware as at the date of this document. Additional risks and uncertainties not presently known to the Directors, or that the Board considers immaterial, may also adversely affect the Company's business, results of operations or financial condition. If any or a combination of these following risks or any other risks materialise, the Company's business, financial condition, operational performance and the C Share price and/or the Ordinary Share price could be materially adversely affected. In that case, the trading price of the C Shares and and/or the Ordinary Shares could decline and investors could lose some or all of their investments in the Company.

### A. General risks

An investment in the Company is only suitable for persons capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which may result from the investment. Potential investors should consider with care whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them.

The typical investors for whom an investment in the Company is intended are private investors in the UK and institutional investors seeking long-term capital growth from investment in China. Private investors in the UK should consider consulting an independent financial adviser authorised under FSMA before investing.

The price of the Shares and any income derived from them can go down as well as up. Past performance is not necessarily a guide to the future.

Changes in economic conditions including, for example, interest rates, currency fluctuations, rates of inflation, industry conditions, consumer behaviour, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments and the Company's business and prospects.

### B. Risks relating to the Company and its business

#### General

The Company is intended to be an investment trust. Investment trusts aim to generate returns for shareholders by investing in other companies. However, potential investors should be aware of certain factors which apply to the Company and to investment trusts generally:

- (a) there can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objective of the Company will be achieved. The value of an investment in the Company, and the income derived from it, if any, may go down as well as up, and an investor may not get back the amount invested; and
- (b) any adverse developments affecting, or constraints on, the economy of the PRC or a fall in the value of Chinese equities or other securities (the value of which may move separately to the economy of the PRC) are each likely to have an adverse impact on the value of the Shares.

#### Shares

An investment in Shares should be seen as long-term in nature and complementary to investments in a range of other financial assets.

The Shares will at times represent a geared investment, so a movement in the market price of the Company's portfolio may result in a greater movement, unfavourable or favourable, in the market price of the Shares.

The published market price of the Shares will typically be their mid-market price. Due to the potential difference between the mid-market price of the Shares and the price at which Shares can be sold, there is no guarantee that the realisable value of the Shares will reflect their published market price.

Although the Shares are tradable securities, it is possible that there may not be a liquid market in the Shares and investors may have difficulty in selling Shares. Accordingly, Shareholders may be unable to realise their Shares at the quoted market price (or at the prevailing NAV per Share) or at all.

In the period from Initial Listing to 30 December 2010 (being the latest practicable date prior to the publication of this Notice), the Company's NAV per share increased from 99.01p to 112.55p, an increase of 13.7% and the Company's share price increased from 100p to 118p, an increase of 18.0%. On 1 November 2010, the premium reached a high of 13% and on 30 December, 2010 (being the latest practicable date before publication of this document) the premium was 4.84%. The demand for Shares can go down as well as up accordingly there can be no certainty that the levels of increase in the premium experienced since Initial Listing will be sustained in the future or that such level of premium will continue to exist at all.

The nature of the Company's investments and the use of gearing may contribute to the market price of the Shares being volatile.

#### *Investment strategies*

The success of the Company will depend, *inter alia*, on the performance of the Chinese stock and securities markets, the Chinese economy, and the Investment Manager's ability to identify and make attractive investments and to realise them in accordance with the Company's investment objective. Any factor which would make it more difficult to buy or sell investments may have an adverse effect on the success of the Company. No assurance can be given that the Company will be able to invest its capital on attractive terms or to generate returns for Shareholders, or that the strategies to be used will be successful under all or any market conditions.

A further description of risks concerning the Company's dependency on the Investment Manager is contained under the heading "Risks relating to the Investment Managers" on pages 16 to 18 of this document.

#### *Discount/Premium*

Among other factors, the price of the Shares will be affected by the interaction of supply and demand in the market as well as the NAV per Share. The market price of the Shares is therefore likely to fluctuate and may represent either a discount or a premium to the NAV per Share. This means that the Share price may go down as well as up and the Share price can fall when the NAV per Share rises, or vice versa.

The Board will regularly review the difference between the market price for the Shares and the NAV per Share, if any, and has power to take a number of actions which may, depending on prevailing conditions and circumstances, operate to manage the difference, if only in the short-term. However, there can be no guarantee that any of these powers will be exercised or that, if exercised, there will be any resulting effect on the difference.

#### *Closed-ended company*

The Company is a closed-ended company. Accordingly, Shareholders have no right to have their Shares repurchased or redeemed by the Company at any time. Shareholders wishing to realise their investment in the Company will therefore be required to dispose of their Shares to purchasers.

#### *Interest rates*

Interest rate movements may affect the level of income receivable on the Company's cash deposits and the interest payable on the Company's variable rate cash borrowings. Such movements may therefore operate to the detriment of the Company.

#### *Calculation of Net Asset Value*

In calculating the Company's daily unaudited NAV, the Secretary may rely on estimates of the values of the Company's investments. Such estimates may be unaudited and may not comply with International Financial Reporting Standards ("IFRS") or other valuation principles.

Valuation of the Company's unlisted securities and interests will normally be carried out on a semi-annual basis by the Board. The valuation of such securities and interests is inherently subjective due to the lack of their marketability and the nature of accounting practice. The calculation of the fees due to the

Investment Managers is based on valuations rather than realised gains. There can be no assurance that the reported valuations of the investments of the Company on which the fees are calculated will reflect actual share prices even if an investment is sold shortly after the relevant valuation date.

#### *Dividends and income*

The Company may pay dividends only to the extent that it has distributable revenue profits available for that purpose. Under the Articles, the Company may not pay a dividend out of its capital reserves. Under IFRS, all financing costs are split equally as between capital and income. As a result, it is expected that the Company will generate negligible distributable reserves and the level of dividends, if any, is likely to be low.

#### *Currency*

The Company's total return and balance sheet are affected by foreign exchange movements because the Company has assets and income which are denominated in Renminbi, Hong Kong Dollars, US Dollars and other foreign currencies, while the Company's base currency is Sterling. It is not the policy to hedge the underlying currencies of the holdings in the portfolio but rather to take the currency risk into consideration when making investments. Certain of the Company's borrowings and derivative transactions are in Renminbi, Hong Kong Dollars and other foreign currencies, which is likely to operate, to a certain extent, as a hedge against movements in the exchange rate between those currencies in which the Company's assets and income are denominated and the Company's base currency.

#### *UK taxation*

Any change in the Company's tax status, including failure to secure or maintain approval as an investment trust for tax purposes, or any change in taxation legislation, could result in the Company being liable for UK taxation on any capital gains it realises, which could affect the market value of the Shares, affect the Company's ability to provide returns to Shareholders, or alter the post-tax returns to Shareholders.

Commentary in this document concerning the taxation of Shareholders and the Company is based on current tax law and practice, both of which are subject to change. **If you are in any doubt as to your tax position, you should consult an appropriate independent professional adviser.**

#### *AIFM Directive*

On 11 November 2010, the European Parliament approved the AIFM Directive. This Directive is expected to be brought into force shortly with the provisions to be implemented through secondary legislation to be promulgated in each European Union Member State within the following two years. Although it is too early to be definitive as to the impact on the Company, it seems likely that there will be an increase, potentially a material increase, in the Company's governance, administration and custodian expenses. The Board and the Company's advisers will continue to monitor the progress and likely implications of the Directive.

#### *Exchange controls and withholding tax*

The Company may, from time to time, purchase investments that will subject the Company to exchange controls or withholding taxes in various jurisdictions. In the event that exchange controls or withholding taxes are imposed with respect to any of the Company's investments, the effect will generally be to reduce the return received by the Company on such investments.

#### *Financial statements*

The Company prepares its financial statements in accordance with the 2006 Act and IFRS and with the AIC Statement of Recommended Practice ("SORP") for Investment Trust Companies and Venture Capital Trusts dated January 2009. Changes in the Company's accounting policies could also adversely affect Shareholders (for example, by decreasing the Net Asset Value despite there being no change to the assets or liabilities of the Company as a result of an accounting requirement to capitalise certain fees, costs or expenses).

## *Correlation risks*

The Company's portfolio is managed without reference to the composition of any stock market index. Therefore, it is likely that there will be periods when the Company's performance will be quite unlike that of the MSCI China Index or any index (which may or may not be to the advantage of potential investors). The C Shares and/or Ordinary Shares are an unsuitable investment for those who seek investments in some way correlated to a stock market index.

## **C. Risks relating to the Company's investments**

### *QFII*

Under the prevailing regulations in the PRC, foreign investors can invest in China A Shares through institutions that have obtained QFII status in the PRC.

The Company itself is not a QFII (and does not intend to apply for a QFII licence) and therefore seeks to invest in China A Shares through a QFII investment quota obtained by the Investment Manager and one or more third parties. There can be no assurance that the Company will be able to procure sufficient QFII investment quota to meet all of its proposed investments or, in extreme circumstances, any QFII investment quota at all and has no contractual right to any QFII quota allocation.

The Investment Manager has been granted a QFII licence by the CSRC and has received an allocation of quota for onshore investment from SAFE. However, the quota is likely to be insufficient to allow the Company to obtain the exposure to China A Shares sought by the Investment Manager and there can be no assurance that the Investment Manager will be able to continue to satisfy the terms of the QFII license and/or maintain the QFII license. There can be no guarantee that the license or allocation will be maintained or renewed. In addition, there can be no assurance as to the size of the quota which the Investment Manager may have from time to time, nor as to the amount of any such quota which will be available for the benefit of the Company, nor as to the specific restrictions, repatriations or foreign currency and exchange rate rules that might apply to the Company if it seeks to utilise any QFII investment quota obtained by the Investment Manager. The Investment Manager's duties to its other clients and applicable law and regulation may restrict or remove the Company's access to any quota obtained by the Investment Manager. As a result of these matters, the Company is likely to obtain indirect exposure to China A Shares through the use of other investments including equity linked securities, derivative instruments and collective investment schemes. This may increase the cost to the Company of obtaining any such exposure and give rise to counterparty risks.

As at 30 December, 2010 (the latest practicable date prior to publication of this document), the Company had indirect exposure to QFII-related investments amounting to 9.28% of the Total Net Assets.

### *Investment restrictions, repatriation*

In accordance with the SAFE Rules, China imposes a quota on onshore investments in securities by QFIIs. Such investment quotas must be approved by SAFE. The investment quota applicable to a single QFII is between US\$50 million and US\$1 billion. A QFII may not apply for an increase of its investment quota within one year from the last approval of its investment quota by the SAFE.

QFIIs are required to fund the facility within six months upon each approval of the quota. As currently applied to the Company, QFIIs are required to obtain approval from the central SAFE for a single repatriation of funds, and to obtain approval from the local SAFE for a single repatriation of accumulated profits after an audit has been conducted by a certified public accountant firm in the PRC. These restrictions would apply to the Company pursuant to the investment quota approved by the SAFE for any third party through which indirect exposure to China A Shares is obtained. In any case, QFII restrictions on repatriation apply to the investment quota granted to the relevant third party QFII as a whole and not simply to investments made by the Company. The capacity of the Company to make investments in China A Shares and the ability to repatriate funds may be thus adversely affected by the investments, performance and/or repatriation of funds invested by utilising the QFII investment quota of third parties.

Investors should also note that direct investments in China A Shares through QFIIs are subject to compliance with the following investment restrictions currently imposed under QFII regulations in the

PRC, as amended from time to time, which apply to each foreign investor investing through QFIIs and which will affect the ability of the Company to invest in China A Shares:

- (a) shares held by each underlying foreign investor (such as the Company) which invests through QFII investment quotas in one listed company should not exceed 10% of the total outstanding shares of the listed company; and
- (b) total shares held by all underlying foreign investors (such as the Company and all other foreign investors, if any) who invest through QFII investment quotas in one listed company should not exceed 20% of the total outstanding shares of the listed company.

As there are limits on the total shares held by all underlying foreign investors in one listed company in the PRC, the capacity of the Company to make investments in China A Shares will be affected by the activities of all underlying foreign investors investing through QFIIs and QFIIs who make investments themselves.

In addition to the above investment restrictions, foreign investors who invest in China A Shares through QFIIs are subject to restrictions imposed on foreign investment in some industries, as further elaborated in the PRC Foreign Investment Industrial Guidance Catalogue. Accordingly, foreign investors who invest in China A Shares through QFIIs are only permitted to invest in sectors that are classified as open to foreign investment.

As a result of these restrictions, capital cannot flow freely into or from China A Shares. This may affect the actions which the Company or the Investment Manager is able to take in respect of the Company's portfolio and the prices which can be achieved on divestments.

#### *Currency and exchange rate*

Issuers of China B Shares and China H Shares pay dividends in US Dollars or Hong Kong Dollars. Their ability to pay dividends in US Dollars is dependent on their ability to generate sufficient revenues in US Dollars or currencies freely convertible to US Dollars. The conversion of revenues earned domestically in Renminbi may be carried out by the issuers at commercial banks permitted to conduct foreign exchange businesses in China and is subject to the restrictions of the SAFE. Under some circumstances, this may prevent the issuer from being able promptly to distribute dividends or affect the amount which may be distributed to investors such as the Company.

#### *QFII custodian and PRC brokers*

Any China A Shares or other permissible securities acquired by the Company through the QFII investment quota of a third party will be maintained by its QFII custodian, in electronic form via a securities account in such name as may be permitted or required in accordance with PRC law with China Securities Depository and Clearing Corporation Limited. The QFII custodian typically agrees with the third party QFII as to the custody, operation and management of the QFII's assets in the PRC and is responsible for providing custody services to the Company's assets and uninvested cash in the PRC. Further, the relevant third party QFII (including the Investment Manager) must use PRC brokers to execute transactions for the third party in the PRC markets.

The Company may incur losses due to the acts or omissions of the PRC brokers or the QFII custodian and will be exposed to the risk involved in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC settlement system.

#### *Developing regulatory system*

The Investment Regulations which govern investments by QFIIs in the PRC, the repatriation of funds and currency conversion are relatively new. The application and interpretation of such Investment Regulations is therefore relatively untested, and there is no certainty as to how they will be applied. The CSRC and SAFE have been given wide discretions in such Investment Regulations and there is no precedent or certainty as to how these discretion might be exercised now or in the future. At this early stage of development, the QFII Investment Regulations may be subject to further revisions in the future and there is no assurance as to whether such revisions will prejudice QFIIs or whether the QFII investment quotas (including any quota granted to the Investment Manager which is utilised by the Company) which are subject to review from time to time by the CSRC and the SAFE may be removed substantially or entirely.

### *Derivative instruments*

Derivatives may be used by the Company for efficient portfolio management and hedging purposes; to gain long exposure to equity markets, sectors or individual investments; to enhance investment returns by writing put and call options; and to take short positions in equity markets which would benefit from a fall in the relevant market price in instances where the Investment Managers believe the investment is overvalued. Derivatives may also be used to achieve the Company's investment objective (i.e. to enhance portfolio performance) and the Company may enter into derivative contracts that carry unlimited liability provided the liability to the counterparty is, on a net basis, less than 15% of gross assets of the Company. The use of derivatives may lead to a higher volatility in the NAV and Share price than might otherwise be the case and increase the investment risk in the Company's portfolio.

The Investment Managers may use one or more separate counterparties to undertake derivative transactions on behalf of the Company, and may be required to pledge collateral paid out of the property of the Company to secure the Company's obligations under such contracts. There may be a risk that the counterparty will wholly or partially fail to honour its contractual obligations regarding the return of collateral and any other payments due to the Company. In accordance with the risk management process which the Investment Managers employ to oversee and manage derivative exposures, the Investment Managers will seek to minimise such risk by only entering into transactions with counterparties that it believes to have an adequate credit rating at the time the transaction is entered into, and by ensuring that formal legal agreements covering the terms of the contract are entered into in advance. In certain circumstances, however, the Company may be unable to enforce or rely on rights and obligations arising under such agreements. In the event of bankruptcy or insolvency of a counterparty, the Company may only have the rights of a general creditor and so recovery of money owed may be slow or impossible and the Company may incur losses. The Investment Managers will assess on a continuing basis the creditworthiness of counterparties as part of its risk management process but, for the avoidance of doubt, would not be liable for any default by any counterparty (absent any negligence, recklessness, wilful default or fraud by the Investment Managers). As at 30 December 2010 (being the latest practicable date prior to the publication of this document) there were, as far as the Company is aware, no material counterparty risks.

### *Equity linked notes*

The Company may use equity linked notes ("ELNs") to gain exposure to China A Shares. ELNs and similar structured notes involve a counterparty structuring a note whose value is intended to move in line with the underlying security specified in the ELN. The holders of ELNs have no legal, beneficial or proprietary interest in or to the underlying security and have no rights to make any claim against the issuer of such underlying security. The Company is exposed to a credit risk on the counterparty, irrespective of the value of the underlying security within the note. In addition, the liquidity of an ELN or similar note can be less than that for the underlying security, a regular bond or debt instrument, and this may adversely affect either the Company's ability to sell the ELN or the price at which such a sale may be made.

The Company may invest in ELNs that reflect price appreciation/depreciation and dividend payments in respect of the underlying securities but such products may not reflect the full economic benefits of holding the underlying securities, such as voting rights at meetings of the holders of such underlying securities. Furthermore, investment through ELNs may negatively affect the performance of the Company when compared with investing directly in similar assets, because of the higher transaction costs involved. As at 30 December, 2010 (the latest practicable date prior to the publication of this document), investments in ELNs represented 9.28% of Total Net Assets.

### *Unlisted investments*

The Company may invest in unlisted investments. Such investments, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in quoted securities and they may be more difficult to realise which may materially adversely affect the Company's business, results of operations and/or financial condition.

In comparison with listed investments, unlisted companies are subject to further particular risks, including that such companies:

- (a) may be subject to a higher risk of default under financing and contractual arrangements, leading to severe adverse consequences for those companies and the value of the Company's investment in them;
- (b) may have limited financial resources and reduced access to financing sources;
- (c) may have shorter operating histories, narrower product lines and smaller market shares, rendering them more vulnerable to competitors' actions and market conditions as well as general economic downturns;
- (d) are more likely to depend on the management talents and efforts of a founder or small group of persons and, if any such persons were to cease to be involved in the management or support of such companies, this could have a material adverse impact on their business and prospects and the investment made by the Company; and
- (e) generally have less predictable operating results and may require significant additional capital to support their operations, expansion or competitive position.

Investments which are unlisted at the time of acquisition may remain unlisted and may therefore be difficult to value and/or realise. Investment in the securities of smaller companies may involve greater risks than is customarily associated with investments in larger, more established companies. In particular, such companies may often have limited product offerings, markets or financial resources and may be dependent on a small number of key individuals.

It may be particularly difficult for the Unlisted Investment Manager to obtain accurate or extensive due diligence information prior to making an unlisted investment. There can be no assurance as to the adequacy or accuracy of information provided during any due diligence exercise, and the Company may have no, or limited, recourse if such information subsequently turns out to be inaccurate.

Investments made by the Company in unlisted securities may rank behind investments made by others, which may mean that more senior ranking investors take actions outside the control of the Company which are adverse to the interests of the Company.

In addition, investment in or disposal of unlisted securities by the Company in the PRC, or the dissolving and/or liquidation of unlisted companies, are generally subject to prior approvals by and registration with government authorities in the PRC. The Company may not be able to obtain or complete such approvals and registrations in a timely manner, or at all, in respect of any investment in or disposal of unlisted securities by the Company in the PRC.

Where any foreign investment is made in the unlisted securities of a PRC company, the PRC company will become a Foreign Investment Enterprise ("FIE"). China has adopted a broad range of laws, administrative rules and regulations that govern the conduct and operations of FIEs. These laws, rules and regulations provide incentives for the flow of capital into China but also subject FIEs, and investors in FIEs, to restrictions that may not apply to domestic PRC companies. For example, FIEs may have greater difficulties, compared with domestic PRC companies, in obtaining permission to list on the Chinese Stock Exchanges.

Investments in unlisted securities cannot generally be held within the custody arrangements applied to the other investments of the Company. There is an increased risk of loss through fraud, negligence or oversight as a result. The Custodian is not responsible for losses resulting from unlisted securities being maintained outside international custody arrangements.

As at 30 December 2010 (being the latest practicable date prior to publication of this document) the Company held no investments in unlisted securities other than investments in ELNs.

#### *Counterparty risk*

Certain of the financing arrangements and derivative instruments which the Company may invest in are not traded on an exchange but will instead be traded between counterparties based on contractual relationships. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contracts. The liability of a counterparty to the Company could exceed in excess of 5% of the Net Asset Value due to market movements and changes in the values of the Company

assets and any failure by such counterparty to perform its obligations could have a material adverse effect on the Company's investments.

In the event of bankruptcy or insolvency of a counterparty, the Company may only have the rights of a general creditor and so recovery of money owed may be slow or impossible and the Company may incur losses. The Investment Managers will assess on a continuing basis the creditworthiness of counterparties as part of its risk management process but, for the avoidance of doubt, would not be liable for any default by any counterparty (absent any negligence, recklessness, wilful default or fraud by the Investment Managers).

An additional risk to the Company of using derivatives rather than traditional forms of finance or investment is that the Company will not own the underlying securities, such as, for example, Chinese equities to which the derivatives give exposure and the Company will be at risk if the counterparty defaults (whether by reason of insolvency or otherwise).

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), there were, as far as the Company is aware, no material counterparty risks.

#### **D. Risks relating to the Company's borrowing**

##### *Borrowing and gearing*

The Company has entered into an unsecured revolving facility agreement of HK\$775,000,000 with JP Morgan Chase Bank, N.A., London Branch (a summary of this agreement is set out on page 142 of Part IX (Additional Information) of this document) and may borrow further from time to time so as to enable it to use leverage to enhance returns. Borrowings may be secured against the Company's assets.

Prospective investors should be aware that, whilst the use of borrowings should enhance the NAV per Share where the value of the Company's underlying assets is rising at a greater rate than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings. In the event of a default on investments which have been acquired by the Company with borrowings, the level of losses suffered by the Company will be proportionately higher as a percentage of equity than as a percentage of assets as a function of this leverage. Further, the return on the Company's investments and the amount of cash available for distribution to Shareholders may be reduced to the extent that changes in market conditions cause the cost of these borrowings to increase relative to the income that can be derived from the Company's underlying assets.

##### *Interest rates*

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's revolving facility borrowings which may have a material adverse affect on its business.

##### *Borrowing through derivatives*

An additional risk to the Company of using derivatives rather than traditional forms of finance or investment is that the Company will not own the underlying securities, such as, for example, Chinese equities to which the derivatives give exposure and the Company will be at risk if the counterparty defaults (whether by reason of insolvency or otherwise).

#### **E. Risks relating to the PRC**

Apart from the usual investment risk, investing in the PRC is also subject to certain other inherent risks and uncertainties. The Directors have identified the risks described below as the material risks relating to the PRC of which the Directors are aware as at the date of this document. Additional risks and uncertainties relating to China not presently known to the Directors, or that the Board considers immaterial, may also materially adversely affect the Company's business, results of operations or financial condition.

##### *Emerging market risk*

Investing in an emerging market such as the PRC subjects the Company to a higher level of market risk than investment in a more developed market. Among other things, this is due 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 transparency, settlement risk, a greater risk of market shut down and the fact that more governmental limitations on foreign investment apply than is typically found in developed markets. In particular, the securities markets in the PRC are undergoing a period of growth and change which may lead to difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. In addition, there is less regulation and monitoring of Chinese securities markets and of the activities of investors, brokers and other participants than is the case in stock exchanges in more developed markets. Accordingly, issuers of securities in China are not subject to the same degree of regulation as those in other countries with respect to such matters as fraudulent and unfair trade practices, disclosure of material developments and material information, insider trading, tender offer regulation, stockholder proxy requirements, regulations regarding substantial acquisitions of shares and takeovers of companies and the requirements regarding timely disclosure of information.

#### *Political, economic and social considerations*

The PRC government has in recent years implemented economic and related social reform policies emphasising the utilisation of market forces in the development of the PRC's economy and a high level of management autonomy. However, there can be no assurance that the PRC government will continue to pursue such policies or, if it does, that those policies will continue to be successful. Any adjustment or modification of those policies may have an adverse impact on the securities markets in the PRC as well as on overseas companies which trade with or invest in the PRC.

The economy of the PRC has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government may from time to time adopt corrective measures to control inflation and restrain the rate of economic growth, which may also have an adverse impact on the capital growth and performance of the Company. Also, political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including the expropriation of assets, confiscatory taxes or nationalisation of some or all of the investments held by the underlying entities in which the Company may invest. Furthermore, a portion of the economic activity in the PRC is export-driven and so is affected by developments in the economies of the principal trading partners of the PRC. Given that the Chinese stock market has in the past experienced substantial price volatility, there is no assurance that such volatility will not occur in the future. The above factors could negatively affect the value of the investments held by the Company and the NAV per C Share and Ordinary Share.

#### *Government control of currency conversion and future movements in exchange rates*

The People's Bank of China permits the official Renminbi exchange rate to float against a basket of foreign currencies. There can be no assurance that such exchange rate will not fluctuate widely against the US Dollar or any other foreign currency in the future. Any depreciation of Renminbi will decrease the value of any dividends that the Company may receive from its PRC investments and the NAV, which will be quoted in Sterling.

#### *Legal and regulatory system*

Many of the laws and regulations in the PRC remain unclear. The PRC government is still in the process of developing a comprehensive set of laws and regulations as part of the PRC's transformation from a centrally planned economy to a more free market oriented economy. There is no assurance that any future changes in such laws and regulations or their interpretation, or the ability to enforce such laws and regulations, will not have any material adverse effect on the Company's investments in the PRC.

The securities market and the regulatory framework for the securities industry in the PRC are still at an early stage of development as compared with those of developed countries, and there may be a lower level regulatory monitoring system of the activities in an emerging securities market.

In addition, there is a lack of legal support and procedure for the recognition and enforcement of foreign court judgments in China. Furthermore, the Company cannot rely on arbitration provisions to guarantee adequate and timely compensation in the case of contract disputes. Any inability on the part of the Company to obtain enforceable judgments against other parties in contract disputes may have an adverse effect on the performance of the Company and the price of the Shares.

### *Nationalisation and expropriation*

After the foundation of the PRC in 1949, the Chinese government renounced debt obligations and nationalised private assets without compensation. There can be no assurance that the Chinese government will not take similar actions in the future. Accordingly, an investment in the Company involves the risk of a significant loss as a result of the total loss of the Company's investments in the PRC.

### *Illiquidity and potential market volatility*

The trading volumes of the markets in the PRC might be lower than those on stock exchanges in developed financial markets. This means that the Company may experience difficulty in investing in securities which trade exclusively on an exchange with low trading volumes and/or may experience difficulty in realising the value of such investments. Low turnover may also result in significant price volatility and a potential lack of liquidity.

Potential investors should note that the Chinese Stock Exchanges, on which China A Shares and China B Shares are traded, are in the process of change and development, and that their average market capitalisation and trading volumes are lower than those in more developed financial markets. This may lead to trading volatility, difficulty in the settlement and recording of transactions, difficulty in interpreting and applying relevant regulations and potential lack of liquidity due to low trading volume in the markets. The Company may be exposed to significant fluctuations in the prices of securities traded on those markets, and the value of the C Shares and the Ordinary Shares may be adversely affected if the Company has made any direct or indirect investments in such securities. There are risks that an emergency situation may arise in the market or that large price fluctuation may occur in the market, as a result of which the trading of securities may cease or may be substantially curtailed.

### *Accounting and reporting standards*

PRC companies are required to follow PRC accounting standards and practice which follow international accounting standards to a certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to PRC companies may be less rigorous than more established organisations, and there may be significant differences between financial statements prepared by accountants following the PRC accounting standards and practice and those prepared in accordance with international accounting standards. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors which may result in non-disclosure of certain material information relating to the companies in which the Company may invest.

As the disclosure and regulatory standards in the PRC are less stringent than in more developed markets, there might be substantially less publicly available information about Chinese issuers. Therefore, disclosure of certain material information may not be made, and less information may be available to the Company and other investors.

### *Corporate and securities laws*

The Company's rights with respect to its investments in China will not be governed generally by the laws of the United Kingdom but by Chinese law (or by Hong Kong law with regard to investments in China H Shares).

Legal principles relating to corporate affairs and the validity of corporate procedures, directors' fiduciary duties and liabilities and stockholders' rights often differ in the PRC from those that may apply in the United Kingdom and other common law countries. Chinese laws providing protection to investors, such as laws regarding the fiduciary duties of company officers and directors, are undeveloped and will not provide investors, such as the Company, with protection in all situations where protection would be provided in the United Kingdom. It may therefore be difficult for the Company to enforce its rights as an investor under Chinese corporate and securities laws, and it may be difficult or impossible for the Company to obtain or enforce a judgment in court.

### *Taxation in the PRC*

By investing in China A Shares, China B Shares, China H Shares and other permissible PRC investments, the Company may be subject to withholding and other taxes imposed in the PRC. The tax laws, regulations and practice in the PRC are constantly changing, and they may be changed with retrospective

effect. In particular, there is uncertainty as to whether and how capital gains on China A Shares and China H Shares are to be taxed. In addition, any provision for taxation made by the Investment Manager may be excessive or inadequate to meet final PRC tax liabilities on gains derived from the disposal of PRC investments. Consequently, the Company and Shareholders may be disadvantaged depending upon the final outcome of how such gains will be taxed.

#### *World Trade Organisation ("WTO")*

As a member of the WTO, the PRC may be required to reduce import barriers from time to time. The resultant greater exposure to foreign competition may impact the profitability of companies in the PRC. This may adversely affect the performance of the Company.

#### *International trade agreements*

The financial viability of some of the Company's investments may be affected by changes in international trade agreements between the PRC and its trading partners. This may impact the competitiveness of companies in the PRC. Investments in export-oriented industries, for example, may be affected by the introduction of tariffs and domestic industries may be exposed to foreign competition. This may adversely affect the performance of the Company.

#### *Risk relating to wars or terrorist attacks*

The PRC may suffer adverse political or economic consequences from wars, local or regional conflicts, or terrorist attacks. These matters may in turn adversely affect the investments and profitability of the Company. Any such changes may have a material adverse effect on the Company's performance.

### **F. Risks relating to Hong Kong**

#### *Economic, political and legal developments*

The Company may invest in securities listed on the Hong Kong Stock Exchange and in companies listed elsewhere which have significant interests in Hong Kong. Accordingly, the Company's financial position could be affected by economic, political and legal developments in Hong Kong. There is no assurance that such developments will not be adversely affected as a result of the exercise of sovereignty by the PRC over Hong Kong or otherwise. If there are any material adverse changes in the general economic, political and legal situation in Hong Kong, the Company's results and financial position may be adversely affected.

#### *Value of the Hong Kong Dollar*

The Hong Kong Dollar has been pegged to the US Dollar since 1983 and the Hong Kong government has repeatedly reaffirmed its commitment to this pegged exchange rate system. As a consequence of the peg, any movement in the US Dollar against other currencies will cause the Hong Kong Dollar value of the Company's investments in Hong Kong to depreciate or appreciate against such other currencies, including Sterling. If this pegged exchange rate system were to change, the value of the Hong Kong Dollar, as well as the corresponding value of the Company's Hong Kong investments, could be subject to market movements against the US Dollar as well as against other currencies, including Sterling.

#### *Hong Kong profits tax*

The Board has been advised that the Company will not have any exposure to Hong Kong profits or other taxation as a result of the activities of the Investment Manager or any other person on behalf of the Company in Hong Kong but any changes in the relevant law or regulations or their application to the Company could have a material adverse affect on the Company.

### **G. Risks relating to the Investment Managers**

#### *Dependence on the Investment Managers*

The Company has no employees and is reliant on the Investment Managers, which have significant discretion as to the implementation of the Company's Investment Policy. In particular, the Company's performance is dependent on the success of the Investment Managers' investment process (described on pages 37 and 38 of this document).

Each Investment Manager has the right to resign under the respective Management Agreement by giving not less than 12 months' written notice to the Company expiring no earlier than 25 February 2013. Such resignation, or other termination of a Management Agreement will terminate the other Management Agreement and could have an adverse effect on the Company's performance and prospects, particularly if no suitable replacement is found, although the notice period in the respective Management Agreements seeks to protect the Company from such a risk.

There can be no guarantee that Anthony Bolton or any other fund manager will remain with the Investment Manager. If the appointment of the Investment Managers is terminated, or if key personnel of either of the Investment Managers cease to be involved in the management of the Company's portfolio, there is no assurance that suitable replacements will be found. If any such matter occurs, this may have a material adverse effect on the Company's business, results of operations and/or financial condition.

#### *Investment Managers' compensation structure*

The Investment Managers are entitled to receive a Performance Fee which will be accounted for as an accrued liability by the Company, summarised in Part II (*Information on the Company*) of this document, which is calculated by reference to the performance of the NAV per Share compared with the total return on the MSCI China Index. Any increase in NAV per Share for such purposes may not be realised (and any unrealised gains may reverse) and in such circumstances the Investment Managers will be under no obligation to repay any Performance Fee earned in previous accounting periods. The Performance Fee will not be conditional upon the Company's portfolio outperforming any previous high point for its NAV.

#### *Conflicts of interest*

Many of the Company's strengths are derived from the breadth and depth of the experience and skills of the Investment Managers. However, the relationship between the Company and the Investment Managers may lead to certain conflicts of interest, as an Investment Manager may be involved in other financial, investment or professional activities, which may on occasion give rise to conflicts of interest with the Company.

In particular, the Investment Managers currently provide, and may continue to provide, investment management, investment advice or other services in relation to a number of companies, funds or accounts that may have similar investment objectives and/or policies to those of the Company and may receive ad valorem and/or performance-related fees for so doing. Each Investment Manager has other interests in China and its affiliates manage private equity investment funds. The Company may buy assets at the same time as other entities that are affiliated with or managed by an Investment Manager, co-invest with such entities, or invest with such entities in special purpose vehicles which in turn invest in investee companies. The Company may also, from time to time, buy assets from, or sell assets to, other entities that are affiliated with, advised by or managed by an Investment Manager. The Investment Manager may also have conflicts of interest in allocating investments or access to its QFII investment quota among the Company and other clients and in effecting transactions between the Company and other clients. An Investment Manager may give advice or take action with respect to such clients that differs from the advice given or actions taken with respect to the Company.

As a result of these conflicts of interest, there is a risk that transactions by the Company with other entities managed by or affiliated with an Investment Manager may benefit the other entities and/or that Investment Manager to the detriment of the Company, or may be less advantageous to the Company, in either case, to an extent which is greater than would be the case if the transactions were with independent parties.

If the Company invests in companies or other entities in which FIL (meaning for these purposes FIL Limited or any of its subsidiaries or affiliates) also invests for its own account, the Company will be exposed to the following additional risks:

- (a) FIL's investment may rank above or be on preferential terms to the investment made by the Company;
- (b) FIL may have contractual rights and/or representation on the board or other governing body of the entity in which the investment is made, giving it access to more information concerning the investment than the Company and, because of contractual or other duties of confidence, FIL may not be at liberty to share this information with the Company or the Investment Manager;

- (c) investment professionals within FIL's proprietary investment teams may be in possession of information that is material to the price of the investment and which they are not obliged to share with the Company or the Investment Managers. If such information is shared with Company or the Investment Managers, it may prevent the Company or the Investment Managers from trading in the securities of any entity in relation to which the information is material;
- (d) FIL maintains information barriers such that investment professionals within FIL's proprietary investment teams do not have an affirmative duty to share information with the Investment Managers or the Company;
- (e) certain issuers in which FIL invests may become "affiliates" of FIL as a result of an investment. In certain jurisdictions, this affiliation may prevent the Company from trading in the securities of the issuers at or near the time of, or otherwise in connection with, specific corporate actions, including an initial public offering;
- (f) the Company may invest in securities at a higher price than FIL and may sell securities at a lower price than FIL;
- (g) the valuation of the investment by FIL and the Company may be based on subjective factors and/or be on different bases and so may differ;
- (h) the investment decision made by the Investment Managers for the Company may differ from the investment decision made by the investment professionals within FIL's proprietary investment teams with respect to FIL's proprietary investment; for example (i) the Company may buy a security at or around the same time as FIL sells that security, or (ii) in cases where the Company co-invests in unlisted securities with FIL, the Company may not be able to realise the investment, either in whole or in part, unless FIL also realises its investment;
- (i) generally, it is FIL's policy not to enter into principal transactions with its clients, including the Company. From time to time, however, the Company may purchase securities from, or sell securities to, a member or members of FIL on an arm's length transaction, with the prior approval of the independent members of the Board and on terms that the Board and the Investment Managers consider fair and equitable to the Company; and
- (j) there may be conflicts relating to the allocation of investment opportunities. If the Investment Managers identify an investment opportunity for the Company before FIL elects to invest in an issuer, the internal procedures of FIL will ensure that the Company will have the first opportunity to invest. On the other hand, if FIL invests in an issuer before the Company, the Company's ability to invest in the issuer may be restricted.

Any arrangements between the Company and the Investment Manager would be subject to the rules concerning related party transactions in the Listing Rules.

#### *Litigation and claims*

Each Investment Manager, as separate legal entities, may become subject to litigation or proceedings brought by government entities or any other parties and relating to the services provided to the Company by an Investment Manager. Except to the extent that such litigation or proceedings arise from an Investment Manager's negligence, wilful default or fraud in the performance of its duties, the Investment Managers shall be indemnified by the Company in respect of all expenses and liabilities arising from such litigation or proceedings.

#### *Termination of the Management Agreements*

Termination of the Management Agreements may be slow and costly. The Management Agreements continue indefinitely until terminated and, unless terminated for the reasons set out in paragraph 10.1 of Part IX (*Additional Information*) of this document, may be terminated by the Company only by giving an Investment Manager not less than 12 months' written notice, expiring no earlier than 25 February 2013. In certain circumstances, the Company may remain obliged to pay (or procure that there is paid to) the Investment Managers the Management Fee and Performance Fee which would have been payable in respect of the 12 month notice period. These amounts, together with the amount of fees which would be payable during the same 12 month notice period to a replacement investment manager, may be a material amount. The Investment Managers are each also entitled to terminate the respective Management Agreements in certain circumstances. A summary of the Management Agreement is set out in paragraph 10.1 of Part IX (*Additional Information*) of this document.

## IMPORTANT INFORMATION

Potential investors should not treat the contents of this document as advice relating to legal, taxation, investment or any other matters. Potential investors should inform themselves as to: (a) the legal requirements within their own countries for the holding, transfer or other disposal of Shares; (b) any foreign exchange restrictions applicable to the holding, transfer or other disposal of Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the holding, transfer or other disposal of Shares. Potential investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Statements made in this document are based on the law and practice currently in force and are subject to changes therein.

### Forward looking statements

This Prospectus contains forward looking statements including, without limitation, statements containing the words "believes", "estimates", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward looking statements.

Given these uncertainties, investors are cautioned not to place any undue reliance on such forward looking statements. These forward looking statements apply only as at the date of this Prospectus. Subject to its legal and regulatory obligations (including under the Listing Rules, the Prospectus Rules, and the Disclosure and Transparency Rules), the Company expressly disclaims any obligations to update or revise any forward looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based unless required to do so by law, regulation or by any appropriate regulatory authority, including the UK Listing Authority, the Listing Rules, the Prospectus Rules, and the Disclosure and Transparency Rules.

### Overseas Investors

The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the following paragraphs which relate to the jurisdictions listed below. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the Shares to any person in any jurisdiction to whom it is unlawful to make any such offer or solicitation in any such jurisdiction.

### Notice to potential investors in the European Economic Area

In relation to each member state of the European Economic Area (other than the UK) that has implemented the Prospectus Directive (each, a "relevant member state"), an offer to the public of the Shares may not be made in that relevant member state, except that an offer to the public in that relevant member state of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that relevant member state:

- (a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or
- (b) to any legal entity that has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million and (iii) an annual net turnover of more than €50 million, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances falling within article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to article 3 of the Prospectus Directive.

Each subscriber for or purchaser of C Shares described in this document located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of article 2(1)(e) of the Prospectus Directive. For the purposes of this

provision, the expression an "offer to the public" in relation to any C Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Placing and the C Shares to be offered so as to enable a potential investor to decide to purchase or subscribe for the C Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

In the case of any C Shares being offered to a financial intermediary as that term is used in article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted to and agreed with the Company that (i) the C Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, or in circumstances in which the prior consent of the Company has been obtained to each such proposed offer or resale, or (ii) where C Shares have been acquired by it or on behalf of persons in any relevant member state other than qualified investors, the offer of those C Shares to it is not treated under the Prospectus Directive as having been made to such persons. The Company will rely upon the truth and accuracy of the foregoing representation, warranty and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Company of such fact in writing may, with the consent of the Company, be permitted to subscribe for or purchase C Shares.

#### **Notice to potential investors in Denmark**

This Prospectus has not been filed with or approved by the Danish Financial Supervisory Authority or any other regulatory authority in the Kingdom of Denmark. The C Shares in the Company have not been offered or sold and may not be offered, sold or delivered directly or indirectly in Denmark, unless in compliance with chapter 6 or chapter 12 of the Danish Act on Trading in Securities and executive orders issued pursuant thereto as amended from time to time. Accordingly, this Prospectus may not be made available nor may the C Shares otherwise be marketed and offered for sale in Denmark other than in circumstances which are deemed not to be a marketing activity or an offer to the public in Denmark.

#### **Notice to potential investors in Finland**

This Prospectus does not constitute a public offer or an advertisement of securities to the public in the Republic of Finland. The C Shares will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances which would constitute a public offering of securities under Finnish law. Any offer or sale of the C Shares in Finland shall be made under a private placement exemption pursuant to the European Council Directive 2003/71/EC, article 3(2) and the Finnish Securities Markets Act (1989/495, as amended) and any regulation made thereunder, as supplemented and amended from time to time. The C Shares cannot be subject to public trade in Finland. This Prospectus has not been approved by or notified to the Finnish Financial Supervision Authority.

#### **Notice to potential investors in France**

This Prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 and seq. of the French Code monétaire et financier and Articles 211-1 and seq. of the General Regulations of the Autorité des marchés financiers ("AMF") and has therefore not been submitted to the AMF for prior approval or otherwise. The C Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this Prospectus nor any other offering material relating to the C Shares has been distributed or caused to be distributed or will be distributed or caused to be distributed to the public in France, except to persons licensed to provide the investment service of portfolio management for the account of third parties ("personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers") and/or to "qualified investors" ("investisseurs qualifiés") (as defined in Article L.411-2, D.411-1 and D.411-2 of the French Code monétaire et financier) on the condition that no such Prospectus nor any other offering material relating to the C Shares shall be delivered by them to any person nor reproduced (in whole or in part).

Such "qualified investors" are notified that they must act for their own account in accordance with the terms set out by Article L.411-2 of the French Code monétaire et financier and by Article 211-3 of the AMF's General Regulations. No re-transfer, directly or indirectly, of the C Shares in France, other than in compliance with applicable laws and regulations and in particular those relating to a public offering

(which are, in particular, embodied in Articles L.411-1, L. 411-2, L.412-1 and L .621-8 and seq. of the French Code monétaire et financier) shall be made.

#### **Notice to potential investors in Germany**

The C Shares in the Company are not admitted for public distribution in Germany and must not be distributed within Germany by way of a public offer, public advertisement or in any similar manner. This Prospectus and any other materials relating to or describing the C Shares in the Company must not be supplied to the public in Germany and must not be disclosed to any person or entity other than the recipients hereof. The C Shares in the Company may qualify as foreign investment units within the meaning of the German Investment Tax Act in which case investors subject to taxation in Germany may be subject to punitive taxation of their investment in the C Shares under the German Investment Tax Act.

#### **Notice to potential investors in Guernsey**

C Shares in the Company may be offered directly only to those businesses holding licences under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended ("POI"), the Banking Supervision (Bailiwick of Guernsey) Law, 1994, the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000, the Insurance Business (Bailiwick of Guernsey) Law, 2002 or the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002. Private investors may be offered C Shares in the Company only by appropriately POI licensed businesses.

#### **Notice to potential investors in Hong Kong**

The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong and no action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any document issued in connection with it. You are advised to exercise caution in relation to the offer. If you are in any doubt about the contents of this Prospectus, you should obtain independent professional advice.

This Prospectus is not a prospectus under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) (the "Companies Ordinance"), and nor is it required to be authorised under section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The C Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (b) in other circumstances which do not result in this document being a "prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public with the meaning of that Ordinance.

No advertisement, invitation or document relating to the C Shares has been or will be issued in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to C Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

#### **Notice to potential investors in Ireland**

The distribution of this Prospectus and the offering or purchase of C Shares in the Company is restricted to the individual to whom this Prospectus is addressed. Accordingly, it may not be reproduced in whole or in part, nor may its contents be distributed in writing or orally to any third party, and it may be read solely by the person to whom it is addressed and his/her professional advisers.

This Prospectus may not be distributed and the C Shares may not be offered or sold otherwise than in circumstances which do not require the publication of a prospectus pursuant to article 3(2) of Directive 2003/71/EC and will not be offered or sold otherwise than in a conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (as amended).

#### **Notice to potential investors in Italy**

The offering in Italy of the C Shares in the Company has not been authorised by the Bank of Italy or notified to the Bank of Italy. Accordingly, the C Shares will not be offered in Italy and neither this

Prospectus nor any other offering material relating to the C Shares may be used, distributed or made available in Italy for the purposes of a solicitation.

#### **Notice to potential investors in Jersey**

This Prospectus may be circulated in Jersey only by persons who are registered by the Jersey Financial Services Commission in accordance with the Financial Services (Jersey) Law 1998, as amended (the "FSL") for the conduct of financial services business and the distribution of this Prospectus, or are exempt from such registration in accordance with the FSL. In addition, this Prospectus may be circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

Consent for the circulation of this Prospectus in accordance with article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, has not been sought from or given by the Jersey Financial Services Commission.

#### **Notice to potential investors in the Netherlands**

C Shares in the Company are not and will not be offered, as part of their initial distribution or at any time thereafter, in the Netherlands, unless one or both of the following apply:

- (i) the offer is made only to qualified investors within the meaning of the Dutch Financial Markets Supervision Act (the "FMSA" (Wet op het financieel toezicht)); or
- (ii) the offer is made to fewer than one hundred (100) persons, not being qualified investors as described under (i).

The Company does not require a licence pursuant to the FMSA. The Company is not supervised by the Dutch Authority for the Financial Markets on the basis of the Part "Prudential supervision of financial undertakings" or the Part "Conduct of business supervision of financial undertakings" of the FMSA. Under the FMSA, the Company and the person that offers the C Shares in the Company do not require a licence with respect to such offering and are not supervised by the Dutch Authority for the Financial Markets with respect thereto.

#### **Notice to potential investors in New Zealand**

This Prospectus is not a New Zealand prospectus or an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (or any other relevant New Zealand law). This Prospectus may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

Securities are offered to the public of New Zealand under this Prospectus in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

#### **Notice to potential investors in Norway**

This Prospectus has not been produced in accordance with the prospectus requirements laid down or with legal basis in the Norwegian Securities Trading Act or in the Norwegian Investment Fund Act. This Prospectus has not been approved or disapproved by, or registered with, the Oslo Stock Exchange, the Financial Supervisory Authority of Norway or the Norwegian Registry of Business Enterprises. The offer to participate in the subscription contained in this Prospectus is only and exclusively directed to the addressees of this offer and can not be distributed, offered or presented, either directly or indirectly, to other persons or entities domiciled in Norway without the consent of the offeror. The Company is not subject to supervision from the Norwegian supervisory authorities. Each potential investor should seek independent tax advice before any investment in the Company is made.

#### **Notice to potential investors in Portugal**

The C Shares have not and will not be offered or sold, directly or indirectly, in Portugal, except to the extent that such offers and sales do not qualify as public offerings of securities for the purposes of the Portuguese Securities Code and relevant ancillary legislation and are made in compliance with other relevant laws of Portugal. The recipients of this Prospectus and other offering materials in respect of the C Shares are qualified investors, targeted exclusively on the basis of a private placement, all as defined in and in accordance with articles 30, 109 and 110 of the Portuguese Securities Code. Accordingly, the C Shares must not be, and are not being, offered or advertised, and no offering or marketing materials

relating to the C Shares may be made available or distributed in any way that would constitute a public offer under the Portuguese Securities Code (whether at present or in the future).

#### **Notice to potential investors in the PRC**

This Prospectus has not been nor will it be approved by or registered with the relevant Chinese governmental authorities, and it does not constitute nor is it intended to constitute an offer of securities within the meaning prescribed under the PRC Securities Law or other laws and regulations of the PRC. Accordingly, this Prospectus shall not be offered or made available, nor may the C Shares be marketed or offered for sale to the general public, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan).

The C Shares in the Company may only be offered or sold to PRC investors that are authorised or qualified to be engaged in the purchase of the C Shares being offered. Potential investors in the PRC are responsible for obtaining all the relevant regulatory approvals/licences from the Chinese government by themselves, including, without limitation, those that may be required from the State Administration of Foreign Exchange, the China Banking Regulatory Commission, the Ministry of Commerce and the National Development and Reform Commission, where appropriate, and for complying with all the relevant PRC laws and regulations in subscribing for C Shares.

#### **Notice to potential investors in Spain**

The Company has not been registered with the Spanish Securities Market Commission (Comision Nacional del Mercado de Valores, "CNMV") pursuant to Spanish laws and regulations. Therefore, the C Shares in the Company may not be offered or distributed in Spain except in circumstances which do not constitute an offer of securities in Spain within the meaning of Law 24/1988, of 28 July, of the Securities Market and without complying with all legal and regulatory requirements in relation thereto. Neither this Prospectus nor any other offering material in relation to the Company has been registered with the CNMV, and therefore they are not intended for the marketing, offer or distribution of the C Shares in the Company in Spain.

#### **Notice to potential investors in Sweden**

The Company is not authorised under the Swedish Investment Funds Act (2004:46) and is not supervised by Finansinspektionen (the Swedish Financial Supervisory Authority). This Prospectus has not been nor will it be registered with or approved by Finansinspektionen (the Swedish Financial Supervisory Authority) under the Swedish Financial Instruments Trading Act (1991:980). Accordingly, this Prospectus may not be made available, nor may the C Shares offered hereunder be marketed and offered for sale, in Sweden, other than under circumstances which are deemed not to be an offer to the public in Sweden under the Swedish Financial Instruments Trading Act. Potential investors should not construe the contents of this Prospectus as legal or tax advice. This Prospectus has been prepared for marketing purposes only and should not be conceived as investment advice.

#### **Notice to potential investors in Switzerland**

The Company has not been registered with the Swiss Financial Market Supervisory Authority ("FINMA") as a foreign collective investment scheme pursuant to article 120 of the Collective Investment Schemes Act of 23 June 2006 ("CISA"). Accordingly, the C Shares may not be offered to the public in or from Switzerland, and neither this Prospectus nor any other offering materials relating to the Company may be made available through a public offering in or from Switzerland. The interests in the Company may only be offered and this Prospectus may only be distributed in or from Switzerland, by way of private placement exclusively to Qualified Investors (as defined in the CISA and its implementing ordinance).

#### **Notice to US Persons**

The C Shares are not being offered in the United States or to, or for the account or benefit of, US Persons. Every applicant for C Shares will be required to warrant to the Company that he/she is neither a US Person nor acquiring any C Shares for the account of or benefit of any US Person.

Under the Articles, the Directors have the power to require the transfer of C Shares in certain circumstances. Such power may be exercised, inter alia, (i) to prevent the Company from being in violation of, or required to register under, the US Investment Company Act of 1940 and (ii) to avoid the Company's assets being treated as "plan assets" for purposes of ERISA.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<u>2010/2011</u>
Record Date for entitlements under the Open Offer.....	<b>30 December</b>
Announcement of the Issue, publication and posting of the .....	<b>7 January</b>
Prospectus, Form of Proxy and Application Forms	
Offer for Subscription opens.....	<b>7 January</b>
Open Offer Entitlements credited to CREST stock accounts of CREST shareholders.....	<b>10 January</b>
Ex-entitlement date for the Open Offer .....	<b>10 January</b>
Last time and date for receipt of Form of Proxy .....	<b>3 p.m. on 9 February</b>
Recommended latest time for requesting withdrawal of Open Offer .....	<b>4.30 p.m. on 9 February</b>
Entitlements into CREST	
Latest time for depositing Open Offer Entitlements into CREST.....	<b>3 p.m. on 10 February</b>
Latest time and date for splitting of Open Offer Application Form.....	<b>3 p.m. on 11 February</b>
General Meeting .....	<b>3 p.m. on 11 February</b>
Last time and date for receipt of completed Open Offer Application.....	<b>11 a.m. on 15 February</b>
Forms and payment in full under the Open Offer or settlement of relevant CREST Instructions*	
Last time and date for receipt of completed Offer for Subscription .....	<b>11 a.m. on 15 February</b>
Application Forms and payment in full under the Offer for Subscription*	
Last time and date for receipt of Placing commitments*.....	<b>4:30 p.m. on 16 February</b>
Results of Issue announced.....	<b>18 February</b>
Admission of C Shares to the Official List and dealings in C Shares .....	<b>8 a.m. on 28 February</b>
commence on the London Stock Exchange	
Crediting of CREST stock accounts in respect of C Shares .....	<b>8 a.m. on 28 February</b>
Expected conversion of C Shares to Ordinary Shares.....	<b>28 February</b>
Expected admission of Ordinary Shares arising from the conversion.....	<b>8 a.m. on 1 March</b>
of C Shares to the Official List and dealings in these Ordinary Shares commence on the London Stock Exchange	
CREST stock accounts expected to be credited in respect of .....	<b>8 a.m. on 1 March</b>
Ordinary Shares arising from the Conversion	
Despatch of definitive share certificates in respect of Ordinary.....	<b>week commencing 7 March</b>
Shares issued in certificated form	

\* The Directors may, with the prior approval of Cenkos Securities, alter such date and thereby shorten or lengthen the Open Offer, Offer for Subscription and/or the Placing period, to a date no later than 15 March 2011. The Company will notify investors of any such change through the publication of a notice through a Regulatory Information Service.

The above times and/or dates may be subject to change and, in the event of such change, the revised times and or dates will be notified to Shareholders by an announcement through a regulatory information service.

All references to times in this document are to London times.

## DEALING CODES

ISIN number — C Shares: . . . . .	GB00B4PY9B85
SEDOL code — C Shares: . . . . .	B4PY9B8
Ticker — C Shares: . . . . .	FCSC
ISIN number — Ordinary Shares: . . . . .	GB00B62Z3C74
SEDOL code — Ordinary Shares: . . . . .	B62Z3C7
Ticker — Ordinary Shares: . . . . .	FCSS
ISIN number — Open Offer Entitlement: . . . . .	GB00B67W2J33
SEDOL code — Open Offer Entitlement: . . . . .	B67W2J3

## ISSUE STATISTICS

Issue Price per C Share . . . . .	100p
Initial Net Asset Value per C Share . . . . .	97.5p
Expected Net Proceeds of the Open Offer, Offer for Subscription and Placing, after costs . . . . .	£162.1 million*

\* Assuming the Issue is fully subscribed

## DIRECTORS, INVESTMENT MANAGER, SECRETARY AND ADVISERS

<b>Directors of the Company</b>	John Owen (Chairman) Nicholas Bull David Causer Douglas Naismith Peter Pleydell-Bouverie <i>all of the registered office</i>
<b>Registered office</b>	Beech Gate, Millfield Lane Lower Kingswood Tadworth Surrey KT20 6RP  Telephone: +44(0)1732 361144 Registered in England and Wales with number 07133583
<b>Investment Manager of assets other than unlisted securities</b>	FIL Investment Management (Hong Kong) Limited 7/F One International Finance Centre Central Hong Kong
<b>Company Secretary and Investment Manager of unlisted securities</b>	FIL Investments International Oakhill House 130 Tonbridge Road Hildenborough Kent TN11 9DZ
<b>Placing Agent and Sponsor</b>	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS
<b>Auditors</b>	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
<b>Registrar</b>	Capita Registrars Limited Northern House Woodsome Park, Fenay Bridge Huddersfield West Yorkshire HD8 0GA
<b>Receiving Agent</b>	Capita Registrars Limited Corporate Actions The Registry 34 Beckenham Road Beckenham, Kent BR3 4TU
<b>Custodian and principal banker</b>	JPMorgan Chase Bank N.A. (London Branch) 125 London Wall London EC2Y 5AJ

**Legal advisors to the Company**

As to English law  
Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

As to PRC law  
Jun He Law Offices  
China Resources Building, 20<sup>th</sup> floor  
8 Jianguomenbei Avenue  
Beijing 100005  
People's Republic of China

**Legal advisor to the Sponsor**

Herbert Smith LLP  
Exchange House  
Primrose Street  
London EC2A 2HS

**Hong Kong tax advisors to the Company**

BDO Limited  
25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## PART I: LETTER FROM THE CHAIRMAN

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

*Directors*

John Owen  
Nicholas Bull  
David Causer  
Douglas Naismith  
Peter Pleydell-Bouverie

7 January, 2011

To the Ordinary Shareholders

Dear Shareholders

### **Proposed Issue of C Shares**

The Board today announced that the Company intends to raise up to £162.1 million, by way of an Open Offer, Offer for Subscription and Placing of up to 166,250,000 C Shares at an issue price of 100p per C Share. This letter explains the background to and the reasons for the Issue and how investors can apply for C Shares. The C Shares are being issued at 100p per C Share and then convert into Ordinary Shares of the Company as described below. The Board is also proposing to increase the number of Ordinary Shares that the Board may allot at its discretion to the number representing 10% of the Ordinary Shares in issue following Conversion.

The proposals require the approval of Shareholders and we are accordingly convening a General Meeting to be held at 25 Cannon Street, London, EC4M 5TA at 3 p.m. on Friday, 11 February 2011 at which appropriate resolutions will be proposed to achieve this. The formal notice convening the General Meeting is set out at pages 153 to 155 of this document.

### **Background to and reasons for the Issue**

The Company was launched on 19 April 2010 with the Board having the authority to issue shares equal to 10% of the current share capital without pre-emption. On this date the Company issued 460,000,000 Ordinary Shares. Since Initial Listing, the Ordinary Shares have traded on average at a premium of over 6% to the Net Asset Value per Ordinary Share. In order to meet demand notably from regular investors, the Company issued a further 38,750,000 Ordinary Shares in the period from Initial Listing to 30 December 2010 (being the latest practicable date prior to the publication of this document).

The Board believes that, despite the risks, China represents a compelling investment opportunity. The C Share issue will provide all Shareholders with the opportunity to increase their investment exposure to China.

The Board visited China in October 2010 and met with the senior management teams of a number of companies in which the Company has invested. We were impressed by their enthusiasm, professionalism and aspirations for the future of China. The Board also had the opportunity to spend time with the investment team led by Anthony Bolton who are responsible for identifying investment opportunities and this confirmed our confidence in investing in China over the medium to long term.

I was delighted that Anthony has confirmed that he intends to continue to manage investments for the Company until at least April, 2013.

### **Performance**

Since Initial Listing, the Company has made an encouraging start, as demonstrated by the Interim Results set out in full in Part IV (Audited Interim Financial Statements) of this document.

In the period from 19 April to 30 December 2010 (being the latest practicable date prior to the publication of this Prospectus), the Company's Net Asset Value per Ordinary Share increased from

99.01p to 112.55p, an increase of 13.7%. This compares with a rise in our benchmark, the MSCI China Index, of 3.75%. In the same period, the market price of the Ordinary Shares increased from 100p to 118p, an increase of 18.0%. In the six months and the three months ending on 30 December 2010 (being the latest practicable date prior to publication of this document) the NAV of the Company increased by 21.3% and 6.8% respectively in comparison with increases in the benchmark of 8.3% and 2.3%.

The Net Asset Value of the Company was 112.55p per Share as at 30 December 2010 (being the latest practicable date prior to the publication of this document).

### **The Board's Proposals**

The Board has concluded that now is an appropriate time to expand the Company's share capital by means of a pre-emptive issue of C Shares which involves:

- an Open Offer, Offer for Subscription and Placing of C Shares to raise up to £162.1 million before expenses and at the same time authorise the Board to allot the C Shares;
- the adoption of the New Articles to provide for the rights and restrictions attaching to the C Shares; and
- an increase in the number of Ordinary Shares that can be issued by the Company without further Shareholder consent to 10% of the Ordinary Shares in issue after the C Shares have converted into Ordinary Shares.

The Ordinary Shares will be available for issue without further Shareholder consent at the discretion of the Directors. The Shares will, however, not be issued at a discount to Net Asset Value per Share but may be issued as part of the policy described under the heading "Share rating management" on pages 38 and 39 of this document.

### **Benefits of the Issue**

The Board believes that the Issue has the following principal benefits for Shareholders:

- the Open Offer provides Shareholders with the ability to acquire Shares without incurring stamp duty, dealing costs or paying the current market premium for the Share as well as potentially receiving a small enhancement to the NAV attributable to their holding;
- the issued share capital will increase, which will help meet investor demand for Ordinary Shares and could increase the market capitalisation and liquidity of the Ordinary Shares;
- the long term prospects for investing in China are compelling; and
- an increase in the size of the Company will spread its fixed operating expenses over a larger issued share capital.

The purpose of this document is to provide you with details of the Issue and its benefits. This document also includes a detailed description of the Company and information on how Shareholders (other than certain Overseas Investors) and other investors can participate in the Issue.

### **Details of the C Share Issue**

The Company is seeking to raise up to £162.1 million after fees and expenses by the issue of up to 166,250,000 C Shares at an issue price of 100p per C Share pursuant to the Open Offer, the Offer for Subscription and the Placing.

The Directors recognise the importance of pre-emption rights to Shareholders and consequently all of the C Shares are being initially offered to existing Shareholders by way of the Open Offer. The Open Offer provides an opportunity for Shareholders to participate in the fundraising by subscribing for their Open Offer Entitlements. Under the Open Offer, the Company intends to issue up to 166,250,000 C Shares at the Issue Price (representing gross proceeds of approximately £162.1 million and approximately 30 per cent. of the enlarged Ordinary Share Capital). Applications under the Open Offer are not subject to any minimum subscription requirement.

To the extent that valid applications are not received in respect of any of the C Shares under the Open Offer, such unallocated C Shares will be made available under the Offer for Subscription and under the

Placing. Applications under the Offer for Subscription must be for a minimum of £1,000. Applications in excess of the minimum subscription amount must be in multiples of £1.

Cenkos Securities has agreed, pursuant to the Placing Agreement, to use all reasonable endeavours to obtain subscribers on a non-pre-emptive basis for C Shares at the Issue Price under the Placing. Applications under the Placing may be made for any amount subject to applications being for a minimum subscription amount of £50,000 and in multiples of £1,000.

Application has been made to the UK Listing Authority and to the London Stock Exchange for all the C Shares of the Company which are the subject of the Issue to be admitted to the Official List with a standard listing and to trading on the London Stock Exchange's main market for listed securities. Application will be made for the Ordinary Shares arising on Conversion to be admitted to the Official List with a premium listing and to the London Stock Exchange for trading on its main market for listed securities.

The C Shares will be admitted to the CREST system and therefore investors will be able to hold C Shares in either certificated or uncertificated form.

It is expected that Admission will become effective and that dealings in the C Shares will commence on 28 February 2011 and that the C Shares will be converted on 1 March 2011. Thus the listing and trading of C Shares will commence at 8 a.m. on 28 February 2011, with the Ordinary Shares into which the C Shares convert being admitted to the Official List and to the London Stock Exchange for trading on its main market for listed securities from 8 a.m. on 1 March, 2011.

### **Open Offer Entitlements**

Shareholders are being offered the opportunity to subscribe at the Issue Price for any number of C Shares on the following basis:

#### **One C Share for every three Ordinary Shares**

held and registered in their name at the close of business on the Record Date.

Open Offer Entitlements will be rounded down to the nearest whole number and any fractional entitlements to C Shares will not be allocated but will be aggregated and made available under the Offer for Subscription and the Placing. The aggregate number of C Shares available for subscription pursuant to the Open Offer is 166,250,000 C Shares.

If you have sold or otherwise transferred all of your existing Ordinary Shares before the ex-entitlement date for the Open Offer (being 10 January, 2011), you are not entitled to participate in the Open Offer.

Shareholders may also subscribe for C Shares in excess of their Open Offer Entitlement in the Offer for Subscription described below.

### *Applications under the Open Offer*

Non-CREST Shareholders wishing to apply for C Shares under the Open Offer are able to do so by completing and returning the Open Offer Application Form enclosed with this document in accordance with the related instructions. The latest time and date for receipt of Open Offer Application Forms from Non-CREST Shareholders under the Open Offer is 11 a.m. on 15 February 2011 or such other later time and date as the Directors may decide but not later than 11 a.m. on 15 March 2011. If the latest time and date for receipt of Application Forms under the Open Offer is extended beyond 11 a.m. on 15 February 2011, the Company will announce this through a Regulatory Information Services.

CREST Shareholders who are CREST members wishing to apply for C Shares may do so by sending (and in the case of CREST sponsored members, by procure that their CREST sponsor sends) an USE Instruction to Euroclear in respect of their Open Offer Entitlements to settle on or before 11 a.m. on 15 February 2011. If the latest time and date for Settlement under the Open Offer for CREST Shareholders is extended beyond 11 a.m. on 15 February 2011, the Company will announce this through a Regulatory Information Services.

Applications under the Open Offer are not subject to any minimum subscription requirement.

### **Offer for Subscription and Placing**

Any C Shares that are available under the Open Offer and are not taken up by Shareholders pursuant to their Open Offer Entitlements will be made available under the Offer for Subscription and the Placing. If

applications under the Offer for Subscription and the Placing are for more C Shares than the C Shares not taken up under the Open Offer, applications will be scaled back on a pro-rata basis.

#### *Applications under the Offer for Subscription*

Investors (other than certain Overseas Investors as described further below) wishing to apply for C Shares under the Offer for Subscription are able to do so by completing and returning the Offer for Subscription Application Form at the end of this document in accordance with the related instructions.

The latest time and date for receipt of applications under the Offer for Subscription is 11 a.m. on 15 February 2011 or such later time and date as the Directors may decide but not being later than 11 a.m. on 15 March 2011. If the latest time and date for receipt of applications under the Offer for Subscription is extended beyond 11 a.m. on 15 February 2011, the Company will announce this through a Regulatory Information Service.

Cenkos Securities has agreed, pursuant to the Placing Agreement, to use all reasonable endeavours to obtain subscribers on a non-pre-emptive basis for C Shares at the Issue Price under the Placing. Applications under the Placing may be made for any amount subject to applications being for a minimum subscription amount of £50,000 and in multiples of £1,000.

#### **Dilution**

If a Shareholder does not take up his Open Offer Entitlement in full, the Shareholder's holding, as a percentage of the enlarged Share Capital, will be diluted by up to approximately 30 per cent. as a result of the Issue (on the assumption that the maximum number of C Shares are issued pursuant to the Issue).

#### **C Share portfolio and method of Conversion**

In the absence of force majeure circumstances as more particularly described in Part VI (*Details of the C Shares and the Conversion Ratio*) of this document, the Conversion Ratio for the C Shares into the Ordinary Shares will be calculated on the date of Admission. Once the Conversion Ratio has been calculated, the C Shares will convert into Ordinary Shares on the basis referred to below.

The Conversion Ratio will be 97.5% of the net proceeds of the Issue per C Share divided by the Net Asset Value per Ordinary Share. Holders of C Shares will receive such number of new Ordinary Shares as results from applying the relevant Conversion Ratio to their holdings of C Shares at the time of Conversion with new Ordinary Shares arising on Conversion to be admitted to the Official List with a premium listing and to trading on the main market of the London Stock Exchange on the business day immediately following Conversion. Fractions of Ordinary Shares arising on Conversion will not be issued to holders of C Shares but will be sold for the benefit of the holders, except that sale proceeds (net of expenses) which do not exceed £5 may be retained for the benefit of the Company. Further details concerning Conversion are contained in Part VI (*Details of the C Shares and the Conversion Ratio*) of this document.

The Ordinary Shares arising on Conversion of the C Shares will rank *pari passu* with the Ordinary Shares then in issue. No dividend will be declared from the date of this document to the date of admission of the Ordinary Shares arising on Conversion.

The attention of investors is also drawn to the summary of the Articles set out in paragraph 4 of Part IX (*Additional Information*) of this document.

#### **Costs and expenses**

The costs and expenses incurred by the Company in connection with the Issue will be attributed to the C Shareholders to a maximum of 2.5% of the Issue proceeds with FIL meeting any excess. If the costs and expenses are less than 2.5% of the Issue proceeds the difference will be retained by the Company and attributed to the Ordinary Shares in issue immediately prior to Conversion. As a result the Net Asset Value per Ordinary Share will not be diluted by the expenses of the Issue and may be potentially enhanced. On the aforementioned basis, the amount in respect of costs that will be attributed to the C shares is estimated to be £4.16 million.

#### **Taxation**

Information concerning the taxation of the Company and of Shareholders is contained in Part VIII (*Taxation*) of this document. If any potential investor is in any doubt about the tax consequences of his/her

acquiring, holding or disposing of C Shares or Ordinary Shares, he/she should seek advice from his/her own independent professional adviser.

### **Risk factors and additional information**

Your attention is drawn to the risk factors set out in this document and to the additional information set out in this document and in the Terms and Conditions of Application.

### **Actions to be taken**

#### **General Meeting**

You will find set out at the end of this document a Notice of General Meeting convening a General Meeting to be held at 25 Cannon Street, London, EC4M 5TA on Friday 11 February 2011. At the General Meeting, the Company will seek Shareholder approval, by means of a special resolution, of the following:

- to authorise an issue of up to 166,250,000 C Shares of 100p each in the capital of the Company; and
- to adopt New Articles to reflect the rights and restrictions attaching to the C Shares.

An ordinary resolution will also be proposed to increase the number of Ordinary Shares that may be allocated at the discretion of the Board, following Conversion, to the equivalent of 10% of the number of Ordinary Shares in issue at that time.

The Issue is conditional on the passing of the Resolutions

The full text of the Notice of General Meeting is set out on pages 153 to 155 (*Notice of General Meeting*) of this document.

#### **Action to be taken in respect of General Meeting**

You will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the Meeting in person, it is important that you complete and return the Form of Proxy in accordance with the instructions printed on it to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to arrive no later than 3 p.m. on 9 February 2011. Completion and return of the Form of Proxy will not preclude you from attending the Meeting in person, if you so wish and are entitled to do so.

#### **Action to be taken in respect of the Open Offer**

If you are a Non-CREST Shareholder, you will find enclosed with this document an Open Offer Application Form to apply for C Shares under the Open Offer. If you wish to take up any or all of your entitlement to C Shares under the Open Offer, you should complete the enclosed Application Form in accordance with the procedure for application set out in paragraph 4.1 of Section A of Part VII (*Terms and Conditions of the Issue*) of this document and in the Open Offer Application Form. Completed Open Offer Application Forms, accompanied by full payment in accordance with the instructions in paragraph 4.1 of Section A of Part VII (*Terms and Conditions of the Issue*) should be returned by post or by hand (during normal business hours only) to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, in either case as soon as possible and in any event so as to arrive by no later than 11 a.m. on 15 February 2011.

If you are a CREST Shareholder, no Application Form is enclosed and you will receive a credit to your appropriate stock account in CREST in respect of your Open Offer Entitlement. You should refer to the procedure for application set out in Section A of Part VII (*Terms and Conditions of the Issue*) of this document.

**The latest time for applications under the Open Offer to be received whether from Non-CREST Shareholders or from CREST Shareholders is 11 a.m. on 15 February 2011. The procedure for application and payment depends on whether, at the time at which the application and payment is made, you have an Application Form in respect of your entitlement under the Open Offer or have your Open Offer Entitlement credited to your stock account in CREST in respect of such entitlements. The procedures for application and payment are set out in Part VII (*Terms and Conditions of the Issue*) of this document. Further details also appear in the Application Forms which have been sent to Non-CREST Shareholders.**

CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer. The CREST sponsor only will be able to take the necessary action to apply under the Open Offer. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST manual for further information.

The attention of Overseas Shareholders is drawn to paragraph 6 of Section A of Part VII (*Terms and Conditions of the Issue*) of this document.

Further details of the Open Offer are set out, in the case of Non-CREST Shareholders, in the Application Form.

#### ***Actions to be taken in respect of the Offer for Subscription***

If you wish to apply for more C Shares than those available to you under the Open Offer, you are able to do so by completing and returning the Offer for Subscription Application Form, which can be found at the end of this document, in accordance with the related instructions.

**The latest time and date for receipt of applications under the Offer for Subscription is 11 a.m. on 15 February 2011 or such later time and date as the Directors may decide but not being later than 11 a.m. on 15 March 2011. If the latest time and date for receipt of applications under the Offer for Subscription is extended beyond 11 a.m. on 15 February 2011, the Company will announce this through a Regulatory Information Service. The procedure for application and payment are set out in Part VII (*Terms and Conditions of the Issue*) of this document. Further details are also available on the Offer for Subscription Application Form.**

**If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA immediately if you are in the United Kingdom or, if you are not, from another appropriately authorised independent professional adviser.**

**Shareholders should also be aware that if the Resolutions to be proposed at the General Meeting are not passed and the Admission does not take place, the Open Offer, Offer for Subscription and Placing will lapse and accordingly the net proceeds will not be received by the Company.**

#### **Voting Intention and intention to subscribe of the Manager**

The Manager has declared its intention that FIL will vote its holding of 32,000,000 Ordinary Shares (representing approximately 6.42% of the issued Ordinary Share capital) in favour of the Resolutions and take up its entitlement under the Open Offer. For those Shares held for Fidelity ISA clients and Fidelity Share Plan clients (as at 30 December 2010) 215,593,506 Ordinary Shares representing approximately 43.22% of the issued Ordinary Shares, FIL will arrange to vote those Shares in favour of the Resolutions where voting directions are not received subject to a maximum of 29.99% of the votes cast on any Resolution.

#### **Directors' intention to subscribe**

The Directors and their spouses intend to take up their entitlements by subscribing for C Shares pursuant to the Open Offer.

#### **Recommendation and voting intentions**

The Board, which has been advised by Cenkos Securities, considers that the proposals described above are in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends all Shareholders to vote in favour of the Resolutions. In providing its advice Cenkos Securities has relied upon the Directors' commercial assessment of the Issue. All the Directors intend to vote in favour of the Resolution in respect of their own beneficial holdings, which amount in aggregate to 180,400 Ordinary Shares, representing approximately 0.036 per cent. of the current issued share capital of the Company.

Yours faithfully

**John Owen CMG MBE DL**  
Chairman

## PART II: INFORMATION ON THE COMPANY

### Introduction

The Company is a closed-ended investment company incorporated in England and Wales on 22 January 2010 with the name Fidelity China Special Situations Limited, with registered number 07133583 as a company limited by Shares under the Companies Act 2006. On 24 February 2010, the Company re-registered as a public company limited by Shares with the name Fidelity China Special Situations PLC. The Shares of the Company were admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 19 April, 2010. The Company joined the FTSE 250 on 18 June 2010 and as at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company had 498,750,000 Ordinary Shares in issue which are admitted to the Official List and to trading on the Main Market of the London Stock Exchange

The Company carries on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company is a member of the Association of Investment Companies.

On 18 November 2010, the Company was awarded the 'Best New Launch' award in the 12<sup>th</sup> annual Investment Week Investment Trust of the Year Awards.

Further details about the Company are set out in Part IX (*Additional Information*) of this document. The Company's website is [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

### Investment objective

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

### Investment Policy

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

The Company may invest through equities, index linked, equity linked and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions, equity related securities, forward transactions and other interests including derivative instruments. Forward transactions and derivatives, including futures, options and contracts for difference, may be used to enhance portfolio performance as well as for efficient portfolio management and hedging. The Company may enter into derivative contracts that expose the Company to unlimited liability but only where the exposure to the counterparty, after taking into account other derivative contracts entered into with the counterparty, does not exceed 15% of Gross Assets. No single investment will, on acquisition, represent more than 15% of the portfolio value. The Investment Managers are not required to seek to ensure that the Company's cash resources are fully invested at all times. Accordingly, there may be times when the Company holds cash or money market instruments pending investment.

The Company currently invests in China A Shares through third parties (who have a QFII licence and quota) and indirectly through other investments, including equity linked securities, derivatives and collective investment schemes and is able to invest directly, through the Investment Manager's QFII license. The Company is also likely to seek exposure to China A Shares through indirect investment (which for the purposes of the investment restrictions, will be treated as investments in the underlying securities to which the indirect investment gives exposure).

### Unlisted securities

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

As at 30 December 2010 (being the latest practicable date prior to publication of this document) the Company had no investments in unlisted securities (except ELNs).

### *Borrowing and gearing policy*

The Board considers that long-term capital growth can be enhanced by the judicious use of borrowing. The Board is responsible for the level of gearing in the Company and will review the position on a regular basis.

The Company may borrow up to 25% of NAV. Any borrowing, except for short-term liquidity purposes, will be used for investment. The Company may also use derivative instruments for gearing purposes, in which case the investment restrictions will be calculated on the basis that the Company has acquired the securities to which the derivatives are providing exposure.

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

As at 30 December 2010 (being the latest practicable date prior to the publication of this document) the borrowings of the Company were £64,722,637 and the Gross Asset Exposure £626,081,725, representing 11.53% and 111.5% of NAV respectively.

### **Investment and other restrictions**

The Company will comply with the following investment restrictions:

- the Company will invest and manage its assets in accordance with the objective of spreading risk in accordance with the Investment Policy set out above;
- neither the Company nor any of its subsidiaries (if any) will conduct any trading activity which is significant in the context of its group as a whole; and
- not more than 10%, in aggregate, of the value of the Company's Gross Assets at the time of acquisition may be invested in other investment companies admitted to the Official List (including listed investment trusts), but this restriction will not apply to investments in investment companies or investment trusts which themselves have stated investment policies to invest no more than 15% of their Gross Assets in other listed investment companies (including listed investment trusts).

In order to gain and maintain approval as an investment trust in an accounting period under Chapter 4 of Part 24 of the Corporation Tax Act 2010 ("CTA 2010")<sup>1</sup>, the Company is required to operate under certain constraints. These include the following limits on investments and operations:

- the Company's interest in any one company or group will generally not, on acquisition or whenever an increase in the relevant holding is acquired, exceed 15% of the portfolio value at any time in the accounting period;
- the Company may not retain more than 15% of the income it derives from shares and securities in respect of the relevant accounting period;
- at least 70% of the Company's income must consist of income deriving from shares and securities (which does not include bank deposit income); and
- the Company may not distribute capital profits by way of dividend.

The maximum percentage limits set out in the section titled "Investment Policy" above must be applied at the time of the relevant acquisition, trade or borrowing. If any of those limits is subsequently exceeded due to changes in value of the unlisted or listed securities in the Company's portfolio, or to which the Company is otherwise exposed, or for other reasons, the Company will endeavour to rebalance its portfolio so as to be within such limits, subject to applicable law and regulation and market conditions.

### **Changes to Investment Policy**

Any material change to the Investment Policy will require the approval of the Shareholders by way of an ordinary resolution at a general meeting. The Company will promptly issue an announcement to inform Shareholders and the public of any change of its Investment Policy.

---

<sup>1</sup> Chapter 4 of Part 24 of CTA 2010 replaced Section 842 of the Income and Corporation Taxes Act 1988 from 1 April 2010. The provisions are, however, broadly equivalent.

## **Investment process**

The Board has agreed with the Investment Managers that the approach to investing the assets of the Company should build on the core investment philosophy of FIL which has developed over the last 40 years and is now at the heart of FIL's management of over US\$232 billion.

The Board, as advised by the Investment Managers, consider that long-term investment success will best be achieved for the Company through understanding the prospects for individual companies based on in-depth local research and analysis. However, China is an increasing part of the global economy, so it is important to combine local knowledge with analysis of global competitors, suppliers and customers.

The Board, as advised by the Investment Managers, considers that, in emerging markets, compelling opportunities can be identified from a rigorous, research driven approach as many companies are not researched as thoroughly as in developed markets. This emphasis on exploiting relatively under-researched companies leads the Company to invest more in smaller and mid-sized opportunities than in large companies.

The Board has instructed the Investment Managers to pick stocks that the Investment Managers find compelling and not to hold any investment simply because the issuer represents a significant proportion of its market. Similarly, the Investment Managers are not obliged to ensure that the portfolio is fully invested and may hold cash while seeking suitable investment opportunities. The Investment Managers are also permitted to sell short the stocks of companies (whether held in the portfolio or not) that it thinks will under-perform and to obtain exposure to companies through the use of derivatives.

The Board has endorsed the Investment Managers' plans to pay particular attention to the dynamics of any potential investee company and its business model, as well as to the quality of its earnings, its balance sheet and its management. Valuation and technical analysis is also to play a key role in assessing potential investments.

Before the Company makes an investment, the Investment Managers conduct detailed due diligence and research. This process typically includes meetings with management and detailed analysis of financial statements and the ownership structure. The Investment Managers focus on issues specific to the company while at the same time seeking an understanding of the broader factors, including regulatory and policy environment and competitors, suppliers or others involved in the industry.

Investments are generally made with a one or two year view and the Directors, as advised by the Investment Manager, expect the holding period to average in the order of 12 to 18 months.

## **Unlisted investments**

The investment process for the Company's unlisted investments will involve deal origination and due diligence carried out by the Unlisted Investment Manager with support from other investment professionals in FIL. Detailed company level research will be conducted as for listed investments but, in addition, further due diligence will normally take place as to management's commitment to an exit strategy, expected to be typically through an initial public offering (or "IPO"), and an assessment of the time frame in which this is likely to be achievable.

The Board has been advised that, for legal and regulatory reasons, investments in unlisted securities should not be managed by the Investment Manager. This portion of the Company's portfolio (which will not exceed 5% of Gross Assets) will be managed by the Unlisted Investment Manager.

There is no change to the services to be provided to the Company or to the aggregate fees payable by the Company as a result of there being two investment managers and the sums payable to FIL companies remain, in aggregate, as set out in the Investment Management Agreement with the Investment Manager dated 25 February 2010.

## **Dividend policy**

As the Company's objective is to achieve long-term capital growth, the Board does not expect that dividends will constitute a material element of any return to Shareholders. In order to continue to qualify as an investment trust, the Company is required by Chapter 4 of Part 24 of CTA 2010 to distribute sufficient net income so that it retains no more than 15% of the income it derives from shares and securities.

## **Foreign exchange hedging policy**

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

## **Derivative instruments**

Derivative instruments may be used for efficient portfolio management and hedging and may also be used in order to achieve the investment objective (i.e. to enhance portfolio performance). The use of derivatives may lead to a higher volatility in the NAV and Share price than would otherwise be the case.

The Company invests and manages its exposure to derivatives in a way which is consistent with the objective of spreading investment risk. The exposure is managed on a basis that would be permitted if the Company was subject to the UCITS Directive. This means that it can enter into derivative contracts that carry unlimited liability. However, this will only occur if the exposure to the counterparty, after taking into account other derivative contracts with that counterparty, is less than 15% of Gross Assets.

The Investment Manager employs a risk management process to oversee and manage exposure, which is independently audited on an annual basis.

The Investment Manager may use one or more separate counterparties to undertake derivative transactions on behalf of the Company, and may be required to pledge collateral paid out of the property of the Company in order to secure the Company's obligations under such contracts. The Investment Manager assesses on a continuing basis the creditworthiness of counterparties as part of its risk management process but, for the avoidance of doubt, is not to be liable for any default by any counterparty (in the absence of any negligence, recklessness, wilful default or fraud by the Investment Manager).

## **Valuation policy**

The NAV per Share is calculated in Sterling and published each Business Day by the Secretary. Each security in the portfolio is valued using accepted industry practice. Securities which are traded on stock exchanges are valued at the last available bid price at the time the valuation is carried out. Unlisted investments are valued by the Directors at fair value, normally on a semi-annual basis.

FIL has a range of fair value policies that are set and monitored by its fair value committee. The policies include determining the value of a single security because a price is unavailable as a result of a corporate action, or because the security is unlisted or its listing is suspended.

The calculation of the NAV per Share is suspended only in circumstances where the underlying data necessary to value the investments of the Company cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.

## **Management of conflicts of interest**

### *Other clients of FIL*

The Investment Managers may be involved in other financial, investment, or professional activities that may on occasion give rise to conflicts of interest with the Company. In particular, the Investment Managers currently provide, and may continue to provide, investment management, investment advice or other services in relation to a number of companies, funds or accounts that may have similar investment objectives and/or policies to those of the Company and may receive ad valorem and/or performance-related fees for so doing.

The Investment Manager may have conflicts of interest in allocating investments or access to its QFII investment quota among the Company and other clients and in effecting transactions between the Company and other clients. The Investment Managers may give advice or take action with respect to such clients that differs from the advice given or actions taken with respect to the Company.

#### *FIL's own account investments*

FIL also invests on its own account in private equity and other investments worldwide and has its own private equity and other investment professionals advising on proprietary investments, primarily for FIL, in China, Hong Kong, India and Europe (including the UK). FIL has adopted a conflicts of interest policy for the purpose of seeking, amongst other matters, to maintain and to operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of its clients, including the Company.

Under the Management Agreement, where a transaction is intended to be effected by the Investment Manager for or on behalf of the Company and there is a potential conflict between the interests of the Investment Manager or its affiliates or their respective directors, officers or employees and either (i) the interests of the Company, or (ii) the duty owed by the Investment Manager to the Company and, in any case, of which any of the individuals directly responsible for the performance of the Investment Manager's services to the Company under the Management Agreement is actually aware, then the Investment Manager will:

- use all reasonable endeavours to ensure that the terms of any relevant transaction are no less favourable to the Company than if the conflict had not existed (or, if applicable, that the terms do not place the Company in a less favourable position than if the conflict had not existed);
- disclose to the Company all relevant details of each potential conflict;
- require the independent members of the Board to approve such transaction by majority resolution of those independent Directors attending a duly convened meeting of the Board or by the prior written consent of a majority of the independent members of the Board before effecting such transaction; and
- comply with all applicable legal and regulatory rules and requirements, including the Listing Rules.

Subject to the above and to the overriding principles that investments of the Company be suitable for its investment objective and Investment Policy and comply with the terms of the Management Agreement, the Investment Manager and any of its affiliates may recommend and/or effect transactions in which, or provide services in circumstances where, the Investment Manager or any of its affiliates has, directly or indirectly, a material interest in or a relationship of any description with another party which may involve a potential conflict with the interests of the Company and/or the Investment Manager's duty to the Company.

In addition, subject to the provisions of the Management Agreement summarised above and in paragraph 10.1 of Part IX (*Additional Information*) of this document, neither the Investment Manager nor any of its associates will be liable to account to the Company for any profit, commission or remuneration made or received from or by reason of any such transactions or any connected transactions and the Investment Manager's fees will not, unless otherwise provided, be reduced thereby.

#### **Share rating management**

##### *Premium management*

In the event that the Shares trade at a premium to NAV, the Company may issue new Shares. Any such issue of new Shares will be made pursuant to the Directors' authority to issue new Shares free from pre-emption rights (provided that such authority has been renewed by the Shareholders). Shares may be issued without the publication of a prospectus in accordance with exemptions set out in the Prospectus Rules, which currently allow for the issue of shares representing, over a period of 12 months, less than 10% of the number of shares of the same class already admitted to trading on the same regulated market, provided that such issue is not made by way of an offer of the Company's securities to the public.

From Initial Listing on 19 April 2010 until 30 December 2010, the Board issued 38,750,000 Ordinary Shares at an average premium of over 6% to the published NAV. Further details of these issues are set out in paragraph 3.4 of Part IX (*Additional Information*) on pages 115 and 116 of this document.

**Investors should note that the issuance of new Shares is entirely at the discretion of the Board, and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions or as to the proportion of new Shares that may be issued.**

### *Discount control*

The Company will seek to address any significant imbalance between the supply of and demand for Shares in the secondary market and to manage the discount to the NAV at which its Shares may be trading by purchasing its own Shares in the market on an ad hoc basis, or by exercising its discretion to operate tender offers no more than twice in any 12 month period, further details of which are below.

#### *Purchases of Shares by the Company*

The Company may purchase Shares in the market at prices which represent a discount to the prevailing NAV per Share so as to enhance the NAV per Share for the remaining holders of Shares. The share premium account arising on the initial issue of Ordinary Shares was cancelled, with the approval of the High Court, on 21 April 2010 and this has created a reserve of £452 million which may be used for purchasing Shares.

A special resolution granting the Company authority to make market purchases of up to 14.99% of its own issued Shares was passed on 19 February 2010. The maximum price (exclusive of expenses) which may be paid for a Share must not be more than the higher of (i) 5% above the average of the mid-market values of the Shares for the five Business Days before the purchase is made, or (ii) the higher of the price of the last independent trade and the highest current independent bid for the Shares. In addition, Shares will be repurchased only at prices below the NAV per Share, which should have the effect of increasing the NAV per Share for remaining Shareholders.

A renewal of the authority to make market purchases will be sought from Shareholders at each annual general meeting of the Company. Purchases of Shares will be made within guidelines established from time to time by the Board. Any purchase of Shares would be made only out of the available cash resources of the Company (excluding borrowed monies). Shares purchased by the Company will be cancelled.

Purchases of Shares may be made only in accordance with the 2006 Act, the Listing Rules, and the Disclosure and Transparency Rules.

#### *Tender offers*

The Directors have the discretion to implement tender offers of up to 15% of the Shares then in issue, no more than twice in any 12 month period. Subject to certain limitations (set out below) and to the Directors exercising their discretion to operate any tender offer, Shareholders may tender for purchase all or part of their holdings of Shares at a price equal to the prevailing NAV per Share less a discount of no more than 5%.

Implementation of tender offers will be subject to prior Shareholder approval. However, resolutions have been passed granting the Directors authority to implement the first two tender offers, should they decide to exercise their discretion to do so (as at 30 December 2010 (being the latest practicable date prior to the publication of this document), there had been no tender offer made). The terms and conditions upon which it is intended any tender offer will be implemented and a description of the detailed mechanics will be included in a circular which will be sent to Shareholders at the time of any such tender offer.

**Investors should note that the operation of the regular tender offers is entirely at the discretion of the Board, and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions or as to the proportion of Shares that may be tendered. In addition, in accordance with the 2006 Act, Shares may be repurchased only out of the proceeds of a fresh issue of Shares made for the purpose or out of distributable profits.**

### **Management of the Company**

#### ***The Board***

The Directors are responsible for determining the Company's Investment Policy and have overall responsibility for the Company's activities.

All of the Directors are non-executive and all except Douglas Naismith are independent of the Investment Manager. Douglas Naismith is an employee of a FIL company.

*John Owen CMG MBE DL (Chairman)*

John Owen, aged 71, is an independent non-executive Director and the Chairman of the Company. John has enjoyed careers in both the diplomatic service and industry. He served in the diplomatic service for thirty years until his retirement in 1999, serving in Indonesia, Vietnam, France, El Salvador, Iran, Brazil, China and London. John 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.

John 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.

John is also chairman of the Friends of Cayman in London. He is an Honorary Fellow of the University of Wales. He is also a Deputy Lieutenant of the County of Isle of Wight.

*Nicholas Bull*

Nicholas Bull, aged 58, is an independent non-executive Director and the senior independent Director. He is the chairman of Smith's Corporate Advisory Limited and a non-executive director of its parent company, Westhouse Holdings PLC, which is listed on AIM and he is also an independent director of the hotel business De Vere group. Previously Nicholas has worked for over 30 years as a corporate finance practitioner with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO in London, Sydney, Singapore and Hong Kong.

He is a qualified chartered accountant, and a member of Council of the University of Exeter.

*David Causer*

David Causer, aged 60, is an independent non-executive Director and is chairman of the Audit Committee. David is a non-executive director and audit committee chairman of Schroder Income Growth Fund plc, an investment trust listed on the London Stock Exchange. He is a qualified chartered accountant and a member of the Securities Institute.

David 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.

*Douglas Naismith*

Douglas Naismith, aged 50, is a non-executive Director. He is managing director of the UK Institutional Group and of the European Product Group at FIL. In addition, he is chief executive of FIL Pensions Management and FIL Investment Advisors (UK) Limited and a director of FIL Life Insurance Limited and a member of the Supervisory Board of Fidelity Investissements S.A.S..

Douglas has spent 27 years in asset management, eleven of which he has spent at FIL, joining the Hong Kong office in 1998 as a senior director and regional institutional head. In 2001, Douglas was appointed as managing director for FIL's South East Asia operations. He then spent a further four years in Hong Kong before returning to the UK to take up a position as head of UK and European direct retail businesses in 2005. Before taking up his current role, Douglas also managed FIL's European and UK defined contribution businesses.

*The Hon. Peter Pleydell-Bouverie DL*

Peter Pleydell-Bouverie, aged 52, is an independent non-executive Director. He 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, Peter spent ten years with FIL where he was investment director until 1996, managing Japanese-focused unit trusts (including Japan Special Situations Trust), offshore funds, pension funds and the Fidelity Emerging Markets Fund.

Prior to his time with FIL, Peter 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.

### **Administration and secretarial arrangements**

Under the Secretarial Agreement, FIL Investments International (a FIL company) provides services of a company secretarial, accounting and administrative nature including determining and calculating the Net Asset Value. FIL Investments International receives an annual fee based on the services provided of up to £600,000 (plus an amount equal to any applicable VAT).

### **Investment Managers**

Both the Investment Manager and the Unlisted Investment Manager are subsidiaries of FIL Limited. As at 30 December 2010 (being the latest practicable date prior to the publication of this document), FIL had total assets under management exceeding US\$232 billion.

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. Investment professionals are also to be found across the region in Mumbai, Seoul, Singapore, Sydney, Taipei and Tokyo.

Anthony Bolton leads the management team at the Investment Manager and has confirmed his intention to continue until at least April 2013. He 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 FIL 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).

Anthony Bolton has joined the team of portfolio managers within the Hong Kong office which is dedicated to investing in Chinese equities, supported by specialist research analysts and traders.

Since the launch of the Company Anthony Bolton has met with over 150 companies. These meetings are an integral part of the investment process, but the Investment Manager supplements these with other sources of information and so time has also been spent building up a network of these types of resource. The Investment Manager has established about 20 broker relationships for the Company and these provide a wide range of information to augment the FIL in-house analyst input. While there is considerable research into China at the macro level, with much commentary on the wider economy and policy, there is less coverage of companies, with some small companies not yet the subject of analysis or research.

The Unlisted Investment Manager manages the assets of four other UK investment trusts with aggregate assets under management as at 30 December 2010 (being the latest practicable date prior to the publication of this document) of approximately £1.225 billion.

### **Management Fee and Performance Fee**

The Company and the Investment Manager have entered into the Management Agreement under which the Investment Manager has been given responsibility for the day-to-day discretionary management of the Company's assets, other than unlisted securities, in accordance with the Company's Investment Policy, subject to the overall supervision of the Board.

Under the Management Agreement the Investment Manager has agreed to provide investment management services for an annual fee equal to 1.5% of the NAV (excluding investments in unlisted securities and in other funds managed by the Investment Manager or associated companies, with the exception of Fidelity Institutional Liquidity Fund plc and any other money market fund of which the Investment Manager, or any of its associates, is the manager) payable quarterly in arrear and calculated as of the last Business Day of March, June, September and December in each year.

Under the Unlisted Management Agreement, the Unlisted Investment Manager has agreed to provide similar services in respect of the Company's holdings of unlisted securities for the same annual fee, but allocated by reference to the Net Asset Value of the unlisted securities portfolio.

In addition, the Investment Managers are entitled to an aggregate 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 valuation calculated at the end of each month during the year. Any outperformance above this cap will be carried forward. If the Company underperforms 2% above the

returns on the MSCI China Index in any year, the underperformance must be made good before any further Performance Fee becomes payable in future years. Both the NAV and the MSCI China Index will be calculated on a total return basis, while the NAV will be based on the weighted average number of Shares in issue. The split of the Performance Fee between the Investment Manager and the Unlisted Investment Manager (each of which is a subsidiary of FIL) is calculated on a basis that reflects the relative performance of the two portfolios.

Each Management Agreement will continue unless and until terminated by either party giving to the other not less than twelve months' notice in writing expiring no earlier than the third anniversary of the Management Agreement. Either Management Agreement may also be terminated forthwith as a result of a material breach of either of the Management Agreements or on the insolvency of either Investment Manager.

Full details of the fees provided for by the Management Agreement are contained in paragraph 10.1 of Part IX (Additional Information) of this document.

#### ***FIL in China***

FIL has a number of existing funds focused on investing into China, including the China Focus Fund, Greater China Fund and China Opportunities Fund within its Luxembourg-based Fidelity Funds SICAV.

The FIL approach to investing in China is the same as in the other markets in which it invests its client assets: long-term investment success is best achieved by understanding the prospects of individual companies. Resource is targeted to combine the local "on the ground" knowledge with worldwide analysis of competitors, suppliers and customers, to form a view of each investment opportunity.

The team of dedicated portfolio managers (which includes Anthony Bolton), research analysts and traders dedicated to investing in China from within FIL's Hong Kong office can also draw upon the resource of other FIL portfolio managers and analysts covering the Asia Pacific ex-Japan region and of the global team of FIL's and its affiliates' investment professionals.

FIL has regional industry analysts, who cover some of the bigger stocks in China on an industry basis, as well as seven analysts dedicated purely to following other Chinese companies. There are four individual portfolio managers, with responsibility for investment funds that invest in China, and a number of other managers running regional funds that invest in China. This provides detailed knowledge of the companies and sectors.

The approach has already proved successful in managing Chinese equities. FIL manages US\$20 billion of Chinese and China-related equity assets, including existing open ended funds. The flagship retail fund, Fidelity Funds China Focus Fund, is ranked amongst the top quartile of its peer group over the period since its launch in 2003 to 30 December 2010 (being the latest practicable date prior to publication of this document) when its NAV was US\$4.18 billion.

In addition, FIL has gained experience of the specialist Chinese venture capital and private equity markets through proprietary investments since 1996.

#### ***Registrar and Receiving Agent***

Capita Registrars Limited has been appointed Registrar to the Company and the Receiving Agent in respect of the Issue.

#### ***Custodian***

The Company has entered into the Custody Agreement with JPMorgan Chase Bank N.A. (London Branch) pursuant to which the Custodian is entrusted with the safe custody of the assets of the Company. The Custodian carries out all usual duties relating to cash and securities and, in addition, may delegate such duties to sub-custodians. The Custodian is required to use reasonable care in the selection and appointment of sub-custodians. The Custodian does not provide custodian services in respect of investments in unlisted securities which are not acquired or dealt in through international clearance and settlement systems but will provide assistance in relation to the custody of such investments, including the safe-keeping of certificates where practicable.

### ***Financial statements and reports to Shareholders***

The Company's annual report and financial statements is prepared up to 31 March each year. The Company's AGM will be held in July of each year commencing in 2011. The financial statements of the Company are drawn up in Sterling and prepared in accordance with IFRS and the AIC Statement of Recommended Practice (SORP) for Investment Trust Companies and Venture Capital Trusts dated January 2009. IFRS, the SORP and the resulting accounting treatments are subject to change and this may have an effect on the Company's calculation of NAV.

### **Taxation**

The attention of Shareholders is drawn to the summary of tax matters set out in Part VIII (Taxation) of this document. Shareholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

### **Net proceeds from the Issue**

If the Open Offer, Offer for Subscription and Placing of C Shares are fully subscribed, the net proceeds will be approximately £162.1 million. The Company will invest the Net Proceeds of the C Shares in investments consistent with the investment objective and Investment Policy of the Company. The Issue is expected to be earnings per Share neutral.

If the Issue had occurred on 30 September 2010 the Company's assets would have increased by an amount equal to the net proceeds of the Issue and the net liabilities would have remained the same.

### **ISAs/SIPPs**

Shares issued pursuant to the Open Offer and Offer for Subscription will be qualifying investments for a stocks and shares ISA. C Shares acquired pursuant to the Open Offer, Offer for Subscription and Placing may be eligible for inclusion in SIPPs. Potential investors wishing to include C Shares in SIPPs should seek independent confirmation of their eligibility from their professional tax or financial advisers after taking into account the rules of their schemes.

### PART III: CHINA AND THE INVESTMENT OPPORTUNITY

*The Company confirms that the statistical information extracted from third party sources in this Part has been accurately reproduced and, so far as the Company is aware, no facts have been omitted which would render the reproduced information inaccurate or misleading. Sources for the information set out in this Part III are set out in the paragraph 23 in Part IX (Additional Information) of this document.*

#### **Why invest in China?**

Since the introduction of economic reforms more than 30 years ago, China's relative importance to the global economy has increased dramatically. In recent years it has experienced rapid growth in GDP, consumption, infrastructure spending and exports. The Directors, as advised by the Investment Manager, believe that the growth of the Chinese economy should provide a supportive environment for equity investors, especially as China's global economic importance is not reflected in the relative size of its stock markets.

China's economy has already taken significant steps up the economic value chain (by which is meant a structural shift from a raw materials-based economy to a manufacturing and service-based economy), with an increasing proportion of manufactured goods in its exports and the development of newer industries such as pharmaceuticals.

The Directors, as advised by the Investment Manager, believe that China's economic growth is likely to be driven by a combination of infrastructure spending, exports and higher domestic consumption; that growth in consumer spending is likely to be more complex than simply an increasingly affluent population purchasing more consumer goods, with, in particular, relatively greater growth in the services sector. Against this complex and changing economic backdrop, the Company benefits from FIL's research resources to underpin stock selection.

Although there is no proven relationship between GDP growth and investment performance, the Directors, as advised by the Investment Manager, believe that the growth in China could be rewarding for investors. The challenges and opportunities that may accompany the country's economic development are likely to result in a wide range of outcomes for companies operating in China - winners and losers will emerge which a research-led investment approach should be well-placed to identify. This range of outcomes, combined with the relative absence of research typical of an emerging market, will provide a positive environment for the fundamentals-driven, active portfolio management with which the Investment Manager is to approach the unfolding investment opportunity.

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the majority of the portfolio comprised medium and smaller capitalisation stocks, with less than 30% of the portfolio at this date invested in stocks with a market capitalization of more than US\$5bn. The Directors have been advised by the Investment Manager that they can expect that the portfolio will continue to be balanced in this way for at least the immediate quarter.

#### ***The economic case for investing in China***

China's economy has developed rapidly since Chinese premier Deng Xiaoping introduced a programme of free-market reforms in 1978. It has been transformed over the past 32 years from a centrally-planned system to a more market-oriented economy. It is now a leading contributor to global economic growth. Between 1978 and 2008 China's GDP increased by more than 80 times.

<b>Some key facts about China</b>	
Population: 1.3bn Land Area: 9.6m sq km 2009 GDP: US\$4.98 trillion 2009 GDP per capita: US\$6,700 Urban population: 43% Literacy: 91.6%	Arable land: 14.9% Population aged over 65: 8.1% Life expectancy at birth: 74.5 years 2009 Labour force: 813.5 million Oil consumption: 8.2 million barrels/day Airports: 502

Source: CIA World Factbook – website

Note: The above figures are approximate and use the latest annual estimates.

China overtook Japan to become the world's second-largest economy in terms of GDP, behind the US, in the second quarter of 2010. Forecasts for when China might overtake the US to become the world's biggest economy in terms of GDP vary, but the Directors believe that a transfer of global economic leadership is foreseeable.

China has achieved its economic ranking with a combination of a centrally-planned one-party state and the introduction of free-market reforms. With a population of approximately 1.33 billion, China is the world's most populous nation and its economic growth has had consequences from the US bond market, where China is the largest foreign holder of US sovereign debt, to the commodity markets, in which it is one of the most significant purchasers of many raw materials.

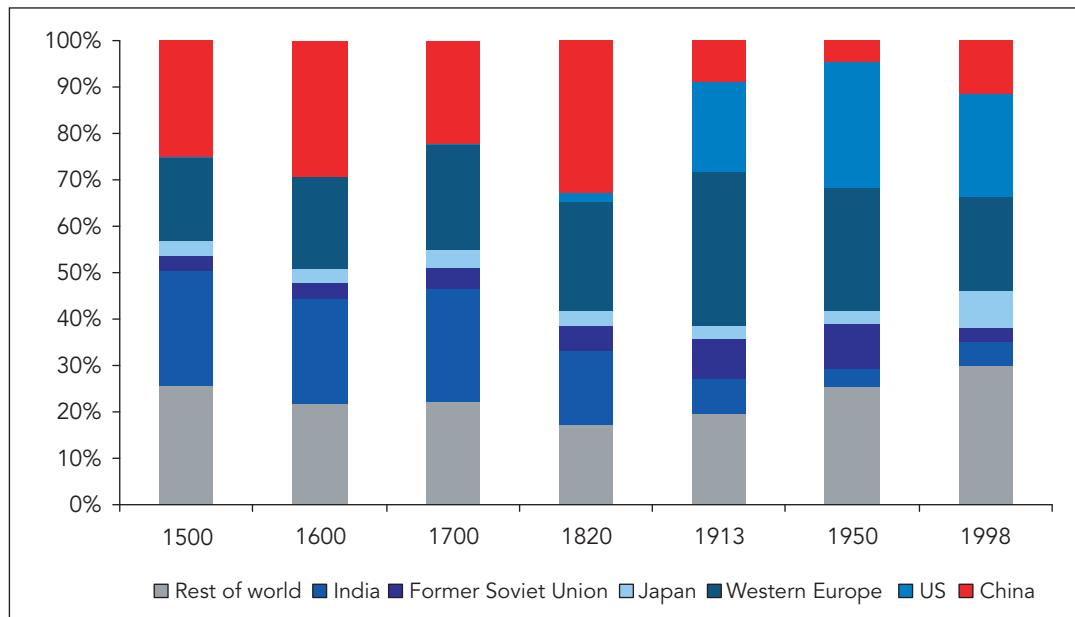
Over the past two decades China's economy has grown by an average of 9.9% per annum and the IMF has estimated that China contributed 27% of global growth in 2008. Furthermore, as the developed world struggled with recession in 2009, the Chinese economy grew by more than 9%. There was a significant expansion of credit in 2009, which probably contributed to the improvement in the global economy after the financial crisis. The Chinese authorities, towards the end of the year and in 2010, reined back borrowing through a series of measures, including telling the banking sector to restrict lending and limiting the size of loans that could be made available.

China's GDP nearly quadrupled between the end of 2000 and the end of 2009 in US\$ terms, from US\$1.2 trillion to US\$5.0 trillion. Over the same period, the value of US GDP increased by approximately US\$4.1 trillion, from US\$10.0 trillion to US\$14.1 trillion. On this basis, China's contribution to global GDP growth over the nine year period was over 80% of the contribution of the US, despite China's economy starting the period less than one-eighth the size of the US economy. China's contribution to global GDP since 2000 can be expressed as the equivalent of adding more than one and a half times the UK's 2009 GDP and three times the 2009 GDP of India.

Between 2000 and 2010 the value of the Chinese currency appreciated against the US\$, rising from a low of 8.28 Renminbi to the US\$ in 2000 to 6.60 Renminbi to the US\$ in 2010. As at 30 December 2010 (being the latest practicable date prior to the publication of this document) the exchange rate was 6.60083 Renminbi to the US\$.

The Directors consider that if the Chinese economy were to become the world's largest economy (in terms of GDP), this would represent a return to the leading position China held prior to the European and then US acceleration in economic growth during the 19th and 20th centuries, as the chart below illustrates.

**Changing Share of Global GDP**



Source: OECD

Modern economic reform in China started in the late 1970s with the phasing out of collectivised agriculture, and has since expanded to include the gradual liberalisation of prices, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets,

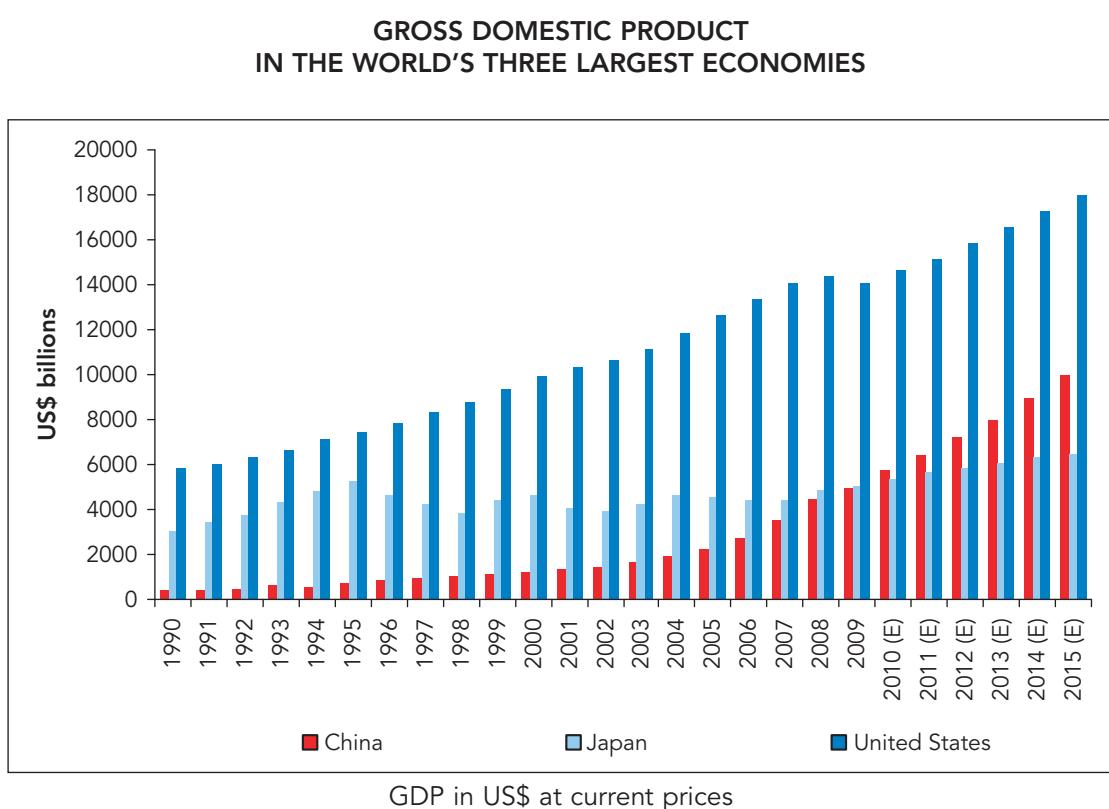
the rapid growth of the non-state sector and the opening up of the Chinese economy to foreign trade and investment. As at the end of 2009, the stock of foreign direct investment into China was estimated to be over US\$456bn. Progressive development has created a balanced economy, with a relatively minor dependence on agriculture compared to manufacturing and services.

Chinese economy by sector	
Primary industry (agriculture)	10.3%
Secondary industry (manufacturing)	46.3%
Tertiary industry (services)	43.4%

Source: CIA World Factbook

### Rapidly growing GDP

China's economy overtook that of Japan's during the second quarter of 2010, becoming second only to the United States in terms of GDP, as the chart below illustrates. Although the US economy remains larger than China's, the rate of growth of China's GDP has been forecast to be significantly greater over the next five years.



Source: IMF World Economic Outlook, October 2010

Real GDP growth in China has been strong for many years.

Real GDP, annual % change										
1991-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>2</sup>
10.4 <sup>1</sup>	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0	9.1	10.5

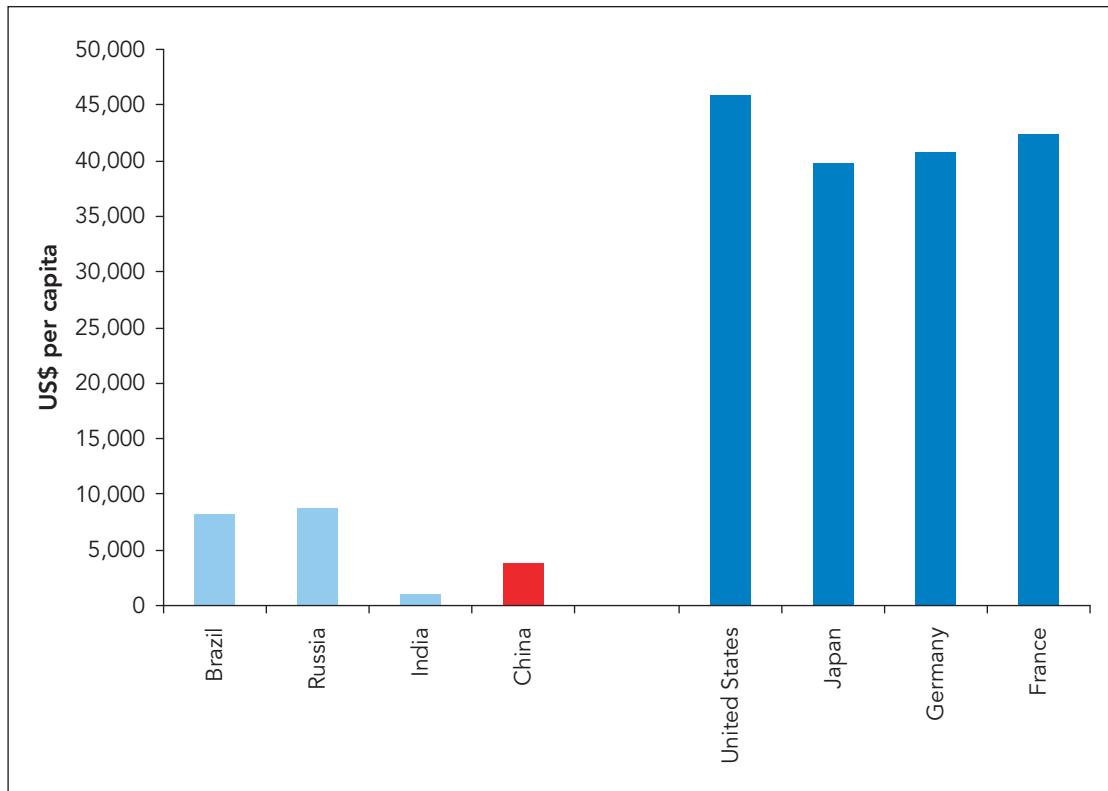
<sup>1</sup> 1991-2000 average

<sup>2</sup> IMF Estimate

Source: IMF World Economic Outlook 2010

Despite the overall size of China's economy, in per capita terms the country's GDP remains well below that of many developed nations (including the UK, Germany, Japan, France and the US). China's economy is moving towards a per capita GDP level at which a number of developing markets have in the past experienced accelerating rates of domestic consumption, an economic phenomenon which has been called the S-curve effect. The Directors, as advised by the Investment Manager, believe that the level of China's GDP per capita is a key element in the investment case.

**GDP per capita, 2009, US\$**



Source: IMF World Economic Outlook, October 2010

China has growing levels of personal savings. Between 1998 and 2008, household savings deposits increased rapidly.

<b>Household savings deposits, US\$bn</b>					
2003	2004	2005	2006	2007	2008
1,252	1,445	1,745	2,053	2,325	3,193

Source: National Bureau of Statistics of China

The Directors, as advised by the Investment Manager, consider that the levels of personal savings in China may be supportive of increased consumption if GDP per capita continues to increase. If China was to follow a similar path of economic development to that experienced by a number of other developing countries, increasing GDP per capita would lead to an expansion of credit, higher consumption of a range of consumer goods, increased spending on services and growth in health care spending. The Directors have approved the Investment Manager's recommendation that the Company seek opportunities to invest in companies that are exposed to these trends.

### **Social and economic developments and challenges**

Many commentators expect that the Chinese government is likely to face numerous economic development challenges, including: (a) social security, including pension and health system, reform; (b) sufficient job growth for migrants, new entrants to the work force and former workers from state-owned enterprises; (c) corruption and other economic crimes; (d) environmental damage and social

tension accompanying economic development; and (e) inflation. In the ten years to October 2010, consumer price inflation in China ranged between an annualised rate of 8.7% and -1.8%.

One of the challenges facing China is demographic. As a consequence of its "one child" policy, which saw China's fertility rate fall from an average of about six children per woman in the 1950s, China is now one of the most rapidly ageing countries in the world. There is considerable uncertainty about the future size of the Chinese population, with the United Nations' predictions for the population in 2050 ranging from 1.24 billion to 1.62 billion, depending principally on future fertility rates.

There are over 800 million workers in China. The most rapid growth has been in the tertiary (services) sector where employment increased between 1978 and 2008 from 49 million to 260 million. By contrast, employment in the secondary (manufacturing) sector rose from 70 million to 210 million over the same period, while employment in agriculture remained broadly unchanged at 300 million. China's rapid transition from an agricultural to an industrial society has, therefore, already been followed by a shift to a more service-oriented economy.

### ***Moving up the value chain***

There has been a rapid improvement in educational attainment levels in China since the introduction of economic reforms in 1978. Between that date and 2008, the number of post-graduate students in China rose from approximately 10,000 to more than one million while the number of Chinese students studying abroad increased from under 1,000 to almost 180,000 over the same period.

The importance China attaches to developing its economy beyond low-cost manufacturing is illustrated by the country's focus on science and technology research and development. Between 2004 and 2008 spending on science and technology research and development is estimated to have grown from 196 billion Renminbi (approximately US\$24 billion) to 460 billion Renminbi (approximately US\$68 billion).

If, as many commentators expect, the centre of gravity of global sectors, such as pharmaceuticals, shifts from Europe and North America to Asia, China is well placed to benefit. China may also benefit from any extension of global outsourcing from manufacturing to research and development, clinical trials and analytical services.

### ***Investment opportunities***

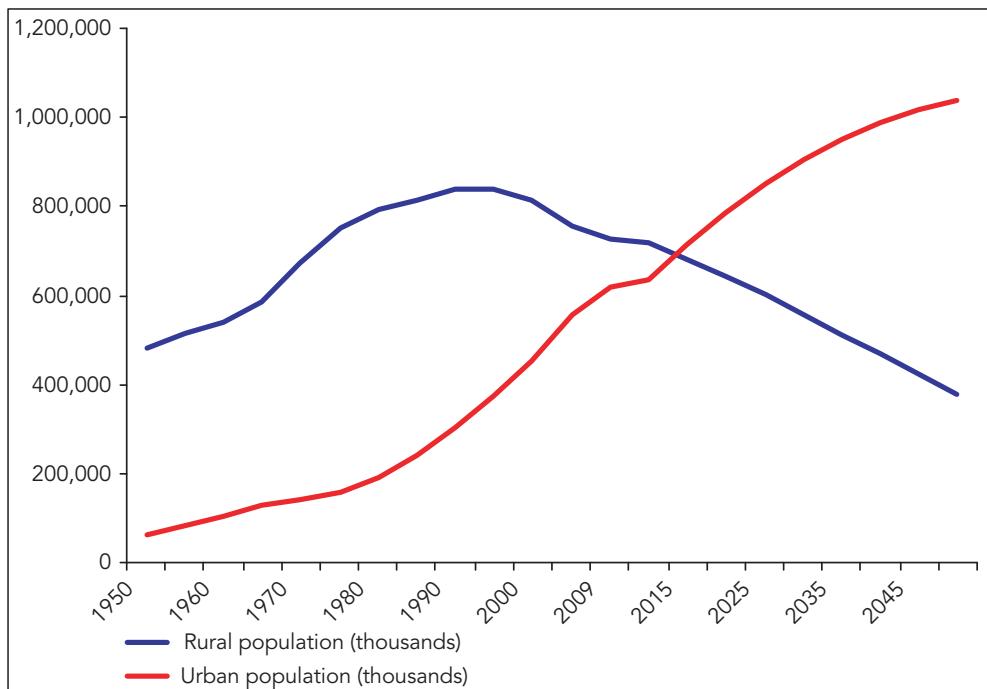
China's emergence as a global economic power and the investment opportunity represented by the country's economic development is supported by a number of potential long-term structural growth drivers.

### ***Infrastructure spending***

In 1978 China's urban population was approximately 170 million, representing 18% of the population, with the rural population approximately 790 million. By 2008 the balance between urban and rural China had shifted, with approximately 607 million city dwellers and nearly 721 million in the countryside. The United Nations has estimated that the urban population in China will exceed the rural population by 2015.

The Directors, as advised by the Investment Manager, believe that the migration to cities is likely to have significant investment implications in a variety of areas, including resource demand, agriculture and infrastructure development such as water facilities, housing, road- building, airports and railways. Between 1998 and 2008, China built approximately 13,000 kilometres of railway and added approximately 2,450,000 kilometres of highway.

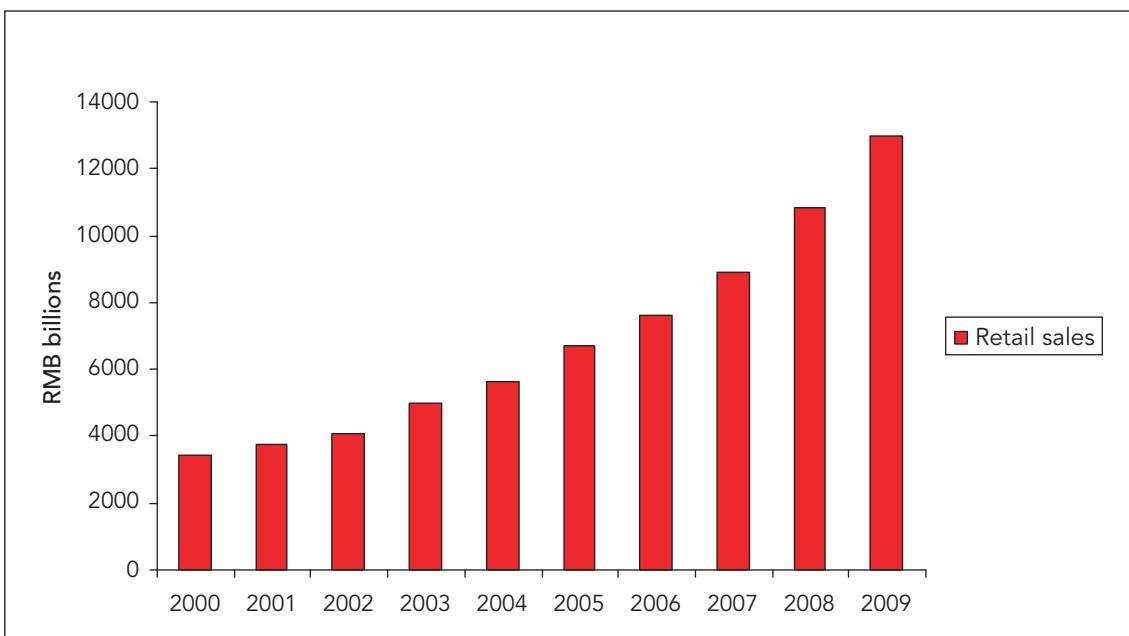
## Urbanisation of China



## Consumption

Retail spending has grown rapidly in China in recent years as the country's GDP per capita has increased.

### Chinese consumption



A milestone in Chinese consumption was passed in 2009 when China was the world's biggest market for new vehicle sales. Overall ownership of passenger vehicles remains low in comparison with developed markets; in the US in 2008, for example, there were approximately 240 million registered motor vehicles.

### Private vehicle ownership in China, 1998-2007, million units

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
5.3	6.3	7.7	9.7	12.2	14.8	18.5	23.3	28.8	35.0

Source: National Bureau of Statistics of China

The ownership of many other household goods in China's urban population has grown in recent years, as the following table illustrates. The Directors, as advised by the Investment Manager, believe that the high ownership levels of items such as washing machines and mobile telephones suggests that China may have already begun to move towards Western levels of consumption. In other areas, the ownership of cars for example, there is still a long way to go. The picture is not simple and successful investment is likely to focus as much on the purchase of services as of manufactured goods.

Ownership per 100 urban households				
Item	1990	2000	2007	2008
Motorcycle	2	19	25	21
Washing Machine	78	91	97	95
Colour TV	59	117	138	133
Computer	—	10	54	59
Mobile Telephone	—	20	165	172
Car	—	0.5	6	9

### **Exports**

China has become one of the leading global exporters, overtaking Germany in the export of manufactured goods during 2008.

Chinese exports by value, US\$bn									
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
194.9	249.2	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7

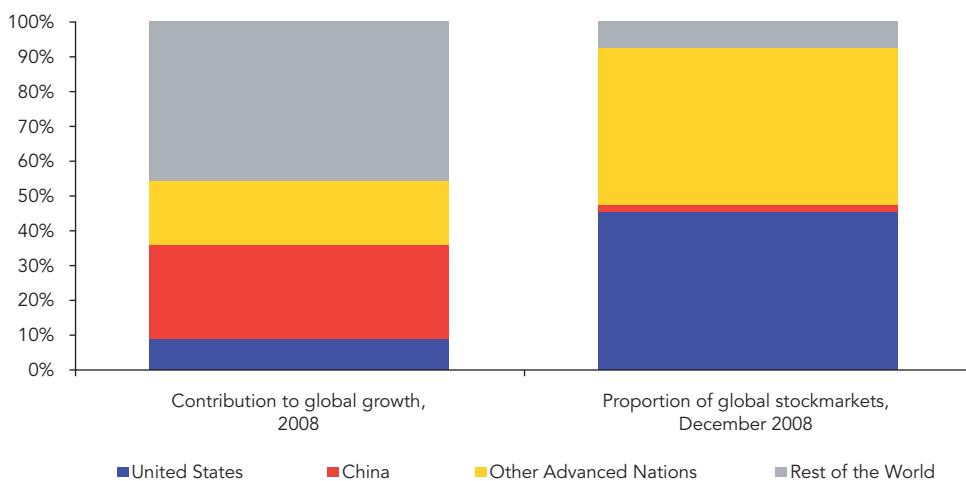
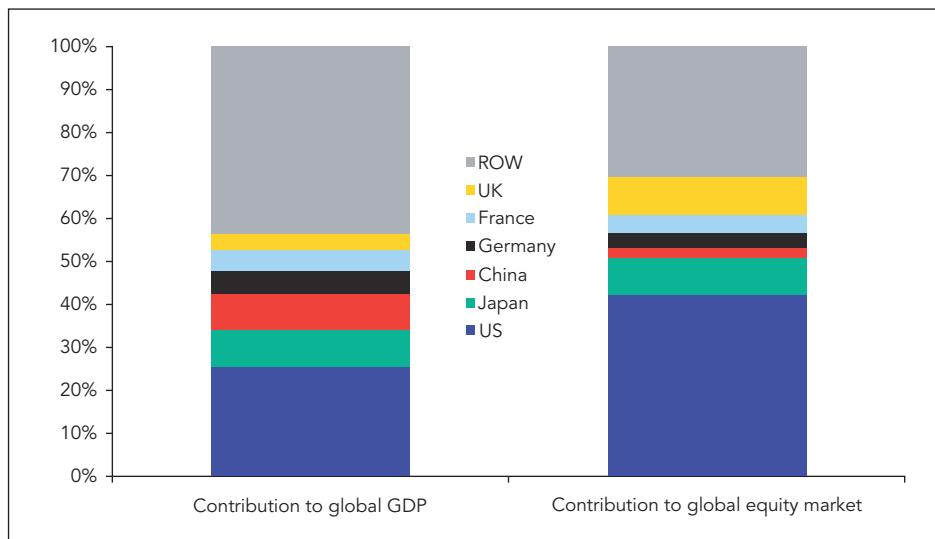
Source: National Bureau of Statistics of China

### **Stock market growth**

Despite China's increasing contribution to the global economy, the size of its stock markets remains relatively small. Although China is the largest emerging stock market by capitalisation, it accounts for just 2.5% of global stock market capitalisation (and only 3.5% if Hong Kong is included). As companies seek stock market listings, China's equity markets may become more representative of its economic importance, although it is by no means certain that the relationship between the size of the economy and the stock market will mirror those of other countries.

The first of the two charts below illustrates the size of China's stock markets relative to its contribution to global GDP in 2008. The second chart reinforces the differential between China's contribution to global GDP growth and the size of its stock market in the same year.

### CHINA'S PRESENCE IN THE GLOBAL ECONOMY AND GLOBAL STOCKMARKET



Source: IMF World Economic Outlook, October 2009 and RIMES

The Directors, as advised by the Investment Manager, do not consider that there are signs of bubbles in the Chinese stock markets. The areas where there have been signs of bubble were in some of the residential property markets, particularly in the bigger cities. In April 2010 the Authorities introduced measures to control these markets which are beginning to have an effect on property transactions and property prices. However they consider the long-term outlook for property in China remains good.

#### Current Outlook

The Directors, as advised by the Investment Manager, consider that the outlook for equities in general and China specifically is positive. Although many equity markets have been rising for some time, they consider that valuations are not yet extended and that few of the factors that often mark stock market peaks are yet present. A two-speed world appears to be developing where growth rates in many emerging markets, although in some cases slowing, still remain above those in many parts of the developed world. If interest rates in the developed world remain low for some time, liquidity is likely to

continue to flow into the faster growing emerging markets. Many Chinese stocks, particularly those listed in Hong Kong, should remain well placed to benefit from this trend.

One of the reasons the Directors, as advised by the Investment Manager, remain optimistic is the number of attractive investment opportunities available in China, particularly in regard to Chinese companies listed in Hong Kong and the United States. Since arriving in Hong Kong in March 2010, Anthony Bolton has had over 300 meetings with Chinese companies as well as making a number of trips to the mainland.

Most of these trips were to visit listed companies but they also included a trip to meet regulators and politicians and trips that included meeting industry experts, unlisted companies as well as visiting factories and retail outlets in secondary cities. As a result the Directors, as advised by the Investment Manager, consider that there are many companies with attractive sustainable growth rates of over 20% per annum in which there are investment opportunities based on valuations that do not represent a material premium to the prices available for similar investments in the developed world. They also consider that there are a number of companies selling at lower valuations than in the West which have better growth prospects.

However, investment in China is not without risks. The Directors, as advised by the Investment Manager, consider that the underlying rate of credit expansion once bank off balance sheet structures, accelerated bill discounting, unofficial credit channels and a carry forward of the 2009 quotas into 2010 are taken into account, is rising at rates materially above nominal GDP growth. It appears that, particularly in a year preceding political changes (including a new five year plan) due in 2012, credit growth is likely to remain high. This should sustain GDP growth in 2011 at a relatively high level, although probably slower than in 2010, but increase inflationary pressures. How China manages the balance between high GDP growth and growing inflationary pressures is likely to be a key influence on the Chinese stock markets in 2011. In the past the Chinese authorities appear to have been able to control inflation without sacrificing economic growth. This high credit growth will probably also lead to some bad debt problems although the Directors, as advised by the Investment Manager, believe these can be contained, at least over the next 12 months or so.

Other risks of investing in China include the status of the relationship between China and the United States, currency exchange rates, how China manages the pressures on its society resulting from the shift in the make up of GDP from manufacturing to services and regional tensions resulting from the friction between North and South Korea.

Notwithstanding the risks outlined above the Directors, as advised by the Investment Manager, continue to consider the long term case for investment in China to be compelling.

## PART IV: HISTORICAL FINANCIAL INFORMATION

### A. OPERATING FINANCIAL REVIEW

#### 1. Historical financial information

The Company has published an interim financial report and unaudited financial statement (the "Unaudited Interim Financial Report") in respect of the period 19 April 2010 to 30 September 2010 prepared in accordance with International Accounting Standard 34. The Unaudited Interim Financial Report was published on 16 November 2010 and contained unaudited numbers of the Company for the period to 30 September 2010 in respect of which the Company's auditors, Grant Thornton UK LLP, gave a review opinion. This report is incorporated into this document by reference. Where this document makes reference to other documents, such other documents are not incorporated into and do not form part of this document.

*Interim report and unaudited financial statements for the financial period ended 30 September 2010*

Nature of Information	Page No(s)
Unaudited Income Statement	8
Unaudited Statement of Changes in Equity	9
Unaudited Balance Sheet	10
Unaudited Cash Flow Statement	11
Notes to the Financial statements	12-20
Chairman's Statement	2
Investment Manager's Report	3-4

#### *Selected financial information*

The key unaudited figures that summarise the Company's financial condition in respect of the financial period from 19 April 2010 to 30 September 2010, which have been extracted directly on a straightforward basis without material adjustment from the historical financial information referred to in paragraph 1 of this Part IV, are set out in the following table:

	As at or for the period ended 30 September 2010 (unaudited)
Gross Asset Exposure (£'000)	585,809
Total Assets less Current Liabilities (£'000)	513,518
Net Assets (£'000)	513,518
Net Assets per Share (p)	106.61
Share Price (p)	113.20
Earnings per Share	0.83

#### 2. Reporting Accountant's examination of financial results

For the purposes of the Prospectus the Company has had Grant Thornton UK LLP, as reporting accountant, examine the financial results set out in section B of this Part IV. The Reporting Accountant's Report is set out in section C of this Part IV.

#### *Selected financial information*

The key audited figures that summarise the Company's financial condition in respect of the financial period from 19 April 2010 to 30 September 2010, which have been extracted directly on a straightforward

basis without material adjustment from the Audited Interim Financial Report referred to in paragraph 2 of, and set out in its entirety in, this Part IV, are set out in the following table:

	<b>As at or for the period ended 30 September 2010</b>
Gross Asset Exposure (£'000)	585,809
Total Assets less Current Liabilities (£'000)	513,518
Net Assets (£'000)	513,518
Net Assets per Share (p)	106.61
Share Price (p)	113.20
Earnings per Share	0.83

#### *Operating and financial review*

This Part IV includes, on the pages specified in the table below, description of the Company's financial condition (in both capital and revenue terms), details of the Company's investment activity and portfolio exposure and changes in its financial condition and top twenty largest investments for the period to 30 September 2010:

	<b>Report and financial statements for the financial periods ended 30 September 2010</b>
	<b>Page No(s)</b>
Chairman's Statement	55
Investment Manager's Report	56
Company performance	60
Financial highlights	55
Top twenty largest investments	59

3. Extracts from the interim financial report for the period to 30 September 2010 published on 16 November 2010

#### **Fidelity China Special Situations PLC**

Interim financial results for the period from 19 April 2010 to 30 September 2010.

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

#### **Returns %**

19 April 2010 to  
30 September 2010

#### **Returns**

NAV per share total return .....	+7.7
Share price total return .....	+13.2
MSCI China Index total return <sup>3</sup> .....	+1.4

## Financial Highlights

	As at 30 September 2010	At launch 19 April 2010	% change
<b>Assets</b>			
<b>Gross assets<sup>1</sup></b>	<b>£576.99m</b>	<b>£455.82m*</b>	<b>+26.6</b>
<b>Net assets</b>	<b>£513.52m</b>	<b>£455.82m*</b>	<b>+12.7</b>
<b>Net gearing(%)<sup>2</sup></b>	<b>9.3</b>	<b>n/a</b>	
<b>NAV per share</b>	<b>106.61p</b>	<b>99.01p</b>	<b>+7.7</b>
<b>Number of shares in issue</b>	<b>481,700,000</b>	<b>460,000,000</b>	

## Stock market Data

		19 April 2010 to 30 September 2010	% change
<b>MSCI China Index (total return)<sup>3</sup></b>		<b>101.42</b>	<b>+1.4</b>
<b>Share price</b>	<b>30 September 2010</b>	<b>113.20p</b>	<b>+13.2</b>
	High	113.20p	
	Low	92.26p	
<b>Premium/(discount)</b>	<b>30 September 2010</b>	<b>6.2%</b>	
	High	10.4%	
	Low	(1.7)%	

## Returns for the period from 19 April 2010 to 30 September 2010

<b>Revenue return per ordinary share</b>	<b>0.83p</b>
<b>Capital return per ordinary share</b>	<b>6.55p</b>
<b>Total return per ordinary share</b>	<b>7.38p</b>

\* Gross assets and net assets at launch on 19 April 2010 represent £460,000,000 received on the initial offer and subscription for placing less fees and expenses of £3,168,000 charged to the share premium account and £1,015,000 charged to revenue reserve.

1 Total gross assets less current liabilities, excluding the fixed term bank loan of £63.47m

2 Net gearing is after the deduction of cash at bank and investment in cash funds

3 Rebased to 100.00 at launch.

## Chairman's Statement

As this is the first interim financial report of Fidelity China Special Situations PLC ("the Company"), I would like to take the opportunity to welcome both the shareholders who invested during the initial public offering in April 2010 and the many new shareholders who have invested in the Company subsequently.

A significant and, I believe, unstoppable shift is underway from the more established economies and markets of the western world to the emerging markets, in particular those situated in Asia. Indeed, Anthony Bolton, the Company's portfolio manager, has described China as "the investment opportunity of the next decade." I am pleased to see that many other people support that view, and our successful launch of the largest new investment trust registered in the UK market for 16 years is evidence of this growing interest.

China is the powerhouse of Asia and is expected to overtake Japan as the region's largest economy at the end of the year. The structural changes that are taking place in the country, particularly the shift from an export-led economy to one driven by domestic consumption will drive the next phase of China's growth. With continuing urbanisation and the growing affluence of China's middle class, consumer spending will grow as disposable income rises. This trend is a central focus for the Company's investment portfolio.

I am pleased to report that over the period since launch, the Company has made an encouraging start, with the results contained in this interim financial report clearly demonstrating that the Company is well-placed to achieve its investment objective of generating long term capital growth for its shareholders.

In the period from 19 April to 30 September 2010, the Company's net asset value per share increased from 99.01p to 106.61p per share, an increase of 7.7% which compares with a rise in our benchmark, the MSCI China Index, of 1.4%. The Company's share price rose by 13.2% to 113.2p, at which level the shares

sold at a premium to the value of net assets of 6.2%. The revenue return was 0.83p per share and the capital return was 6.55p per share.

As dividends paid by underlying investments tend to fall into the first half of the year, the revenue return for the second half is not expected to match that of the first half of the year. The Board has decided not to pay a dividend at this interim stage.

A full report on the performance of the Company and that of the Chinese and Hong Kong markets over the period to 30 September 2010 is set out in the Investment Manager's Report on pages 4 and 5. I would like, however, to draw your attention to a number of key milestones during the period under review.

- On 9 April 2010, the Company announced the results of its initial public offering, which raised £460 million and made Fidelity China Special Situations PLC the largest China equity fund listed on the London Stock Exchange and the largest emerging markets equity fund new issue on the UK market for twenty years;
- On 19 April 2010, Fidelity China Special Situations PLC commenced trading on the London Stock Exchange;
- On 19 April 2010, the Company entered into a Revolving Facility Agreement of HK\$775,000,000 with the amount being fully drawn down on 22 April 2010;
- On 18 June 2010, the Company joined the FTSE 250 Index; and
- As at 30 September 2010, the Company had issued 21,700,000 additional shares at an average premium to net asset value of 6.2%. The issued share capital of the Company as at 30 September 2010 was 481,700,000 ordinary shares of 1p each. (Following the issue of a further 8,000,000 shares since 30 September 2010, the issued share capital of the Company will be 489,700,000 ordinary share of 1p each)

The Board monitors the relationship between the share price and the net asset value per share. Since the launch the shares have generally traded at a premium to their net asset value reflecting demand for shares that is not satisfied by sellers. The Board has the ability, as set out in the prospectus, to buy shares at a discount to net asset value and to issue shares at a premium to net asset value and it is prepared to use these powers when it considers it is in shareholders' interests to do so.

On 1 November the premium reached a new high level of 13% over net asset value and the Board announced that it was therefore considering ways in which the demand for shares could be satisfied. Subsequently the Board announced on 9 November that it was considering increasing the size of the Company through a pre-emptive open offer of shares together with a public offer for subscription. Further details will be communicated to shareholders as soon as practicable.

I would like to thank you for your support of Fidelity China Special Situations PLC and look forward to your continuing interest in the Company.

**John Owen CMG MBE DL**

Chairman

12 November 2010

### **Investment Manager's Report**

#### **A new chapter**

It is with great pleasure that I find myself writing the portfolio manager's report again, seven months after my wife and I returned to Hong Kong. Our arrival last March was just five weeks before the money from the launch of Fidelity China Special Situations PLC became available to invest. In that time I put together the initial portfolio; re-established a relationship with Fidelity's excellent team in Hong Kong; discussed with my brokers and other contacts the type of service I was looking for; bought an apartment; and, most importantly, started visiting companies.

Meeting management teams has always been one of the most important inputs into my investment process. Over the last half year or so I have had more than 250 company meetings — about two thirds of these were conducted in English and a third in Mandarin, generally using my colleagues as interpreters.

After a number of trips to the mainland, which I visit about once a month, I am as convinced as ever about the long term potential of China. This will become the dominant economy in Asia and it will have an effect on every other country in the region — many of which will become satellites to China's sun.

This is not to say, of course, that there are not challenges and that there will not be bumps along the way, but I fully agree with one of my competitors who observed that one day, as a matter of course, investors will own a China fund and be surprised that there was a time when most people did not. I was encouraged at the time of the launch that optimism for China was by no means universal. There were some very vocal bears and money flows were generally going to other emerging markets. If everyone had agreed with me I would have been more concerned.

### **Why a China investment trust?**

There were four strands to my case for our China investment trust. First, I believed that in a low growth world the higher growth in emerging markets like China would become even more attractive. Second, it was clear to me that investors could benefit from the ongoing shift in China from exports and low value manufacturing to consumption, higher value manufacturing and services. Third, the market was less well researched, throwing up better investment opportunities than in the developed markets. Finally, I predicted that my long investment experience and our local team's detailed knowledge of Chinese stocks and industries would prove to be a powerful combination.

My belief that we are in a two-speed world has become conventional wisdom. The slow growth in the developed world, including the US, UK, Europe and Japan, is having a negative impact on emerging economies' exports but I believe their relative growth will look even more attractive, especially those that are not too reliant on overseas demand. Chinese growth could return to 7-8% from its current double digit level but, relative to growth of around 2% in much of the world, this will look pretty interesting. In a low-growth world investors will seek to invest in higher growth countries, industries and companies. I believe the premium they will be willing to pay for this growth could rise considerably.

An additional important factor is the difference between the monetary policies of the developed and emerging worlds. I have never before witnessed the current situation whereby money created in one country is leaking at a rapid pace into assets in another part of the world. This is a phenomenon that I think is only in its early stages and could be the big investment story of the next year or so. The place where these two "tectonic plates" (the slow developed world and the fast emerging one) rub up against each other is Hong Kong. Hong Kong's monetary policy is tied to the US while its trade is principally with the rest of mainland China. It remains unclear whether Hong Kong's current monetary policy can continue indefinitely and, if it changes, what the financial consequences will be — but they could be very significant.

### **The Portfolio**

I have been convinced for some time that the emerging market 'S' curve effect will continue to boost spending in China. It is now clear to me that the Chinese authorities also wish to encourage domestic consumption and the move to more added-value services. They know that the days of China as the low cost manufacturing base for the world are numbered. It is interesting that in my meetings with Chinese textile companies, management often talks about putting new capacity in Indonesia, Cambodia and Vietnam rather than in China. If they are looking at investing in China, then they are doing so in the centre or West of the country and not the East or the South. The increasing price of labour is driving this trend.

I have focused the majority of the portfolio to benefit from these changes, with high exposure to consumer discretionary businesses such as retailers, automobiles, lifestyle goods producers, restaurants, hotels and the like. I am also focusing on services such as telecommunications, internet companies, automation, healthcare and financial stocks. I am underweight traditional manufacturers and commodity plays such as oil and, in addition, I think many of the major infrastructure plays are past their best as investment opportunities.

### **Research as the keystone**

As regards under-researched stocks, it has been refreshing (and exciting) to be able to find companies that are poorly followed or not followed at all by brokers, particularly in the medium and smaller capitalisation end of the market. This is why the majority of the portfolio is in medium and small capitalisation stocks, with under 30% (as at 30.9.10) in stocks with a market capitalisation of more than

US\$5bn. There is no shortage of interesting companies in this space, many of which are growing at 20-30% pa. The challenge is to find the ones that are not already on high valuations and where the managements are credible and the figures realistic.

There are three main groups of Chinese stocks: the "A" Shares listed on the mainland stock exchanges of Shanghai and Shenzhen, Hong Kong listed China companies and those with a US listing. I have been interested to see that, at times, the three move quite independently of each other. With one notable exception, I have generally found the "A" Shares pretty expensive when compared with the Hong Kong names in the same industries, so my focus (in research and investing), has been more on Hong Kong and US-listed companies. The exception is financials, where many of the "A" Shares of dual-listed companies have recently sold at discounts to the Hong Kong-listed shares of the same company. Two of my top holdings, Ping An Insurance and China Merchants Bank, have offered discounts of around 20%. Roughly 15% of the Company is in US-listed Chinese stocks. Within this universe there is a very wide range of valuations and it contains some of the best and worst companies from a corporate governance perspective.

I devote much of my time to cross checking with external independent sources what companies are telling me. However, given the size and complexity of the Chinese market, it will remain a challenge to identify every potential problem out there.

Another challenge with investing in the smaller companies area is being able to acquire and dispose of holdings. Often this takes time and, for this reason, the closed ended investment trust structure is, as I expected, the most appropriate for this kind of fund.

I have also been confirmed in my suspicion that smaller Chinese stocks would be more volatile than I have generally experienced in Europe. A meeting with the management of an interesting company illustrates this well. For every such meeting our library prepares a pack of information. Coming out of the meeting I was quite excited, as the business was attractive and the stock looked good value. Unfortunately, the price used in the pack, although only a few days out of date, was not the current one — which I found was over 50% higher!

It has been a great pleasure working closely with the team here in Hong Kong. I think our resource is second to none and I have learned a lot from them. What I have brought to the party is my experience. I believe it helps in many areas but two in particular spring to mind. One is in evaluating management teams. Even in a Mandarin meeting my long experience in seeing hundreds of presentations of business models and teams can give me a particular advantage. I aim to identify individuals who stick out from the crowd and have a strategic vision or operational plan that differentiates them from their competitors.

The second is identifying stocks which don't excite investors at that moment but might do at some future date. An example was Brilliance China, BMW's joint venture partner in China and one of my top 10 holdings. When I first met the company and heard of the plans to increase local production from 50,000 to 300,000 units over the next 3 years, I thought this had the potential to capture investors' imaginations. This process has started to happen.

## **Outlook and growth potential**

China is an enigma. Although impressive in many ways, it can still give cause for concern. Some of the aspects that other international investors worry about actually concern me less. For example, while others predict a big bad debt problem in the short term, I believe that China will be cushioned by its ability to transfer assets and loans between different parts of its vast public sector. The banks which financed some of the big infrastructure projects could end up with bad debts, but it is unclear how much of this will become visible to investors.

I have some concern about the current rate of credit expansion, which is still too high, particularly when one takes all of the off-balance sheet and unofficial lending channels into account. The recent interest rate hike could be the first of several. Another potential issue could be social cohesion — whether or not China can take the ongoing transformation of its economy in its stride. I share widespread concerns about the internationalisation of the RMB. China likes to do things in a measured, steady way, but it is not clear that this will be possible in a global world of massive currency flows. Destabilising factors in countries like North Korea are another long term concern.

Although these are still early days, the initial performance of the fund has been encouraging, with the NAV up about 15% at the time of writing and the shares trading at a premium of around 13%. I see little

logic for the recent high level of premium but I hope that the proposed share issuance will bring the premium closer to the net asset value of the Company.

It's great to have my feet under the desk again.

**Anthony Bolton**  
Portfolio Manager

**Twenty Largest Investments as at 30 September 2010**

<u>Holding</u>	<u>Fair Value £'000</u>	<u>%<sup>1</sup></u>
<b>China Unicom</b> . . . . .	<b>27,685</b>	<b>4.8</b>
<i>An integrated telecommunications provider</i>		
<b>China Mobile</b> . . . . .	<b>26,089</b>	<b>4.5</b>
<i>A mobile telecommunications provider</i>		
<b>Bank of China Hong Kong</b> . . . . .	<b>25,569</b>	<b>4.4</b>
<i>A commercial banking group</i>		
<b>Brilliance China Automotive</b> . . . . .	<b>22,512</b>	<b>3.9</b>
<i>Manufactures and sells minibuses and autos</i>		
<b>China Merchants Bank (ELN)</b> . . . . .	<b>20,209</b>	<b>3.5</b>
<i>Commercial bank offering corporate banking, retail banking and treasury businesses</i>		
<b>HSBC Holdings</b> . . . . .	<b>18,658</b>	<b>3.2</b>
<i>A global banking and financial services company</i>		
<b>Tencent Holdings</b> . . . . .	<b>18,446</b>	<b>3.2</b>
<i>Provides internet, mobile and telecommunications value-added services</i>		
<b>Ping An Insurance (ELN)</b> . . . . .	<b>17,451</b>	<b>3.0</b>
<i>Engaged in the insurance business</i>		
<b>Hang Lung Properties</b> . . . . .	<b>16,889</b>	<b>2.9</b>
<i>Property investment and development company</i>		
<b>United Laboratories International</b> . . . . .	<b>16,016</b>	<b>2.8</b>
<i>Pharmaceutical company</i>		
<b>Zhaojin Mining Industry</b> . . . . .	<b>13,373</b>	<b>2.3</b>
<i>Gold mining company</i>		
<b>Gome Electrical Appliances</b> . . . . .	<b>11,864</b>	<b>2.1</b>
<i>Retails electrical appliances and consumer electronic products</i>		
<b>Jardine Strategic Holdings (Singapore listed)</b> . . . . .	<b>11,353</b>	<b>2.0</b>
<i>A holding company with interests in engineering, transport services, insurance broking, property investment and mining</i>		
<b>Industrial and Commercial Bank of China</b> . . . . .	<b>8,702</b>	<b>1.5</b>
<i>One of China's largest commercial banks</i>		
<b>CNinsure</b> . . . . .	<b>8,438</b>	<b>1.5</b>
<i>An independent insurance intermediary company</i>		
<b>Shangdong Chenming Paper</b> . . . . .	<b>8,400</b>	<b>1.4</b>
<i>Manufactures and sells paper products</i>		
<b>Golden Eagle Retail Group</b> . . . . .	<b>7,358</b>	<b>1.3</b>
<i>Develops and operates department store chains</i>		
<b>Chow Sang Sang Holdings</b> . . . . .	<b>6,760</b>	<b>1.2</b>
<i>Manufacturer and retailer of jewellery</i>		
<b>Television Broadcast</b> . . . . .	<b>6,472</b>	<b>1.2</b>
<i>Terrestrial television broadcaster</i>		
<b>Vision Opportunity China Fund</b> . . . . .	<b>6,554</b>	<b>1.1</b>
<i>A closed-ended investment company investing in China</i>		
<b>Twenty largest investments</b> . . . . .	<b>298,798</b>	<b>51.8</b>

<sup>1</sup> % of total gross assets less current liabilities, excluding the fixed rate loan of £63,470,000

## B. FINANCIAL INFORMATION

### Income Statement for the period from 22 January 2010 to 30 September 2010

	Notes	revenue return £'000	capital return £'000	total £'000
<b>Revenue</b>				
Investment income .....	3	6,981	—	6,981
Other income .....	3	18	—	18
Derivative income .....	3	741	—	741
<b>Total income .....</b>		<b>7,740</b>	<b>—</b>	<b>7,740</b>
<b>Gains on investments designated at fair value through profit or loss .....</b>	10	—	44,653	44,653
<b>Losses on derivative instruments held at fair value through profit or loss .....</b>	11	—	(13,837)	(13,837)
Foreign exchange gains on other net assets .....	15	59	1,619	1,678
Foreign exchange gains on bank loan .....	15	—	1,503	1,503
<b>Total income and gains .....</b>		<b>7,799</b>	<b>33,938</b>	<b>41,737</b>
<b>Expenses</b>				
Investment management fee .....	4	(1,602)	(1,602)	(3,204)
Performance fee .....	4	—	(1,425)	(1,425)
Other expenses .....	5	(1,689)	—	(1,689)
<b>Profit before finance costs and taxation .....</b>		<b>4,508</b>	<b>30,911</b>	<b>35,419</b>
<b>Finance costs</b>				
Interest on bank loan .....	6	(250)	(250)	(500)
<b>Profit before taxation .....</b>		<b>4,258</b>	<b>30,661</b>	<b>34,919</b>
<b>Taxation .....</b>	7	(349)	—	(349)
<b>Net profit after taxation for the period .....</b>		<b>3,909</b>	<b>30,661</b>	<b>34,570</b>
<b>Earnings per ordinary share .....</b>	8	0.83p	6.55p	7.38p

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

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

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

All items in the above statement derive from continuing operations.

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.

**Statement of Changes in Equity for the period from 22 January 2010 to 30 September 2010**

	Notes	share capital £'000	share premium account £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Proceeds from offer for subscription and placing .....</b>	15	4,600	455,400	—	—	—	460,000
<b>Fees and expenses of the offer for subscription and placing ..</b>	15	—	(3,329)	—	—	—	(3,329)
<b>Cancellation of the share premium account* .....</b>	15	—	(452,232)	452,232	—	—	—
<b>Issue of ordinary shares.....</b>	15	217	22,060	—	—	—	22,277
<b>Net profit after taxation for the period.....</b>	15	—	—	—	30,661	3,909	34,570
<b>Closing equity shareholders' funds: 30 September 2010 ...</b>		4,817	21,899	452,232	30,661	3,909	513,518

\* Court approval was given on 21 April 2010 for the Company's Share Premium Account to be cancelled. As a result £452,232,000 was transferred to the Other Reserve Account, which is a distributable reserve.

**Balance Sheet as at 30 September 2010**

	<u>Notes</u>	<u>£'000</u>
<b>Non current assets</b>		
Investments designated at fair value through profit or loss .....	10	502,364
<b>Current assets</b>		
Derivative assets held at fair value through profit or loss .....	11	54,788
Cash and cash equivalents .....		15,564
Amounts held at futures clearing houses and brokers .....		170
Other receivables .....	12	12,923
		83,445
<b>Current liabilities</b>		
Bank loan .....	13	(63,470)
Other payables .....	13	(8,821)
		(72,291)
<b>Net Current assets</b> .....		11,154
<b>Total net assets</b> .....		513,518
<b>Equity attributable to equity shareholders</b>		
Share capital .....	14	4,817
Share Premium .....	15	21,899
Other reserve .....	15	452,232
Capital reserve .....	15	30,661
Revenue reserve .....	15	3,909
<b>Total equity shareholders' funds</b> .....		513,518
<b>Net asset value per ordinary share</b> .....	16	106.61p

**Cash Flow Statement for the period 22 January 2010 to 30 September 2010**

**£'000**

<b>Operating activities</b>	
Cash inflow from investment income . . . . .	5,881
Cash inflow from equity linked notes . . . . .	708
Cash inflow from other income . . . . .	18
Cash outflow from directors fees . . . . .	(47)
Cash outflow from other payments . . . . .	(1,200)
Cash outflow from purchase of investments . . . . .	(623,637)
Cash outflow from purchase of derivatives . . . . .	(75,042)
Cash inflow from sale of investments . . . . .	160,029
Cash inflow from sale of derivatives . . . . .	6,417
Cash outflow from amounts held at futures clearing houses and brokers . . . . .	(170)
Net cash outflow from operating activities before servicing of finance . . . . .	(527,043)
<b>Financing activities</b>	
Cash outflow on interest on bank loan . . . . .	(264)
Cash inflow from offer for subscription and placing . . . . .	460,000
Cash inflow from issue of ordinary shares . . . . .	18,154
Cash outflow from costs of issue of ordinary shares . . . . .	(3,329)
Cash inflow from bank loan . . . . .	63,470
Net cash inflow from financing activities . . . . .	538,031
Increase in cash and cash equivalents . . . . .	10,988
<b>Reconciliation of net cash flow to movements in net funds</b>	
Net cash inflow from cash and cash equivalents . . . . .	10,988
Effect of foreign exchange gains . . . . .	4,576
Cash and cash equivalents at the end of the period . . . . .	15,564

## Notes to the Financial Statements

### 1 PRINCIPAL ACTIVITY

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

### 2 ACCOUNTING POLICIES

The Company's annual financial statements for the period to 31 March 2011 will be prepared in accordance with International Financial Reporting Standards ("IFRS") to the extent that they have been adopted by the European Union and with the Association of Investment Companies ("AIC") Statement of Recommended Practice ("SORP"). The accounting policies adopted in the preparation of the historical financial information set out in this document have been prepared in accordance with the accounting standards applicable to year end accounts and are summarised below.

The Company has one operating segment and therefore segmental information is not disclosed.

- a) Basis of Accounting — The financial statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative assets and liabilities, and on the assumption that approval as an investment trust will be granted.
- b) Presentation of the Income Statement — In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividends. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.
- c) Revenue — Income from equity investments is credited to the Income Statement on the date on which the right to receive the payment is established, normally the ex dividend date. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as a gain in the capital return column of the Income Statement.

Where appropriate certain derivatives, such as equity linked notes, are used. Income derived from these are included in revenue return in the Income Statement.

- d) Special Dividends — Special dividends are treated as a capital receipt or a revenue receipt depending on the facts and circumstances of each particular case.
- e) Expenses and finance costs — All expenses are accounted for on an accruals basis and are charged as follows:
  - The performance fee is allocated entirely to capital return as the Board believe it reflects capital performance of the Company's investments;
  - The investment management fee and finance costs are allocated equally between revenue return and capital return; and
  - All other expenses are allocated in full to revenue return.

- f) Taxation — The taxation expense represents the sum of taxation currently payable and deferred taxation.

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

Deferred taxation is the taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment companies which have approval as such under section 1159 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

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

Deferred taxation is calculated at the taxation rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

- g) Foreign currency — The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be sterling. Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of 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.
- h) Valuation of investments — The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key management personnel. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They are included initially at fair value, which is taken to be their cost and subsequently, the investments are valued at "fair value", which is measured as bid or last prices depending on the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations.

In accordance with the AIC SORP the Company includes transaction costs within gains/(losses) on investments and has disclosed them in Note 10.

- i) Derivative instruments — Where appropriate, certain permitted transactions involving derivatives instruments are used. Derivative transactions into which the Company may enter comprise equity linked notes, forward currency contracts, 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 protect or 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 return 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 'Gains/(losses) on derivative instruments held at fair value through profit or loss' via the capital return 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 'Creditors — amounts falling due within one year'.

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

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

k) Capital reserve — The following are accounted for in capital reserve:

- Gains and losses on the disposal of investments, including derivatives;
- Changes in the fair value of investments, including derivatives, held at the 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.

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.

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

m) Share issue costs — Costs incurred directly in relation to the offer for subscription and placing of ordinary shares together with additional sharelisting costs have been deducted from equity. All other costs not directly attributable to the offer for subscription have been charged to revenue.

### 3 INCOME

	<u>30.09.10</u> <u>£'000</u>
<b>Income from investments designated at fair value through profit or loss</b>	
Overseas dividends .....	6,734
Overseas scrip dividends .....	247
<b>Total income from investments .....</b>	<b>6,981</b>
<b>Other Income</b>	
Deposit interest .....	7
Income from Fidelity Institutional Liquidity Fund plc .....	11
Income from equity linked notes .....	741
<b>Total income .....</b>	<b>7,740</b>

There were no derivative expenses in the reporting period.

### 4 INVESTMENT MANAGEMENT AND PERFORMANCE FEES

	<u>30.09.10</u> <u>£'000</u>
<b>Investment management fee charged to revenue return .....</b>	<b>1,602</b>
<b>Investment management fee charged to capital return .....</b>	<b>1,602</b>
<b>Performance fee charged to capital return .....</b>	<b>4,629</b>

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

In addition, the Manager is entitled to an annual performance fee of 15% of any change in the NAV attributable to performance which is more than 2% above the returns on the MSCI China Index subject to a maximum performance fee payable in any year equal to 1.5% of the arithmetic mean of the value of net assets calculated at the end of each month during the year. Any outperformance above this cap will be

carried forward. If the Company underperforms 2% above the returns on the MSCI China Index in any year, the underperformance must be made good before any further performance fee becomes payable in future years. Both the NAV and the MSCI China Index will be calculated on a total return basis, while the NAV will be based on the weighted average number of shares in issue.

## 5 OTHER EXPENSES

	30.09.10 £'000
<b>AIC fees</b>	<b>7</b>
<b>Custody fees</b>	<b>38</b>
<b>Directors' expenses</b>	<b>23</b>
<b>Directors' fees</b>	<b>82</b>
<b>Legal and professional fees</b>	<b>30</b>
<b>Marketing expenses</b>	<b>82</b>
<b>Printing and publication expenses</b>	<b>38</b>
<b>Registrars' fees</b>	<b>21</b>
<b>Secretarial and administration fees</b>	<b>268</b>
<b>Other expenses</b>	<b>21</b>
<b>Tax advice</b>	<b>29</b>
<b>Costs incurred on the offer for subscription and placing charged to revenue return</b>	<b>1,015</b>
<b>Fees payable to the Company's Auditors:*</b>	
<b>Review of Interim Report</b>	<b>5</b>
<b>Provision for the audit of the Annual Report</b>	<b>12</b>
<b>Review of derivative charter and contacts</b>	<b>18</b>
	<b>1,689</b>

\* A fee of £15,000 was paid to the Company's Auditors which is included in the fees and expenses charged to the share premium account on the initial offer and subscription for placing.

## 6 FINANCE COSTS

	30.09.10 £'000
<b>Interest on bank loans payable within one year:</b>	
Charged to revenue reserve	250
Charged to capital reserve	250
	500

## 7 TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES

	30.09.10		
	Revenue £'000	Capital £'000	Total £'000
<b>(a) Analysis of charge in the period</b>			
Overseas taxation suffered	349	—	349
Total current taxation for the period (see Note 7b)	349	—	349

30.09.10  
£'000

**(b) Factors affecting the taxation charge for the period**

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

The differences are explained below.

Profit before taxation .....	34,919
Profit multiplied by the standard rate of corporation tax of 28% .....	9,777
Effects of:	
Gains on investments not taxable .....	(8,585)
Expenses in capital .....	(470)
Income not taxable .....	(1,955)
Disallowable expenses .....	249
Excess management expenses .....	993
Overseas taxation expensed .....	(9)
Overseas taxation .....	349
Current taxation (see Note 7a) .....	349

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

(c) There are unutilised expenses of £3,547,000 resulting in an unprovided deferred taxation asset of £993,000 as at 30 September 2010

**8 EARNINGS PER ORDINARY SHARE**

	30.09.10		
	Revenue £'000	Capital £'000	Total £'000
<b>Earnings per ordinary share .....</b>	<b>0.83p</b>	<b>6.55p</b>	<b>7.38p</b>

Earnings per ordinary share are based on the net revenue return after taxation in the period of £3,909,000, the capital return in the period of £30,661,000 and the total profit in the period of £34,570,000 and on 468,269,394 ordinary shares being the weighted average number of ordinary shares in issue during the period.

**9 DIVIDEND**

No dividend has been declared for the current reporting period.

**10 INVESTMENT DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	30.09.10 £'000
<b>Listed overseas .....</b>	<b>502,364</b>
	30.09.10 Listed overseas £'000

**Movements for the period 22 January 2010 to 30 September 2010**

Purchases at cost .....	626,018
Sales — proceeds .....	(168,307)
Sales — realised losses .....	(2,375)
Movement in investment holding gains in the period .....	47,028
Closing fair value of investments .....	502,364
Closing book cost .....	455,336
Closing investment holding gains .....	47,028
Closing fair value of investments .....	502,364

	<u>30.09.10</u> <u>£'000</u>
<b>Net (losses)/gains on investments</b>	
Losses on sales of investments .....	(2,375)
Investment holding gains in the period .....	47,028
	<b>44,653</b>

#### Cost of investment transactions

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

	<u>30.09.10</u> <u>£'000</u>
Purchase expenses .....	1,485
Sales expenses .....	331
	<b>1,816</b>

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

	<u>30.09.10</u> <u>£'000</u>
<b>Net losses on derivative instruments held at fair value through profit or loss in the period</b>	
Realised losses on forward currency contracts .....	(226)
Realised losses on equity linked notes .....	(1,464)
Realised losses on options .....	(62)
Realised losses on futures .....	(9,726)
Closing investment holding gains on forward currency contracts .....	1,445
Closing investment holding losses on equity linked notes .....	(2,790)
Closing investment holding losses on options .....	(1,014)
	<b>(13,837)</b>

30.09.10 fair value £'000	30.09.10 exposure £'000
---------------------------------	-------------------------------

At the period end the Company had exposure to the following derivative instruments:

Net forward currency contracts .....	1,445	1,445
Equity linked notes — assets .....	52,507	52,507
Options — assets .....	836	54,993
	<b>54,788</b>	<b>108,945</b>

#### 12 OTHER RECEIVABLES

	<u>30.09.10</u> <u>£'000</u>
Securities sold for future settlement .....	7,988
Accrued income .....	595
Proceeds of share issue receivable .....	4,123
Other receivables .....	217
	<b>12,923</b>

## 13 OTHER PAYABLES

	30.09.10 £'000
<b>Securities purchased for future settlement</b> .....	<b>3,298</b>
<b>Loan interest payable</b> .....	<b>236</b>
<b>Other payables</b> .....	<b>5,287</b>
<b>Fixed rate unsecured bank loan @ 2.07% per annum</b> .....	<b>22,522</b>
<b>Fixed rate unsecured bank loan @ 1.82% per annum</b> .....	<b>40,948</b>
	<b>72,291</b>

On 22 April 2010, the Company entered into a 364 day revolving credit facility for HK\$775,000,000 which is drawn down on a quarterly basis. On 22 July 2010, the Company drew down the full amount in two tranches. Tranche A is for HK\$275,000,000 with interest fixed at 2.07% per annum and tranche B is for HK\$500,000,000 with interest fixed at 1.82% per annum, both tranches were repayable on 22 November 2010.

## 14 SHARE CAPITAL

	30.09.10 £'000
<b>Issued, allotted and fully paid*:</b>	
460,000,000 ordinary of 1 penny each at launch on 19 April 2010 .....	4,600
20 April to 30 September 2010: issue of 21,700,000 ordinary shares of 1 penny each ..	217
<b>End of Period</b>	
<b>481,700,000 ordinary shares of 1 penny each</b> .....	<b>4,817</b>

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

## 15 RESERVES

	share premium account £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000
<b>Beginning of the period</b> .....	—	—	—	—
<b>Proceeds from offer for subscription and placing</b> .....	<b>455,400</b>	—	—	—
<b>Fees and expenses of the offer for subscription and placing</b> .....	(3,329)	—	—	—
<b>Cancellation of the share premium account*</b> .....	(452,232)	<b>452,232</b>	—	—
<b>Issue of ordinary shares</b> .....	<b>22,060</b>	—	—	—
<b>Net gains on investments for the period</b> .....	—	—	<b>44,653</b>	—
<b>Net losses on derivative instruments for the period</b> .....	—	—	(13,837)	—
<b>Foreign exchange gains on other net assets</b> .....	—	—	1,619	—
<b>Foreign exchange gain on bank loan</b> .....	—	—	1,503	—
<b>Investment management fee</b> .....	—	—	(1,602)	—
<b>Performance fee</b> .....	—	—	(1,425)	—
<b>Interest on bank loan</b> .....	—	—	(250)	—
<b>Net profit after taxation for the period</b> .....	—	—	—	<b>3,909</b>
<b>End of period</b> .....	<b>21,899</b>	<b>452,232</b>	<b>30,661</b>	<b>3,909</b>

\* Court approval was given on 21 April 2010 for the Company's Share Premium Account to be cancelled. As a result £452,232,000 was transferred to the Other Reserve Account, which is a distributable reserve.

## 16 NET ASSET VALUE PER SHARE

The net asset value per ordinary share is based on net assets at the period end of £513,518,000 and on 481,700,000 ordinary shares, being the number of ordinary shares in issue at the period end.

## 17 CASH AND CASH EQUIVALENT

Cash and cash equivalent are shown in the balance sheet and comprise bank accounts and on-demand deposits.

## 18 FINANCIAL INSTRUMENTS

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 Manager, has developed a risk matrix which as part of the internal control process, identifies the operational risks that the Company faces. Risks identified are strategic, marketing and business development, investment management, company secretarial, fund administration and operations and support function risks. Risks are identified and graded in this process, together with the mitigation of risks, and are updated and reviewed on an ongoing basis. Key risks identified fall into two broad categories. The first, external risks, being stock market, share price and discount and the second, internal risks, being portfolio and governance, operational, financial, compliance, administration etc.

This Note is incorporated in accordance with IFRS7 "Financial Instruments: Disclosures" and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise equity linked notes, forward currency contracts, futures, and options written on stocks and equity indices;
- Cash, liquid resources and short term debtors and creditors that arise from its operations; and
- Bank borrowings

The risks identified by IFRS7 arising from the Company's financial instruments are market price risk (which comprises other price risk, interest rate risk and foreign currency exposure), liquidity risk, counterparty risk and credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

### **Market price risk**

#### Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates.

The Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also 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 consider 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 HK\$775,000,000 revolving facility due for repayment on 22 November 2010. The Company is exposed, therefore, to a fair value interest rate risk if Hong Kong dollar interest rates change. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

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

The Company is exposed to cash flow interest 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 bank loan of

HK\$775,000,000. Cash at bank and amounts held at futures clearing houses and brokers are shown in the Balance Sheet.

#### Foreign currency risk

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

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

- Movements in rates affecting the value of investments and the bank loans;
- Movements in rates affecting short term timing differences; and
- Movements in rates affecting income received

The Company hedges the sterling value of investments or other net assets priced in other currencies by the use of forward currency contracts. These contracts are also used for currency management. The Company has also increased finance available for its investment activities with HK dollar borrowings, thereby hedging part of the movements which are a result of exchange movements.

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

#### **Financial Assets**

The Company's financial assets comprise equity investments, derivative instruments, short term debtors and cash. The currency cash flow profile of these financial assets as at 30 September 2010 is shown below.

	investments designated at fair value through profit or loss £000	derivative exposure held at fair value through profit or loss £000	other receivables £000	other assets* £000	total £000
<b>Euro</b> .....	—	—	—	10	10
<b>Hong Kong dollar</b> .....	<b>379,538</b>	<b>54,993</b>	<b>6,116</b>	<b>15,184</b>	<b>455,831</b>
<b>Korean Won</b> .....	<b>8,184</b>	—	—	—	<b>8,184</b>
<b>Singapore dollar</b> .....	<b>2,723</b>	—	—	—	<b>2,723</b>
<b>Taiwan dollar</b> .....	<b>5,793</b>	—	—	—	<b>5,793</b>
<b>UK sterling</b> .....	<b>2,582</b>	—	<b>4,340</b>	<b>539</b>	<b>7,461</b>
<b>US dollar</b> .....	<b>103,544</b>	<b>170,927</b>	<b>2,467</b>	<b>1</b>	<b>276,939</b>
	<b>502,364</b>	<b>225,920</b>	<b>12,923</b>	<b>15,734</b>	<b>756,941</b>

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

#### **Financial Liabilities**

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

The Company's financial liabilities comprise bank loans and other short term creditors. The currency profile of these financial liabilities as at 30 September 2010 is shown below.

	Derivative exposure held at fair value through profit or loss £000	Bank loan £000	Other payables £000	Total £000
<b>Chinese yuan renminbi</b> .....	<b>116,975</b>	—	—	<b>116,975</b>
<b>Hong Kong dollar</b> .....	—	<b>63,470</b>	<b>2,317</b>	<b>65,787</b>
<b>UK sterling</b> .....	—	—	<b>5,287</b>	<b>5,287</b>
<b>US dollar</b> .....	—	—	<b>1,217</b>	<b>1,217</b>
	<b>116,975</b>	<b>63,470</b>	<b>8,821</b>	<b>189,266</b>

## **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 19 to the financial statements.

## **Counterparty risk**

All securities and derivative instruments are transacted with brokers and carry the risk that the counterparty to a transaction may not meet its financial obligations. All counterparties for any type of trading are assessed by an independent credit research and analysis function and approved for use by the Manager. Exposures to counterparties are monitored and reported frequently by the Manager 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.

## **Credit risk**

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

## **Derivative instruments**

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 long 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 investment returns by writing put and call 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 increase the investment risk in the Company's portfolio.

The Company has also agreed that its use of derivatives should be similar to that of the Manager's managed UCITS investment funds. This means the Company can enter into derivative contracts that carry unlimited liability, but this will only be permitted where the liability to the counterparty is, on a net basis, less than 15% of gross assets.

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

## **Risk sensitivity analysis**

a) Other price risk sensitivity analysis

Changes in market prices other than those arising from interest rate risk or foreign currency risk may also affect the value of the Company's net assets.

An increase of 10% in the fair value of the investments (excluding derivatives) at 30 September 2010 would have increased total return on ordinary activities and total assets by £50,236,000. A decrease of 10% would have had an equal but opposite effect.

b) Interest rate risk sensitivity analysis

At 30 September 2010, if interest rates would have increased by 0.5% the total return on ordinary activities would have increased by £79,000. A decrease in the interest rates by 0.5% would have an equal but opposite effect.

(c) Foreign currency risk sensitivity analysis

At 30 September 2010, if sterling had strengthened or weakened by 10% in relation to the larger currency exposures, then with all other variables held constant, total net assets and total return on ordinary activities would have increased/(decreased) by the amounts shown below.

If sterling had strengthened the impact would have been:

	30.09.10 £'000
Chinese yuan renminbi .....	10,634
Hong Kong dollar .....	(35,459)
US dollar .....	(20,066)

If sterling had weakened the impact would have been:

	30.09.10 £'000
Chinese yuan renminbi .....	(12,997)
Hong Kong dollar .....	43,338
US dollar .....	30,636

(d) Derivative instrument exposure sensitivity analysis

Equity linked notes

The Company invests in equity linked notes to gain exposure to the China A shares equity market. A 10% increase in the value of the equity linked notes at 30 September 2010 would have resulted in an increase of £5,251,000 in the Company's net asset value. A decrease of 10% would have had an equal but opposite effect.

Forward currency contracts

The Company invests in forward currency contracts for currency management and hedging purposes. A 10% increase in the net value of the forward currency contracts at 30 September 2010 would have resulted in an increase of £145,000 in the Company's net asset value. A decrease of 10% would have had an equal but opposite effect.

Options

The Company holds call options on selected underlying equity positions, giving it the right to purchase the physical stock at a fixed price. Using the deltas of the options at 30 September 2010, where an option's delta is a ratio that compares the change in the price of the underlying equity to the corresponding change in the price of the option, a 10% rise in the price of the underlying equities would have resulted in a increase of £614,000 in the Company's net asset value. A fall of 10% would have had a similar but opposite effect.

For details of the Company's derivative instruments exposure see Note 11.

**Fair value hierarchy**

Under IFRS7, 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.

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

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

The valuation techniques used by the Company are explained in the Accounting Policies Notes 2(h). The table below sets out the Company's fair value hierarchy measurements as at 30 September 2010:

	level 1 £'000	level 2 £'000	level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>				
<b>Equity investments</b>	502,364	—	—	502,364
<b>Derivative investments</b>	—	54,788	—	54,788
<b>Total</b>	502,364	54,788	—	557,152

### Capital management policies and procedures

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders. This is achieved through an appropriate balance of equity capital and gearing. The Board's policy is that borrowings must not exceed 25% of the net assets.

The Company's capital resources at 30 September 2010 comprised:

	<u>30.09.10</u> <u>£'000</u>
<b>Debt</b>	
Bank loan .....	63,470
<b>Equity</b>	
Share capital .....	4,817
Other reserves and retained earnings .....	<u>508,701</u>
	<u>513,518</u>
<b>Debt as a percentage of net assets</b> .....	12.4%

The Board, with the assistance of the Manager, monitors and reviews the capital structure of the Company on an ongoing basis. This review includes:

- the planned level of gearing which includes the Manager's views on the market;
- the need to issue shares at a premium to net asset value; and
- the need to buy back shares for cancellation at a discount to net assets value.

### 19 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 30 September 2010

### 20 TRANSACTIONS WITH THE MANAGER

FIL Investment Management (Hong Kong) Limited is the Manager and FIL Investments International is the Secretary of the Company. Details of the investment management fee and performance fee payable are given in Note 4 and the secretarial and administration fees are detailed in Note 5.

### 21 COMPARATIVES

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

### 22 STATUS OF THIS REPORT

These financial statements are not the Company's statutory accounts for the purposes of section 435 of the Companies Act 2006.

## C. REPORTING ACCOUNTANTS' REPORT

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2P 2YU

**The Directors**  
**Fidelity China Special Situations plc**  
**Kingswood Place**  
**Millfield Lane**  
**Lower Kingswood**  
**Tadworth**  
**Surrey**  
**KT20 6RB**

7 January, 2011

Dear Sirs

### **Fidelity China Special Situations plc (the Company)**

We report on the financial information set out in section B of Part IV (on pages 60 to 75) of this document. This financial information has been prepared for inclusion in the Prospectus dated 7 January 2011 on the basis of the accounting policies set out in note 2 of the financial information.

This report is required by 20.1 of Annex 1 to the PD Regulation and is given for the purpose of complying with that regulation and for no other purpose.

### **Responsibilities**

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with 23.1 of Annex 1 to the PD Regulation, consenting to its inclusion in the Prospectus.

The Directors of Fidelity China Special Situations plc are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

## **Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus dated 7 January 2011, a true and fair view of the state of affairs of Fidelity China Special Situations plc as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2 and in accordance with International Financial Reporting Standards as adopted by the European Union, as described in note 2.

## **Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 of the Prospectus Regulation.

Yours faithfully

GRANT THORNTON UK LLP

## PART V: ISSUE ARRANGEMENTS

### Overview

The Company is targeting to raise of up to £166.25 million through the Issue. The Company intends to use the net proceeds of approximately £162.1 million to make investments in accordance with the Investment Policy.

The Issue Price for the C Shares is 100p per C Share. The total number of C Shares issued under the Open Offer, Offer for Subscription and Placing will be determined by the Company, Cenkos Securities and the Investment Managers after taking into account the demand for the C Shares and the prevailing economic conditions. This could be less than the amount stated above.

The Open Offer, Offer for Subscription and Placing are conditional on, *inter alia*, (i) Admission having become effective at or before 8 a.m. on 28 February, 2011 or such later time and/or date as the Company, Cenkos Securities and the Investment Managers may agree (being not later than 8 a.m. on 31 March 2011); and (ii) the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to Admission of the C Shares issued under the Open Offer, Offer for Subscription and Placing.

Certain restrictions that apply to the distribution of this document and the C Shares being issued under the Open Offer, Offer for Subscription and Placing in certain jurisdictions are described in the section headed "Important Information" on pages 19 to 23 (inclusive) of this document.

### The Open Offer

Shareholders are being offered the opportunity, under the Open Offer, to apply for any number of C Shares at the Issue Price pro rata to their holdings, on the following basis:

#### **One C Share for every three Ordinary Shares**

held and registered in their name at the close of business on the Record Date. The Open Offer is being made to Shareholders who are not resident in a Restricted Jurisdiction and commences as at the date of this Prospectus.

Non-CREST Shareholders wishing to apply for C Shares under the Open Offer are able to do so by completing and returning the Application Form enclosed with this document in accordance with the related instructions. The Application Form accompanied by a cheque or banker's draft in Sterling made payable to "Capita Registrars Limited re FCSS PLC Open Offer A/C" and crossed "a/c payee only" for the appropriate sum should be returned to the Receiving Agent by no later than 11 a.m. on 15 February 2011 or such other later time and date as the Directors may, with the prior approval of the Investment Managers and Cenkos Securities, decide but not later than 11 a.m. on 15 March 2011. Payments must be made by cheque or banker's draft in Sterling, drawn on a branch in the United Kingdom with cleared funds. Such cheques or banker's drafts must bear the sort code in the top right hand corner. Cheques must be drawn on the personal account of the individual investor where they have sole or joint titles to the funds. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or the bank has confirmed the name of the account holder on the back of the cheque/draft by endorsing the cheque/draft to such effect. Any cheques or banker's drafts may be cashed on receipt.

CREST Shareholders who are CREST members wishing to apply for C Shares may do so by sending (and in the case of CREST sponsored members, by procure that their CREST sponsor sends) an USE Instruction to Euroclear in respect of their Open Offer Entitlements so as to settle on or before 11 a.m. on 15 February 2011 or such other later time and date as the Directors may, with the prior approval of the Investment Managers and Cenkos Securities, decide but not later than 11 a.m. on 15 March 2011.

All application monies must be received in Sterling.

The Open Offer is subject to the terms and conditions of the Open Offer. These terms and conditions are set out, in the case of Non-CREST Shareholders, in Section A of Part VII (*Terms and Conditions of Issue*) of this document and Application Form, and in the case of CREST Shareholders, in Section A of Part VII (*Terms and Conditions of Issue*) of this document. The terms and conditions should be read carefully before an application is made under the Open Offer. Shareholders should consult an independent financial adviser if they are in doubt about the contents of this Prospectus or the action they should take.

## **Offer for Subscription**

The Offer for Subscription is being made to Shareholders who are not resident in a Restricted Jurisdiction and otherwise and commences as at the date of this Prospectus. Application Forms must be received by 11 a.m. on 15 February 2011 or such other later time and date as the Directors may, with the prior approval of the Investment Managers and Cenkos Securities, decide but not later than 11 am on 15 March 2011. Individual investors may apply for C Shares through their existing financial advisers or ISA or Share Plan managers.

Applications under the Offer for Subscription must be for a minimum of £1,000. Applications in excess of the minimum subscription amount should be in multiples of £1. All application monies must be received in Sterling. The Directors may, in their absolute discretion after taking into account the demand for C Shares under the Open Offer, Offer for Subscription and Placing and economic and market conditions, waive the minimum initial application requirement in respect of any particular application under the Offer for Subscription. Multiple subscriptions under the Offer for Subscription by individual investors will not be accepted, but Shareholders may apply under the Open Offer, the Offer for Subscription and the Placing.

Application Forms, accompanied by a cheque or banker's draft payable to "Capita Registrars Limited re FCSS PLC Offer for Subscription A/C" and crossed "a/c payee only" for the appropriate sum, should be returned to the Receiving Agent by 11 a.m. on 15 February 2011. Payments must be made by cheque or banker's draft in Sterling, drawn on a branch in the United Kingdom with cleared funds. Such cheques or banker's drafts must bear the appropriate sort code in the top right hand corner. Cheques must be drawn on the personal account of the individual investor where they have a sole or joint title to the funds. Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or bank has confirmed the name of the account holder on the back of the cheque/draft by endorsing the cheque/draft to such effect. Any cheques or banker's drafts may be cashed on receipt.

To the extent that the amount of any cheque accompanying an Application Form exceeds the aggregate value of the C Shares allocated to such application, the balance will be returned by cheque to the applicant concerned without any interest.

The Offer for Subscription is made subject to the terms and conditions of the Offer for Subscription which are set out in Part VII (*Terms and Conditions of the Issue*). These terms and conditions should be read carefully before an application is made. Potential investors should consult an independent financial adviser if they are in doubt about the contents of this Prospectus or the action they should take.

## **Placing**

The Company, the Investment Managers and Cenkos Securities have entered into a Placing Agreement pursuant to which Cenkos Securities has agreed, subject to certain conditions, to use its reasonable endeavours to procure subscribers for the C Shares made available under the Placing (being the C Shares not allocated under the Open Offer).

The Open Offer, Offer for Subscription and Placing will lapse if the Placing Agreement is terminated in accordance with its terms prior to Admission, in which case any amounts received in respect of the Open Offer, Offer for Subscription or Placing will be returned to the applicants without interest.

Commitments under the Placing must be for a minimum subscription amount of £50,000. The Directors may, in their absolute discretion and after taking into account the demand for the C Shares under the Open Offer, Offer for Subscription and Placing and economic and market conditions, waive the minimum initial application requirement in respect of any particular application under the Placing.

The Placing commences as at the date of this Prospectus and commitments under the Placing must be received by Cenkos Securities (acting on behalf of the Company) no later than 4:30 p.m. on 16 February 2011. The Directors may, with the prior approval of the Investment Manager and Cenkos Securities, alter the closing date of the Placing and thereby shorten or lengthen the placing period, to a date no later than 15 March 2011.

Further details of the Placing Agreement are set out in Part IX (*Additional Information*) of this document.

To the extent the time for applications and Settlement under the Open Offer and Offer for Subscription and placing period under the Placing are shortened or lengthened, the Company will notify Shareholders and other investors through the publication of a notice through a Regulatory Information service.

## **Allocations of C Shares**

The basis of allocation will be:

- (i) to each Ordinary Shareholder who applies, up to his full entitlement under the Open Offer; and
- (ii) any C Shares not taken up under the Open Offer, to applicants under the Offer for Subscription or the Placing, with applications scaled back pro-rata to the extent valid applications exceed the number of C Shares not taken up under the Open Offer.

## **Dealings**

Application has been made for the C Shares to be admitted to the main market for listed securities of the London Stock Exchange. It is expected that allotment of C Shares will take place, conditional on Admission, on 28 February, 2011. Admission will become effective and unconditional dealings in the C Shares will commence at 8 a.m. on 28 February, 2011. Dealings in C Shares in advance of the crediting of the relevant stock account shall be at the risk of the person concerned. The C Shares will have a standard listing category.

When admitted to trading, the C Shares will be registered with ISIN number GB00B4PY9B85 and SEDOL code B4PY9B8.

It is expected that the C Shares will be converted on 28 February, 2011, with the Ordinary Shares into which the C Shares convert being admitted to the Official List and to the London Stock Exchange for trading on its main market for listed securities from 8 a.m. on 1 March, 2011.

## **CREST**

The Shares will be eligible for settlement through CREST.

The Open Offer Entitlements will be registered with ISIN GB00B67W2J33 and SEDOL B6W2J3.

It is expected that CREST accounts will be credited with C Shares on 28 February, 2011. The names of subscribers or their nominees that invest through CREST will be entered directly on to the share register of the Company.

## **Costs and expenses of the Issue**

The costs and expenses of the Issue (including all fees, commissions and expenses payable to Cenkos Securities but excluding certain marketing and promotional expenses which will be paid by FIL) will be attributable to the C Shareholders to a maximum of 2.5% of the Issue proceeds with FIL meeting any excess. If the costs and expenses are less than this 2.5% of the Issue proceeds the difference will be retained by the Company and attributable to the Ordinary Shares in issue prior to Conversion. Such costs and expenses are not expected to exceed £4.16 million, assuming the maximum gross proceeds of £166.25 million is achieved and certain other matters.

## **Money laundering**

Pursuant to anti-money laundering laws and regulations with which the Company must comply in the United Kingdom, the Company and its agents, Cenkos Securities or Capita Registrars, may require evidence of the identity of each investor in connection with any application for C Shares, including further identification of the applicant(s), before any C Shares are issued.

## **Distribution and transfer restrictions**

No action has been or will be taken in any jurisdiction that would permit a public offering of the C Shares outside the United Kingdom, or the possession, circulation or distribution of this document or any other material relating to the Company or the C Shares in any jurisdiction where action for that purpose is required. Accordingly, the C Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Offer for Subscription and Placing may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

## PART VI: DETAILS OF THE C SHARES AND THE CONVERSION RATIO

### Definitions

The following definitions apply only for the purposes of this Part VI of this document. In addition to or where applicable, in substitution for, the definition applicable elsewhere in this document:

"Articles of Association" or "Articles"	means the articles of association of the Company following the amendments proposed to be made at the General Meeting of the Company convened for 3 p.m. on 11 February 2011;
"Auditors"	means Grant Thornton UK LLP or such other auditor as the Company may appoint from time to time;
"Business Day"	means any day (other than a Saturday or Sunday) on which banks are generally open for business in London;
"Calculation Day"	means the date of Admission unless Force Majeure Circumstances occur or the Directors resolve that this is imminent, in which event, close of business on the Business Day on which the Directors resolve Force Majeure Circumstances have ceased to apply;
"Companies Acts"	means the Companies Act 2006 as amended and every other statute for the time being in force concerning companies affecting the Company;
"Conversion"	means conversion of C Shares in accordance with paragraphs 4 and 7 below;
"Conversion Ratio"	means A/B calculated to four decimal places (with 0.00005 being rounded downwards) where: "A" is the Net Proceeds of the Issue divided by the number of C Shares in issue at the Calculation Day and where: "B" is the Net Asset Value of the Company calculated as at the close of business on the Calculation Day divided by the number of Ordinary Shares in issue on the Calculation Day;
"C Shares"	means C Shares in the capital of the Company having the rights and restrictions set out in paragraphs 1 to 7 (inclusive) of this Part VI;
"C Share Surplus"	means the assets of the Company attributable to the C Shares less 2.5% of the Issue proceeds and less any liabilities attributable to the C Shares;
"Deferred Shares"	means redeemable deferred shares of £0.01 each in the capital of the Company arising on Conversion;
"Force Majeure Circumstances"	means any political, economic and/or market circumstances and/or actual or anticipated changes in fiscal or other legislation which, in the reasonable opinion of the Directors, render it necessary or desirable to delay the Calculation Day and/or Conversion;
"Issue Date"	means the date on which admission of the C Shares to the Official List of the UK Listing Authority becomes effective;
"Manager"	means FIL Investment Management (Hong Kong) Limited or such other person as is from time to time the manager of the Company's investments (other than the investments under the management of the Unlisted Investment Manager);
"Net Proceeds"	means the 97.5% of the cash proceeds of the Issue;

"Ordinary Shares"	means ordinary shares of nominal value of 1p each in the capital of the Company; and
"Ordinary Share Surplus"	means the assets of the Company attributable to the Ordinary Shares less the liabilities of the Company so attributable and the aggregate nominal capital of the issued Ordinary Shares.

### Details of the C Shares

The first Resolution to be proposed at the General Meeting will amend the Articles so that they include provisions reflecting the rights and restrictions attaching to the C Shares as set out below.

#### 1. Dividends

- 1.1 The holders of C Shares shall be entitled to receive, in that capacity, the revenue profits of the Company, if any, arising on the assets attributable to the C Shares and available for distribution and determined to be distributed by way of interim or final dividend at such times as the Board may determine. However, no dividend shall be paid on the C Shares otherwise than out of profits available for distribution in accordance with the Companies Acts.
- 1.2 The new Ordinary Shares arising on Conversion of the C Shares shall rank in full for all dividends and other distributions declared, made or paid by reference to a record date falling after Conversion.
- 1.3 The Deferred Shares (to the extent that any are in issue and extant) shall entitle the holders thereof to a cumulative dividend at a fixed rate of 0.01 per cent. of the nominal amount thereof (the "**Deferred Dividend**") which shall accrue at that rate on a daily basis from the date of creation of such Deferred Shares in accordance with paragraph 8.3 until the date on which such Deferred Shares cease for any reason to be extant. The Deferred Dividend shall be payable on any such Deferred Shares out of profits available for distribution by the Company on the date six months after the Conversion as a result of which the relevant Deferred Shares were created and on each anniversary of such date (such date and each such anniversary each being a "**Deferred Dividend Payment Date**") to the persons entered on the register of members of the Company on the relevant Deferred Dividend Payment Date as holders of Deferred Shares, but the Deferred Shares shall confer no other right, save as provided herein, on the holders thereof to share in the profits of the Company. The Deferred Dividend becoming due on any Deferred Dividend Payment Date shall be payable only to those persons entered on the register of members of the Company on that Deferred Dividend Payment Date as holders of Deferred Shares. It should be noted that, given the Company's option, referred to in paragraph 4.2, to redeem the Deferred Shares immediately upon Conversion, it is not expected that any dividends will in practice be paid on the Deferred Shares.

#### 2. Rights as to capital

- 2.1 The capital and assets of the Company shall on a winding up or on a return of capital (other than by way of purchase or redemption of shares) prior, in any case, to Conversion be applied as follows:
  - (i) the Ordinary Share Surplus shall be divided amongst the Ordinary Shareholders *pro rata* according to their holdings of Ordinary Shares; and
  - (ii) the C Share Surplus shall be divided amongst the holders of C Shares *pro rata* according to their holdings of C Shares.
- 2.2 The capital and assets of the Company shall on a winding up or on a return of capital (other than by way of purchase or redemption of shares) after Conversion be applied as follows:
  - (i) first, if there are for the time being any Deferred Shares in issue, in paying to the holders of Deferred Shares one pence in aggregate in respect of every one million Deferred Shares (or part thereof) of which they are respectively the holders together with a sum equal to the Deferred Dividend (if any) which has accrued but has not been paid on the Deferred Shares; and
  - (ii) secondly, the surplus shall be divided amongst the Ordinary Shareholders *pro rata* according to their holdings of Ordinary Shares.

### **3. Voting rights**

The holders of C Shares shall be entitled to attend and vote at any general meeting of the Company. On a show of hands every holder of C Shares who is present in person at such meeting shall have one vote and on a poll every holder of C Shares who is present in person or by proxy shall have one vote for each C Share of which he is the holder. The Deferred Shares shall not carry any right to receive notice of, or attend or vote at any general meeting of the Company.

### **4. Redemption**

- 4.1 The C Shares are issued on terms that the Deferred Shares arising on Conversion (but not the Ordinary Shares) shall be redeemable by the Company in accordance with the terms set out in herein.
- 4.2 Upon Conversion, the Company shall be entitled, if it so wishes, to redeem all of the Deferred Shares arising from such Conversion immediately after the creation of the Deferred Shares for an aggregate consideration of one pence for every 1,000,000 Deferred Shares (or part thereof) together with a sum equal to the Deferred Dividend (if any) which has accrued but has not been paid on the Deferred Shares; and the making by the Company of the announcement referred to in paragraph 8.2 shall be deemed to constitute notice to each holder of C Shares (and any person or persons having rights to acquire or acquiring C Shares on or after the Calculation Day) that the Company has exercised its aforesaid right to redeem all of the Deferred Shares arising upon Conversion immediately after the creation of such Deferred Shares on the basis set out above; and
- 4.3 The Company shall not be obliged to: (i) issue share certificates to the holders of Deferred Shares in respect of the Deferred Shares; or (ii) account to any Shareholder holding Deferred Shares for the redemption price of such Deferred Shares unless the relevant holder applies to the Company in writing requesting payment of that redemption price.

### **5. Conversion**

C Shares shall be sub-divided and converted into Ordinary Shares and Deferred Shares in accordance with the provisions of paragraph 8 below (Conversion).

### **6. Class consents and variation of rights**

The consent of the holders of the C Shares as a class shall not be required to approve, and accordingly the special rights attached to the C Shares shall not be deemed to be varied by, any purchase by the Company of any of its issued Ordinary Shares prior to Conversion.

### **7. Undertakings**

Until Conversion and without prejudice to its obligations under the Companies Acts, the Company shall

- (a) procure, in the event of Force Majeure Circumstances occurring or the Directors resolving this is imminent, that the Company's records and bank accounts shall be operated so that the assets attributable to the C Shares can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall, without prejudice to any obligations pursuant to the Companies Acts, procure that a separate cash pool account and income account shall be created and maintained in the books of the Company for the assets attributable to the C Shares; and
- (b) allocate to the assets attributable to the C Shares such proportion of the expenses and liabilities of the Company incurred or accrued between the Issue Date and the Calculation Day (both dates inclusive) as the Directors fairly consider to be attributable to the C Shares including, without prejudice to the generality of the foregoing, those liabilities specifically identified in the definition of "Conversion Ratio" above.

### **8. Conversion**

- 8.1 The Directors shall procure that:
  - (i) both the Conversion Ratio and the numbers of new Ordinary Shares and Deferred Shares to which each holder of C Shares shall be entitled on Conversion shall be calculated;

- (ii) the Unlisted Investment Manager be required to confirm the valuation of the portfolio under its management to the Manager for the purposes of the calculations referred to in (iii); and
- (iii) the Manager be requested to confirm on the basis of its reliance on the confirmation of the Unlisted Investment Manager as to the value of the portfolio of the Company under its management, prior to Conversion, that both the calculation of the Conversion Ratio and the total numbers of new Ordinary Shares and Deferred Shares arising on Conversion:
  - (a) have been performed in accordance with the Articles of Association; and
  - (b) are arithmetically accurate,

Whereupon such calculations shall become final and binding on the Company and all holders of Ordinary Shares and all holders of C Shares.

- 8.2 The Directors shall procure that as soon as practicable following such certification an announcement is made to a Regulatory Information Service advising holders of Shares of the Conversion Ratio and the number of Ordinary Shares to which holders of C Shares are entitled on Conversion.
- 8.3 Conversion shall take place on the Calculation Day. On Conversion the issued C Shares shall automatically convert into such number of Ordinary Shares and Deferred Shares as shall be necessary to ensure that, upon such conversion being completed:
  - 8.3.1 the aggregate number of Ordinary Shares into which the C Shares are converted equals the number of C Shares in issue on the Calculation Day multiplied by the Conversion Ratio (rounded down to the nearest whole Ordinary Share); and
  - 8.3.2 each C Share which does not so convert into an Ordinary Share shall convert into one Deferred Share.
- 8.4 The Ordinary Shares and Deferred Shares arising upon Conversion shall be divided amongst the former holders of C Shares immediately prior to Conversion *pro rata* according to their respective former holdings of C Shares (provided always that the Directors may deal in such manner as they think fit with fractional entitlements to new Ordinary Shares and Deferred Shares arising upon Conversion including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the sale proceeds (net of expenses) if £5 or less for the benefit of the Company) and for such purposes any Director is hereby authorised as agent on behalf of the former holders of C Shares, in the case of a share in certificated form, to execute any stock transfer form and to do any other act or thing as may be required to give effect to the same including, in the case of a share in uncertificated form, the giving of directions to or on behalf of the former holder of C Shares who shall be bound by them.
- 8.5 Forthwith upon Conversion, the Company shall issue to each former holder of C Shares new certificates in respect of the Ordinary Shares which have arisen upon Conversion unless such former holder elects to hold their Ordinary Shares in uncertificated form.
- 8.6 Forthwith upon Conversion, the rights attaching to the C Shares under the Articles of Association shall lapse and be of no further effect and forthwith upon redemption of the Deferred Shares, the rights attaching to the Deferred Shares under the Articles of Association shall lapse and be of no further effect.

## PART VII: TERMS AND CONDITIONS OF THE ISSUE

### A. TERMS AND CONDITIONS OF OPEN OFFER

#### 1. Introduction

As explained in the letter set out in Part I (*Letter from the Chairman*) of this document, the Company is proposing to issue up to 166,250,000 C Shares at the Issue Price under the Open Offer, and to raise, assuming that the Open Offer is fully subscribed, approximately £166.25 million (before expenses).

Upon completion of the Open Offer, assuming it is fully subscribed, the C Shares under the Open Offer will represent approximately 30 per cent. of the enlarged Issued Share Capital and the existing Ordinary Shares will represent approximately 70 per cent. of the enlarged Issued Share Capital.

The Record Date for entitlements, under the Open Offer for CREST Shareholders and Non-CREST Shareholders is the close of business on 30 December 2010. Open Offer Application Forms for Non-CREST Shareholders accompany this document (comprising also a General Meeting notice).

The latest time and date for receipt of completed Open Offer Application Forms and payment in full under the Open Offer and settlement of relevant instructions (as appropriate) is expected to be 11 a.m. on 15 February 2011 with Admission and commencement of dealings in C Shares expected to take place at 8 a.m. on 28 February 2011.

This document and, for Non-CREST Shareholders only, the Open Offer Application Forms contain the formal terms and conditions of the Open Offer. Your attention is drawn to paragraphs 4.1 and 4.2 of this Section A of this Part VII (*Terms and Conditions of the Issue*) which gives details of the procedure for application and payment for the C Shares under the Open Offer.

The C Shares under the Open Offer will, when issued and fully paid, rank equally in all respects with Ordinary Shares, including the right to receive all dividends or other distributions made, paid or declared, if any, by reference to a record date after the date of their issue.

The Company is proposing to issue up to 166,250,000 C Shares at the Issue Price subject to Admission, in respect of valid applications by Shareholders pursuant to the Open Offer. Application has been made to the FSA for the C Shares to be admitted to listing on the Official List, and to the London Stock Exchange to be admitted to trading on the London Stock Exchange's main market for listed securities.

The Open Offer is an opportunity for Shareholders to apply for up to 166,250,000 C Shares *pro rata* to their current holdings at the Issue Price in accordance with the terms of the Open Offer.

The C Shares made available under the Open Offer have not been placed subject to clawback nor have they been underwritten. Consequently, there may be no, or fewer than 166,250,000 C Shares issued pursuant to the Open Offer.

Any Shareholder who has sold or transferred all or part of his/her registered holding(s) of Ordinary Shares prior to 8 a.m. on 10 January 2011 (being the ex-entitlement date for the Open Offer) is advised to consult his or her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for C Shares under the Open Offer may be a benefit which may be claimed from him/her by the purchasers under the rules of the London Stock Exchange.

#### 2. The Open Offer

Subject to the terms and conditions set out below (and, in the case of Non-CREST Shareholders, in the Application Form), Shareholders are being given the opportunity under the Open Offer to apply for any number of C Shares at the Issue Price *pro rata* to their holdings, on the following basis:

##### **One C Share for every three Ordinary Shares**

held and registered in their name at the close of business on the Record Date. Fractions of C Shares will not be allotted to Shareholders in the Open Offer and entitlements under the Open Offer will be rounded down to the nearest whole number of C Shares.

**Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer, as will holdings under different designations and in different accounts.**

If you are a Non-CREST Shareholder, the Application Form shows the number of C Shares available to you under your Open Offer Entitlement (in Box 3).

CREST Shareholders will have Open Offer Entitlements credited to their stock accounts in CREST and should refer to paragraph 4.2 of this Section A of Part VII (*Terms and Conditions of the Issue*) for information on the relevant CREST procedures. CREST Shareholders can also refer to the CREST Manual for further information on the relevant CREST procedures.

**Shareholders should be aware that the Open Offer is not a rights issue. Non-CREST shareholder should also note that their respective Open Offer Application Forms are not negotiable documents and cannot be traded. CREST Shareholders should note that, although the Open Offer Entitlements will be credited to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claims Processing Unit. C Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Shareholders who do not apply to take up C Shares will have no rights under the Open Offer. Any C Shares which are not applied for by Shareholders under their Open Offer Entitlements will be made available under the Offer for Subscription and thereafter under the Placing (with the proceeds in each case being retained for the benefit of the Company). The C Shares made available under the Open Offer have not been placed subject to clawback nor have they been underwritten. Consequently, there may be no, or fewer than 166,250,000, C Shares issued pursuant to the Open Offer.**

Application will be made for the Open Offer Entitlements to be credited to CREST Shareholders' CREST accounts. The Open Offer Entitlements are expected to be credited to CREST accounts as soon as possible after 8 a.m. on 10 January 2011.

The Ordinary Shares are already admitted to CREST. All Ordinary Shares arising on Conversion may be held and transferred by means of CREST.

### **3. Conditions and further terms of the Open Offer**

The Open Offer is conditional upon, amongst other things, the approval of the Resolutions at the General Meeting, the Placing Agreement becoming unconditional in all respects (other than as to Admission) and Admission becoming effective by not later than 8 am on 28 February 2011 (or such later time and/or date as the Company and/or Cenkos Securities may determine, not being later than 8 a.m. on 31 March 2011). A summary of the Placing Agreement is set out in paragraph 10 of Part IX (*Additional Information*) of this document.

Accordingly, if these conditions are not satisfied or waived (where capable of waiver), the Open Offer will not proceed and any applications made by Shareholders will be rejected. In such circumstances, application monies will be returned (at the applicant's sole risk), without payment of interest, as soon as practicable thereafter.

No temporary documents of title will be issued in respect of C Shares held in uncertificated form. Definitive certificates in respect of Ordinary Shares arising on Conversion will only be posted to those Shareholders who have validly elected to hold their C Shares in certificated form on the week-commencing 7 March 2011 and request the issue of a certificate by notice to the Company. In respect of those Shareholders who have validly elected to hold their C Shares (and the Ordinary Shares into which they will convert) in uncertificated form, the C Shares are expected to be credited to their stock accounts maintained in CREST by 28 February 2011.

Application has been made for the C Shares to be admitted to listing on the Official List and to be admitted to trading on the London Stock Exchange's main market for listed securities. Admission is expected to occur on 28 February 2011, when dealings in the C Shares are expected to begin.

All monies received by the Receiving Agent in respect of C Shares will be credited to a non-interest bearing account by the Receiving Agent.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will notify the UKLA and make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

#### **4. Procedure for application and payment in respect of the Open Offer**

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Open Offer Application Form in respect of your Open Offer Entitlement under the Open Offer or you have an Open Offer Entitlement to your CREST stock account.

Shareholders who hold all their Ordinary Shares in certificated form will receive the Open Offer Application Form enclosed with this document. The Open Offer Application Form shows Shareholders the number of C Shares available under their Open Offer Entitlement that can be allotted in certificated form. Shareholders who hold all their Ordinary Shares in CREST will be allotted C Shares in CREST. Shareholders who hold part of their Ordinary Shares in uncertificated form will be allotted C Shares in uncertificated form to the extent that their entitlement to C Shares arises as a result of holding Ordinary Shares in uncertificated form. However, it will be possible for Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 4.2.5 of this Section A of Part VII (*Terms and Conditions of the Open Offer*).

CREST sponsored members should refer to their CREST sponsor as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply for C Shares in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

**Shareholders who do not wish to apply for the C Shares under the Open Offer should take no action and should not complete or return the Open Offer Application Form, or send a USE message through CREST.**

##### **4.1 If you have an Open Offer Application Form in respect of your Open Offer Entitlement under the Open Offer**

###### **4.1.1 General**

Subject as provided in paragraph 6 of Section A of this Part VII (*Terms and Conditions of the Issue*) in relation to Overseas Shareholders, Non-CREST Shareholders will receive an Open Offer Application Form. The Open Offer Application Form shows the number of C Shares available to them under their Open Offer Entitlement in Box 3. Entitlements to C Shares are rounded down to the nearest whole number and fractional Open Offer Entitlements have therefore also been rounded down. Box 4 shows how much they would need to pay if they wish to take up their Open Offer Entitlement in full. Non-CREST Shareholders may apply for less than their entitlement should they wish to do so. Non-CREST Shareholders may also hold such an Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Open Offer Application Form form part of the terms of the Open Offer in relation to Non-CREST Shareholders.

###### **4.1.2 Bona fide market claims**

Applications to acquire C Shares under the Open Offer may only be made on the Open Offer Application Form and may only be made by the Non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Ordinary Shares through the market prior to the date upon which the Ordinary Shares were marked "ex" the entitlement to participate in the Open Offer. Open Offer Application Forms may not be assigned, transferred or split, except to satisfy *bona fide* market claims up to 11 a.m. on 15 February 2011. The Open Offer Application Form is not a negotiable document and cannot be separately traded. A Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Ordinary Shares prior to the date upon which the Ordinary Shares were marked "ex" the entitlement to participate in the Open Offer, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire C Shares under the Open Offer may be a benefit which may be claimed by the transferee. Non-CREST Shareholder who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 8 on the

Open Offer Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Open Offer Application Form should not, however be forwarded to or transmitted in or into the United States or any Restricted Jurisdiction. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Open Offer Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedure set out in paragraph 4.2.2 below.

#### 4.1.3 Application procedures

Non-CREST Shareholders wishing to apply to acquire C Shares (whether in respect of all or part of their Open Offer Entitlement) should complete the Open Offer Application Form in accordance with the instructions printed on it.

Completed Application Forms should be posted in the accompanying pre-paid envelope or returned by post or by hand (during normal business hours only) to the Receiving Agent, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by the Receiving Agent by no later than 11 a.m. on 15 February 2011, after which time Application Forms will not be valid. Non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged. If an Application Form is being sent by first-class post in the UK, Shareholders are recommended to allow at least four working days for delivery.

All payments must be in pounds sterling and made by cheque or banker's draft made payable to "Capita Registrars Limited re FCSS PLC Open Offer A/C and crossed "a/c payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-band corner and must be for the full amount payable on application. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque or draft to confirm that the relevant Shareholder has title to the underlying funds. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

Cheques or bankers drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity (and withhold definitive share certificates (or crediting to the relevant member account, as applicable) pending clearance thereof). No interest will be paid on payments made before they are due. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If cheques or banker's drafts are presented for payment before the conditions of the Issue are fulfilled, the application monies will be credited to a non-interest bearing account by the Receiving Agent. If the Issue does not become unconditional, no C Shares will be issued and all monies will be returned (at the applicant's sole risk), without payment of interest, to applicants as soon as practicable following the lapse of the Issue.

The Company may in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and

conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept either:

- (a) Application Forms received after 11 a.m. on 15 February 2011; or
- (b) applications in respect of which remittances are received before 11 a.m. on 15 February 2011 from authorised persons (as defined in FSMA) specifying the C Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two Business Days.

Multiple applications will not be accepted. All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

If C Shares have already been allotted to a Non-Crest Shareholder and such Non-Crest Shareholder's cheque or banker's draft is not honoured upon first presentation or such Non-Crest Shareholder's application is subsequently otherwise deemed to be invalid, Cenkos Securities shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of the Company, for the sale of such Non-Crest Shareholder's C Shares and for the proceeds of sale (which for these purposes shall be deemed to be payments in respect of successful applications) to be paid to and retained by the Company. Neither Cenkos Securities or the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Non-Crest Shareholders.

#### 4.1.4 Effect of application

By completing and delivering an Open Offer Application Form the applicant:

- (a) represents and warrants to the Company and Cenkos Securities that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for C Shares or acting on behalf of any such person on a non-discretionary basis;
- (b) agrees with the Company and Cenkos Securities that all applications under the Open Offer and contracts resulting therefrom shall be governed by and construed in accordance with the laws of England;
- (c) confirms to the Company and Cenkos Securities that in making the application he is not relying on any information or representation in relation to the Company other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information in relation to the Company contained in this document (including matters incorporated by reference);
- (d) represents and warrants to the Company and Cenkos Securities that he is the Shareholder originally entitled to his Open Offer Entitlement or that he received such Open Offer Entitlement by virtue of a *bona fide* market claim;
- (e) represents and warrants to the Company and Cenkos Securities that if he has received some or all of his Open Offer Entitlement from a person other than the Company he is entitled to apply under the Open Offer in relation to such Open Offer Entitlement by virtue of a *bona fide* market claim;
- (f) requests that the C Shares, to which he will become entitled, be issued to him on the terms set out in this document and the Open Offer Application Form subject to the Articles of Association of the Company;
- (g) represents and warrants to the Company and Cenkos Securities that he is not, nor is he applying on behalf of, any person who is in, or is a citizen or resident, or is a corporation, partnership or other entity created or organised in or under any laws, of the United States or any Restricted Jurisdiction or any jurisdiction in which the application for C Shares is prevented by law and he is not applying with a view to re-

offering, re-selling, transferring or delivering any of the C Shares which are the subject of his application in or to, or for the benefit of, a person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of the United States or any Restricted Jurisdiction or any jurisdiction in which the application for C Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor person(s) otherwise prevented by legal or regulatory restrictions from applying for C Shares under the Open Offer;

- (h) represents and warrants to the Company and Cenkos Securities that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
- (i) confirms that in making the application he is not relying and has not relied on Cenkos Securities or any person affiliated with Cenkos Securities in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

#### 4.1.5 *Incorrect or incomplete applications*

If an Open Offer Application Form includes a payment for an incorrect sum, the Company reserves the right:

- (a) to reject the application in full and refund the payment to the applicant (without interest);
- (b) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of C Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the applicant (without interest); and
- (c) in the case that an excess sum is paid, to treat the application as a valid application for all the C Shares referred to in the Open Offer Application Form, refunding any unutilised sum to the applicant (without interest).

All enquiries in connection with the procedure for application and completion of the Open Offer Application Form should be addressed to the Receiving Agent, Capita Registrars, Corporate Actions, The Registry 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you can contact the Receiving Agent on 0871 664 0321 between 9.00 am and 5.00 pm (London time) Monday to Friday from within the UK or +44 (0)20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note the Receiving Agent cannot provide advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements or give any financial, legal or tax advice.

Non-CREST Shareholders who do not wish to take up or apply for the C Shares under the Open Offer should take no action and should not complete or return the Open Offer Application Form.

A Non-CREST Shareholder who is also a CREST member may elect to receive the C Shares to which he is entitled in uncertificated form in CREST (please see paragraph 4.2.1 below for more information).

#### 4.2 *If you have Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer*

##### 4.2.1 *General*

Subject as provided in paragraph 6 of Section A of Part VII (Terms and Conditions of the Issue) in relation to certain Overseas Shareholders, each CREST Shareholder will receive a

credit to his stock account in CREST of his Open Offer Entitlement equal to the maximum number of C Shares for which he is entitled to apply to acquire under the Open Offer. Entitlements to C Shares will be rounded down to the nearest whole number and any Open Offer Entitlements have therefore also been rounded down.

The CREST stock account to be credited will be an account under the participant ID and member account ID specified in the section headed "Expected Timetable of Principal Events" and below.

If for any reason the Open Offer Entitlement cannot be admitted to CREST by, or the stock accounts of CREST Shareholders cannot be credited by 3 p.m. on 10 January 2011, or such later time and/or date as the Company may decide, an Open Offer Application Form will be sent to each CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Non-CREST Shareholders with Open Offer Application Forms will apply to CREST Shareholders who receive such Open Offer Application Forms.

CREST members who wish to apply-to acquire some or all of their entitlements to C Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact the Receiving Agent on telephone number 0871 664 0321, between 9.00 am and 5.00 pm (London time) Monday to Friday from within the UK, calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary, or if calling from overseas +44 (0)20 8639 3399. Calls to the helpline from outside the UK will be charged at the applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note the Receiving Agent cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements nor give any financial, legal or tax advice. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for C Shares as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

#### 4.2.2 *Market claims*

The Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as "cum" the Open Offer Entitlements will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

#### 4.2.3 *Unmatched Stock Event ("USE") instructions*

CREST Shareholders who are CREST members and who want to apply for C Shares in respect of all or some of their Open Offer Entitlements must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an USE instruction to Euroclear which, on its settlement, will have the following effect:

- (a) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of C Shares applied for; and
- (b) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE Instruction which must be the full amount payable on application for the number of C Shares referred to in (i) above.

#### 4.2.4 Content of USE instruction in respect of Open Offer Entitlements

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (a) the number of C Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Receiving Agent);
- (b) the ISIN of the Open Offer Entitlement. This is GB00B67W2J33;
- (c) the CREST participant ID of the accepting CREST member;
- (d) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (e) the participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 7RA33;
- (f) the member account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 27250FID;
- (g) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of C Shares referred to in (a) above;
- (h) the intended settlement date. This must be on or before 11 a.m. on 15 February 2011; and
- (i) (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE Instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11 a.m. on 15 February 2011.

In order to assist prompt settlement of the USE Instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE Instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE Instruction may settle on 15 February 2011 in order to be valid is 11 a.m. on that day.

In the event that the Issue does not become unconditional by 11 a.m. on 15 February 2011 or such later time and date as the Company and Cenkos Securities determine (being no later than 8 a.m. on 31 March 2011), the Issue will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

#### 4.2.5 Deposit of Open Offer Entitlements into, and withdrawal from, CREST

A Non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Open Offer Application Form may be deposited into CREST (either into the account of the Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim), provided that such Non-CREST Shareholder is also a CREST member. Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Open Offer Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Open Offer Application Form.

A holder of an Open Offer Application Form who is proposing to deposit the entitlement set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11 a.m. on 15 February 2011.

In particular, having regard to normal processing times in CREST and on the part of the Receiving Agent, (i) the recommended latest time for depositing an Open Offer Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Open Offer Application Form as Open Offer Entitlements in CREST, is 3 p.m. on 10 February 2011 and (ii) the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 9 February 2011 — in either case so as to enable, the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Open Offer Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements, as the case may be, prior to 11 a.m. on 15 February 2011.

Delivery of an Open Offer Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Shareholder named in the Open Offer Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 2 of the Open Offer Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that it/they is/are not in, or citizen(s) or resident(s) of, the United States or any Restricted Jurisdiction or any jurisdiction in which the application for C Shares is prevented by law and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

#### 4.2.6 *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11 a.m. on 15 February 2011 will constitute a valid application under the Open Offer.

#### 4.2.7 *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above and settled by 11 a.m. on 15 February 2011. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

#### 4.2.8 *Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company, through the Registrar, reserves the right:

- (a) to reject the application in full and refund the payment to the CREST member in question (without interest);
- (b) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of C Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question (without interest); and

- (c) in the case that an excess sum is paid, to treat the application as a valid application for all the C Shares referred to in the USE instruction, refunding any unutilised sum to the CREST member in question (without interest).

#### 4.2.9 Effect of valid application

A CREST member who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (a) represents and warrants to the Company and Cenkos Securities that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for C Shares or acting on behalf of any such person on a non-discretionary basis;
- (b) agrees with the Company and Cenkos Securities to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Receiving Agent's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);
- (c) agrees with the Company and Cenkos Securities that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (d) confirms to the Company and Cenkos Securities that in making the application he is not relying on any information or representation in relation to the Company other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to the Company contained in this document (including matters incorporated by reference);
- (e) represents and warrants to the Company and Cenkos Securities that he is the Shareholder originally entitled to the Open Offer Entitlement or that he has received such Open Offer Entitlement by virtue of a *bona fide* market claim;
- (f) represents and warrants to the Company and Cenkos Securities that if he has received some or all his Open Offer Entitlement from a person other than the Company, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlement by virtue of a *bona fide* market claim;
- (g) requests that the C Shares to which he will become entitled be issued to him on the terms set out in this document, subject to the Articles of Association of the Company;
- (h) represents and warrants to the Company and Cenkos Securities that he is not, nor is he applying on behalf of anyone who is in, or is a citizen or resident, or is a corporation, partnership or other entity created or organised in or under any laws of, the United States or any Restricted Jurisdiction or any jurisdiction in which the application for C Shares is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the C Shares which are the subject of his application in or to, or for the benefit of, any person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of the United States or any Restricted Jurisdiction or any jurisdiction in which the application for C Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of my such person on

a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for C Shares under the,

- (i) represents and warrants to the Company and Cenkos Securities that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
- (j) confirms that in making the application he is not relying and has not relied on Cenkos Securities or any person affiliated with Cenkos Securities in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

#### 4.2.10 Company's discretion as to the rejection and validity of applications

The Company may in its sole discretion:

- (a) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part VII (*Terms and Conditions of the Issue*);
- (b) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (c) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (d) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for C Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

#### 4.2.11 Lapse of the Open Offer

In the event that the Issue does not become unconditional by 8 a.m. on 28 February 2011 or such later time and date as the Company and Cenkos Securities may agree (being no later than the 8 a.m. on 31 March 2011), the Issue will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

### 5. Money laundering regulations

#### 5.1 Holders of Application Forms

To ensure compliance with the Money Laundering Regulations, the Receiving Agent may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Open Offer Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If the Open Offer Application Form is submitted by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money

Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent's stamp should be inserted on the Open Offer Application Form.

The person lodging the Open Offer Application Form with payment and in accordance with the other terms as described above (the "acceptor"), including any person who appears to the Receiving Agent to be acting on behalf of some other person, accepts the Open Offer in respect of such number of C Shares as is referred-to therein (for the purposes of this paragraph 5 the "relevant C Shares") and shall thereby be deemed to agree to provide the Receiving Agent with such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements.

If the Receiving Agent determines that the verification of identity requirements apply to any acceptor or application, the relevant C Shares (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Receiving Agent is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Receiving Agent nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CRESTaccounts. If, within a reasonable time following a request for verification of identity, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptors risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn.

**Submission of an Open Offer Application Form with the appropriate remittance will constitute a warranty to each of the Company, the Receiving Agent and Cenkos Securities from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.**

The verification of identity requirements will not usually apply:

- (a) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no. 91/308/EEC));
- (b) if the acceptor is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations;
- (c) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the applicant's name; or
- (d) if the aggregate subscription price for the C Shares is less than Euro 15,000 (approximately £12,500).

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (a) if payment is made by cheque or banker's draft in sterling drawn on a branch in the United Kingdom of a bank or building society which bears a UK bank sort code number in the top right hand corner the following applies. Cheques should be made payable to "Capita Registrars Limited re FCSS PLC Open Offer A/C" and crossed "a/c payee only". Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque/banker's draft to such effect. The account name should be the same as that shown on the Application Form; or
- (b) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong

Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, the Republic of South Africa, Switzerland, Turkey, UK Crown Dependencies and the USA and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide with the Application Form written confirmation that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Registrar. If the agent is not such an organisation, it should contact the Registrar at the address set out on page 26 of this document.

To confirm the acceptability of any written assurance referred to in (b) above, or in 'any other case, the acceptor should contact the Receiving Agent. The telephone number of the Capita Registrars on 0871 664 0321 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 a.m. to 5.00 p.m. (London Time) Monday to Friday. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

If the Application Form(s) is/are in respect of C Shares under the Open Offer with an aggregate subscription price of the sterling equivalent of €15,000 (approximately £12,500) or more and is/are lodged by hand by the acceptor in person, or if the Application Form(s) in respect of C Shares is/are lodged by hand by the acceptor and the accompanying payment is not the acceptor's own cheque, he or she should ensure that he or she has with him or her evidence of identity bearing his or her photograph (for example, his or her passport) and separate evidence of his or her address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 24 February 2011, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Receiving Agent under instructions from the Company may, at its discretion, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to the rights of the Company to undertake proceedings to recover monies in respect of the loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

## 5.2 Open Offer Entitlements in CREST

If you hold your Open Offer Entitlement in CREST and apply for C Shares in respect of some or all of your Open Offer Entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact the Receiving Agent before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to the Company, the Receiving Agent and Cenkos Securities to provide promptly to the Receiving Agent such information as may be specified by the Receiving Agent as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Receiving Agent as to identity, the Receiving Agent may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the C Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the C Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

## 6. Overseas Shareholders

This document has been approved by the FSA, being the competent authority in the United Kingdom. The comments set out in this paragraph 6 are intended as a general guide only and any Overseas

Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

#### 6.1 General

**The distribution of this document and the making of the Open Offer to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom or to persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdictions. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements or other formalities to enable them to apply for C Shares under the Open Offer.**

No action has been or will be taken by the Company or Cenkos Securities or any other person, to permit a public offering or distribution of this document (or any other offering or publicity materials or application form(s) relating to the C Shares under the Open Offer or C Shares to be issued under the Offer for Subscription) in any jurisdiction where action for that purpose may be required.

No public offer of C Shares is being made by virtue of this document or the Open Offer Application Form into the United States or any Restricted Jurisdiction.

Receipt of this document and/or an Open Offer Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Open Offer Application Form must be treated as sent for information only and should not be copied or redistributed.

Open Offer Application Forms will not be sent to, and Open Offer Entitlements will not be credited to stock accounts in CREST of, persons with registered addresses in the United States or a Restricted Jurisdiction or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or an Open Offer Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use any such Open Offer Application Form and/or credit of Open Offer Entitlements to a stock account in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and such Open Offer Application Form and/or credit of Open Offer Entitlements to a stock account in CREST could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements. In circumstances where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or the Open Offer Application Form must be treated as sent for information only and should not be copied or redistributed.

It is the responsibility of any person (including, without limitation, custodians, agent, nominees and trustees) outside the United Kingdom wishing to apply for C Shares under the Open Offer to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

None of the Company nor Cenkos Securities, nor any of their respective representatives is making any representation to any offeree or purchaser of the C Shares regarding the legality of an investment in the C Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Persons (including, without limitation, custodians, agents, nominees and trustees) receiving a copy of this document and/or an Open Offer Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST, in connection with the Open Offer or otherwise, should

not distribute or send either of those documents nor transfer Open Offer Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or an Open Offer Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST is received by any person in any such territory, or by his or her custodian, agent, nominee or trustee, he or she must not seek to apply for C Shares in respect of the Open Offer unless the Company or Cenkos Securities determine that such action would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, agents, nominees and trustees) who does forward a copy of this document and/or an Open Offer Application Form and/or transfers Open offer Entitlements into any such territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this Part VII (*Terms and Conditions of the Issue*) and specifically the contents of this paragraph 6.

The Company reserves the right to treat as invalid any application or purported application for C Shares that appears to the Company or its agents to have been executed, effected, or dispatched from or in relation to the United States or a Restricted Jurisdiction or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of the share certificates relating to Ordinary Shares arising on Conversion (or in the case of a credit of Open Offer Entitlements to a stock account in CREST, to a CREST member whose registered address would be), in the United States or a Restricted Jurisdiction or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates or make such a credit.

Notwithstanding any other provision of this document or the relevant Application Form, the Company reserves the right to permit any person to apply for C Shares in respect of the Open Offer if the Company, in its sole and absolute discretion, is satisfied that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Overseas Shareholders who wish, and are permitted, to apply for C Shares should note that payment must be made in sterling denominated cheques or banker's drafts or where such Overseas Shareholder is a CREST Shareholder, through CREST.

## 6.2 United States

The C Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered or sold, re-sold, taken up, transferred, delivered or distributed, directly or indirectly, within the United States except in reliance on an exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Accordingly, the Company is not extending the Open Offer into the United States and neither this document nor the Open Offer Application Form constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any C Shares in the United States. Neither this document nor an Open Offer Application Form, will be sent to, and no C Shares will be credited to, a stock account in CREST of, any Shareholder with a registered address in the United States. Open Offer Application Forms sent from or postmarked in the United States will be deemed to be invalid and all persons acquiring C Shares and wishing to hold such C Shares in registered form must provide an address for registration of the C Shares issued upon exercise thereof outside the United States.

Any person who acquires C Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Open Offer Application Form and delivery of the C Shares, that they are not, and that at the time of acquiring the C Shares they will not be, in the United States or acting on behalf of, or for the account or benefit of a person on a non-discretionary basis in the United States or any state of the United States.

The Company reserves the right to treat as invalid any Open Offer Application Form that appears to the Company or its agents to have been executed in, or despatched from, the United States, or that provides an address in the United States for the receipt of C Shares, or which does not make the warranty set out in the Open Offer Application Form to the effect that the person completing the Application Form does not have a registered address and is not otherwise located in the United States and is not acquiring the C Shares with a view to the offer, sale, resale, transfer, delivery or distribution,

directly or indirectly, of any such C Shares in the United States or where the Company believes acceptance of such Application Form may infringe applicable legal or regulatory requirements.

The Company will not be bound to allot or issue any C Shares to any person with an address in, or who is otherwise located in, the United States in whose favour an Open Offer Application Form or any C Shares may be transferred. In addition, the Company and Cenkos Securities reserve the right to reject any USE instruction sent by or on behalf of any CREST member with a registered address in the United States in respect of the C Shares.

#### 6.3 Restricted Jurisdictions

The C Shares have not been and will not be registered under the relevant laws of any Restricted Jurisdiction or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any Restricted Jurisdiction or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Restricted Jurisdiction except pursuant to an applicable exemption. No offer of C Shares is being made by virtue of this document or the Application Forms into any Restricted Jurisdiction.

#### 6.4 Other overseas territories

Open Offer Application Forms will be sent to Non-CREST Shareholders and Open Offer Entitlements will be credited to the stock account in CREST of CREST Shareholders. Shareholders in jurisdictions other than the United Kingdom may, subject to the laws of their relevant jurisdiction, take up C Shares under the Open Offer in accordance with the instructions set out in this document and the Open Offer Application Form.

**Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of countries other than the United Kingdom should consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for any C Shares in respect of the Open Offer.**

### 6.5 Representations and warranties relating to Overseas Shareholders

#### 6.5.1 Non-CREST Shareholders

Any person completing and returning an Open Offer Application Form or requesting registration of the C Shares comprised therein represents and warrants to the Company, Cenkos Securities and the Registrar that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such person is not requesting registration of the relevant C Shares from within the United States or any Restricted Jurisdiction; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to acquire C Shares in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting on a non-discretionary basis for a person located within any Restricted Jurisdiction (except as agreed with the Company) or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such person is not acquiring C Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such C Shares into any of the above territories. The Company and/or the Registrar may treat as invalid any acceptance or purported acceptance of the allotment of C Shares comprised in an Application Form if it: (i) appears to the Company or its agents to have been executed, effected or dispatched from the United States or a Restricted Jurisdiction or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or (ii) provides an address in the United States or a Restricted Jurisdiction for delivery of the share certificates of Ordinary Shares arising on Conversion (or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates); or (iii) purports to exclude the warranty required by this sub-paragraph 6.5.1.

#### 6.5.2 CREST Shareholders

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part VII (*Terms and Conditions of the Issue*)

represents and warrants to the Company, Cenkos Securities and the Receiving Agent that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) he or she is not within the United States or any Restricted Jurisdiction; (ii) he or she is not in any territory in which it is unlawful to make or accept an offer to acquire C Shares; (iii) he or she is not accepting on a non-discretionary basis for a persons located within any Restricted Jurisdiction (except as otherwise agreed with the Company) or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) he or she is not acquiring any C Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such C Shares into any of the above territories.

#### 6.6 Waiver

The provisions of this paragraph 6 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company and/or Cenkos Securities in their absolute discretion. Subject to this, the provisions of this paragraph 6 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 6 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 6 shall apply to them jointly and to each of them.

### 7. Withdrawal rights

There are only limited rights of withdrawal associated with the Issue. Shareholders wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to section 87Q (4) of FSMA after the issue by the Company of a prospectus supplementary to this document must do so by lodging a written notice of withdrawal within two Business Days commencing on the Business Day after the date on which the supplementary prospectus is published. The withdrawal notice must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member. The notice of withdrawal must be deposited by post or by hand only (during normal business hours only) with the Receiving Agent, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by facsimile to the Receiving Agent so as to be received before the end of the withdrawal period. Please call Capita Registrars on 0871 664 0321 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 a.m. to 5.00 p.m. (London Time) Monday to Friday. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice. Notice of withdrawal given by any other means or which is deposited with the Registrar after expiry of such period will not constitute a valid withdrawal, provided that the Company will not permit the exercise of withdrawal rights after payment by the relevant person for the C Shares applied for in full and the allotment of such C Shares to such person becoming unconditional save to the extent required by statute. In such event, Shareholders are advised to seek independent legal advice.

### 8. Admission, Conversion, settlement and dealings

The result of the Issue is expected to be announced on 18 February 2011. Application has been made to the UK Listing Authority for the C Shares to be admitted to listing on the Official List and to the London Stock Exchange to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the C Shares, fully paid, will commence at 8 a.m. on 28 February 2011.

The Ordinary Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the C Shares. All such shares, when issued and fully paid, may be held and transferred by means of CREST.

Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11 a.m. on 15 February 2011 (the latest date for applications under the Open Offer). If the condition(s) to the Open Offer described above are satisfied, C Shares will be issued in uncertificated form to those persons who submitted a valid application for C Shares by utilising the CREST application procedures and whose applications have been accepted by the Company. On 28 February 2011, the Registrar will instruct

Euroclear to credit the appropriate stock accounts of such persons with such persons' entitlements to C Shares with effect from Admission (expected to be at 8.00 a.m. on 28 February, 2011). The stock accounts to be credited will be accounts under the same CREST participant IDs and CREST member account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send CREST Shareholders an Open Offer Application Form instead of crediting the relevant stock account with Open Offer Entitlements, and to allot and/or issue any C Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

For Non-CREST Shareholders who have applied by using an Open Offer Application Form, share certificates in respect of the Ordinary Shares arising on Conversion are expected to be despatched on the week commencing 7 March 2011. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the UK share register of the Company. All documents or remittances sent by or to applicants or as they may direct, will be sent through the post at their own risk. For more information as to the procedure for application, Non-CREST Shareholders are referred to paragraph 4.1 above and their respective Open Offer Application Form.

The C Shares are expected to convert into Ordinary Shares on or about 28 February 2011, with the amount of Ordinary Shares into which each holding converts to be based on the Conversion Ratio. As part of the Conversion, the registered holder of each C Share shall be entered into the register of Ordinary Shares in respect of the number of Ordinary Shares into which his holding converts. Transfers of C Shares not already in the register prior to Conversion will be treated as transfers of the Ordinary Shares into which the relevant C Shares convert but based on the written down number where the Conversion Ratio results in a transfer relating to a holding including a fractional entitlement.

## **9. Times and Dates**

The Company shall, in agreement with Cenkos Securities and after consultation with its financial and legal advisers, be entitled to amend the dates that Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify the UKLA and make an announcement on a Regulatory Information Service approved by the UKLA and, if appropriate, by Shareholders but Shareholders may not receive any further written communication.

## **10. Taxation**

Certain statements regarding United Kingdom taxation in respect of the C Shares and the Open Offer are set out in Part VIII (Taxation) of this document. Shareholders who are in any doubt as to their tax position in relation to taking up their entitlements under the Open Offer or who are subject to tax in any jurisdiction other than the United Kingdom, should immediately consult a suitable professional adviser.

## **11. Further information**

Your attention is drawn to the further information set out in this document and also, in the case of Non-CREST Shareholders and other Shareholders to whom the Company has sent Open Offer Application Forms, to the terms, conditions and other information printed on the accompanying Open Offer Application Form.

## **12. Governing law and jurisdiction**

The terms and conditions of the Open Offer as set out in this document, the Open Offer Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, English law. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form. By taking up C Shares by way of their Open Offer Entitlement, in accordance with the instructions set out in this document and, where applicable, the Application Form, Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

## **B. TERMS AND CONDITIONS OF APPLICATION UNDER THE OFFER FOR SUBSCRIPTION**

### **13. Introduction**

These terms and conditions apply to persons making an offer to subscribe for C Shares under the Offer for Subscription. They do not apply to the Open Offer, the terms and conditions relating to which, are set out in section A of this Part VII (*Terms and Conditions of the Issue*) of this document.

C Shares will only be available under the Offer for Subscription to the extent the C Shares available under the Open Offer that are not the subject of valid application under the Open Offer.

If you apply for C Shares under the Offer for Subscription, you will be agreeing with the Company and Capita Registrars (for itself and as agent for the Company) as follows:

### **14. Priority of Application**

The allocation of C Shares under the Offer for Subscription will be made at the discretion of Cenkos Securities in consultation with the Company and the Investment Manager and in accordance with Listing Rule 9.3. To the extent valid applications under the Offer for Subscription and the Placing are for more C Shares than the C Shares not taken up under the Open Offer the applications will be scaled back pro-rata.

### **15. Offer to Acquire C Shares**

- 15.1 Applications must be made on the Offer for Subscription Application Form attached at the end of this document or otherwise published by the Company. By completing and delivering an Application Form you, as the applicant, and, if you sign the Application Form on behalf of another person or a corporation, that person or corporation:
  - 15.1.1 offer to subscribe for such number of C Shares at 100p per C Share as may be purchased by the subscription amount specified in Box 1 on your Application Form on the terms, and subject to the conditions set out in the Prospectus including these "Terms and Conditions of Application under the Offer for Subscription" and the Articles of Association of the Company;
  - 15.1.2 agree that, in consideration of the Company agreeing that they will not, prior to the date of Admission, offer for subscription any C Shares to any person other than by means of the procedures referred to in the Prospectus, your application may not be revoked and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon receipt by Capita Registrars as Receiving Agent;
  - 15.1.3 with the exception of each of FIL Nominee (Shareholdings) Limited (in respect of Fidelity ISA applications) and Puddle Dock Nominees Limited (in respect of applications under the Fidelity Investment Trust Share Plan) each of whom the Company has agreed may make payments in respect of their respective applications under the Offer for Subscription after the allocation of C Shares has been determined, undertake to pay the subscription amount specified in Box 1 on your Application Form in full on application and warrant that the remittance accompanying your Application Form will be honoured on first presentation and agree that if such remittance is not so honoured you will not be entitled to commence dealings in C Shares applied for in uncertificated form or to enjoy or receive any rights in respect of such C Shares unless and until you make payment in cleared funds for such C Shares and such payment is accepted by Capita Registrars (which acceptance shall be in its absolute discretion and on the basis that you indemnify Capita Registrars and the Company against all costs, damages, losses, expenses and liabilities arising out of, or in connection with, the failure of your remittance to be honoured on first presentation) and the Company may (without prejudice to any other rights it may have) avoid the agreement to allot the C Shares and may allot them to some other person, in which case you will not be entitled to any refund or payment in respect thereof (other than the refund of any proceeds of the remittance which accompanied your Application Form, in accordance with paragraph 18 below);
  - 15.1.4 agree that, where on your Application Form a request is made for C Shares to be deposited into a CREST Account, the Company may in its absolute discretion amend the form so that such C Shares may be issued in certificated form registered in the name(s) of the holder(s) specified in your Application Form (and recognise that Capita Registrars

will so amend the form if there is any delay in satisfying the identity of the applicant or the owner of the CREST Account or in receiving your remittance in cleared funds or if the Participant's registered name in respect of the CREST Account is not the same as the registered name of the applicant(s) in the Application Form);

15.1.5 agree, in respect of applications for C Shares in certificated form (or where the Company exercises its discretion pursuant to paragraph 15.1.4 to issue C Shares in certificated form), that any share certificate to which you or, in the case of joint applicants, any of the persons specified by you in your Application Form, may become entitled (and any monies returnable to you) may be retained by Capita Registrars;

- (a) pending clearance of your remittance;
- (b) pending investigation of any suspected breach of the warranties contained in paragraph 19 below or any other suspected breach of these "Terms and Conditions of Application under the Offer for Subscription"; or
- (c) pending any verification of identity which is, or which Capita Registrars considers may be, required for the purpose of the Money Laundering Regulations 2007 and any other regulation applicable thereto, and any interest accruing on such retained monies shall accrue to and for the benefit of the Company;

15.1.6 agree, on the request of Capita Registrars, to disclose promptly in writing to them such information as Capita Registrars may request in connection with your application and authorise Capita Registrars to disclose any information relating to your application which they may consider appropriate;

15.1.7 agree that, if evidence of identity satisfactory to Capita Registrars is not provided to Capita Registrars within a reasonable time (in the opinion of Capita Registrars) following a request therefor, Capita Registrars or the Company may terminate the agreement with you to allot C Shares and, in such case, the C Shares which would otherwise have been allotted to you may be reallocated or sold to some other party and the lesser of your application monies or such proceeds of sale (as the case may be, with the proceeds of any gain derived from a sale accruing to the Company) will be returned in accordance with paragraph 18 below;

15.1.8 agree that you are not applying on behalf of a person engaged in money laundering;

15.1.9 undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form together with full identity documents for the person so signing;

15.1.10 undertake to pay interest at the rate described in paragraph 16.3 if the remittance accompanying your Application Form is not honoured on first presentation;

15.1.11 authorise Capita Registrars to procure that there be sent to you definitive certificates in respect of the number of Shares for which your application is accepted or if you have completed section 2 on your Application Form, but subject to paragraph 15.1.4 above, to deliver the number of Shares for which your application is accepted into CREST and/or to return any monies in accordance with paragraph 18 below;

15.1.12 confirm that you have read and complied with paragraph 21;

15.1.13 agree that all subscription cheques and payments will be processed through a bank account (the "Acceptance Account" in the name of "Capita Registrars Limited re FCSS PLC Offer for Subscription A/C" and crossed "a/c payee only", in respect of which ensure that all payments made out of the Acceptance Account are either (a) the return of applicants' subscription monies in accordance with paragraph 18 below, or (b) paid to the Company or otherwise in accordance with instructions of the Company; and further agree to indemnify Capita Registrars against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation and/or the repayment by Capita Registrars of returnable moneys in accordance with paragraph 18 below; and

15.1.14 agree that your Application Form is addressed to the Company and Capita Registrars.

15.2 Any application may be rejected in whole or in part in the discretion of the Company.

## **16. Acceptance of your Offer**

- 16.1 Capita Registrars may, on behalf of the Company, accept your offer to subscribe (if your application is received, valid (or treated as valid), processed and not rejected) on the terms notified by the Company to the UK Listing Authority regarding the basis of allocation (in which case the acceptance will be on that basis).
- 16.2 The basis of allocation will be determined by Cenkos Securities, in consultation with the Company and the Investment Manager. The right is reserved notwithstanding the basis (as so determined) to reject in whole or in part and/or scale back any application. The right is reserved to treat as valid any application not complying fully with these "Terms and Conditions of Application under the Offer for Subscription" or not in respects completed or delivered in accordance with the instructions accompanying the Application Form. Fractions of C Shares will not be allocated to Shareholders but will be aggregated and sold for the benefit of the Company. In particular, but without limitation, Cenkos Securities, in consultation with the Company and the Investment Manager may accept an application made otherwise than by completion of an Application Form where the applicant has agreed with Cenkos Securities, in consultation with the Company and the Investment Manager, in some other manner to apply in accordance with these "Terms and Conditions of Application under the Offer for Subscription". The Company reserves the right (but shall not be obliged) to accept Application Forms and accompanying remittances which are received through the post after 11 a.m. on 15 February 2011.
- 16.3 Capita Registrars will present all cheques, bankers drafts and building society cheques for payment on receipt and will retain documents of title and surplus monies pending clearance of successful applicants' payment. Capita Registrars may, as agent of the Company, require you to pay interest or its other resulting costs (or both) if the payment accompanying your application is not honoured on first presentation. If you are required to pay interest you will be obliged to pay the amount determined by the Company to be the interest on the amount of the payment from the date on which all payments in cleared funds are due to be received until the date of receipt of cleared funds. The rate of interest will be the then published bank base rate of Barclays Bank plc plus two per cent. per annum. The right is also reserved to reject in whole or in part, or to scale down or limit, any application.

## **17. Conditions**

- 17.1 The contracts created by the acceptance of applications (in whole or in part) under the Offer for Subscription will be conditional upon;
  - 17.1.1 admission of the C Shares, issued and to be issued pursuant to the Issue, to listing on the Official List and to trading on the London Stock Exchange in accordance with their respective roles by 8 a.m. on 28 February 2011 (or such later time or date, not being later than 8 a.m. on 31 March 2011, as the Company and Cenkos Securities may agree); and
  - 17.1.2 the Placing Agreement becoming unconditional and the obligations of Cenkos Securities thereunder not being terminated.
- 17.2 You will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance. This does not affect any other right you may have.

## **18. Return of Application Monies**

Where application monies have been banked and/or received, if any application is not accepted in whole, or is accepted in part only, or if any contract created by acceptance does not become unconditional, the application monies or, as the case may be, the balance of the amount paid on application will be returned without interest by returning your cheque or crossed cheque in favour of the first named applicant, by post at the risk of the person(s) entitled thereto. In the meantime, application monies will be retained by Capita Registrars in the Acceptance Account.

## **19. Warranties**

By completing an Offer for Subscription Application Form, you:

- 19.1 warrant that, if you sign the Application Form on behalf of a corporation, you have due authority to do so on behalf of that corporation and that such corporation will be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these "Terms and Conditions of Application under the Offer for Subscription" and undertake to enclose your evidence of due authority or a complete copy thereof duly certified by a solicitor, notary or bank;
- 19.2 warrant, if the laws of any territory or jurisdiction outside the United Kingdom are applicable on your application, that you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action or omitted to take any action which will result in the Company or Capita Registrars or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements, directly or indirectly, of any territory or jurisdiction outside of the United Kingdom in connection with the Offer for Subscription in respect of your application;
- 19.3 confirm that in making an application you are not relying on any information or representations in relation to the Company other than those contained in the Prospectus (on the basis of which alone your application is made) and accordingly you agree that no person responsible solely or jointly for the Prospectus or any part thereof shall have any liability for any such other information or representation;
- 19.4 agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations contained therein;
- 19.5 acknowledge that no person is authorised in connection with the Offer for Subscription to give any information or make any representation other than as contained in the Prospectus and, if given or made, any information or representation must not be relied upon as having been authorised by the Company or Capita Registrars;
- 19.6 warrant that you are not under the age of 18 on the date of your application;
- 19.7 agree that all documents (including share certificates) and monies sent by post to, by or on behalf of the Company or Capita Registrars will be sent at your risk and, in the case of documents and returned application cheques and payments to be sent to you, may be sent to you at your address (or, in the case of joint applicants, the address of the first named applicant) as set out in your Application Form;
- 19.8 confirm that you have reviewed the restrictions contained in paragraphs 21.1 and 21.2 below and warrant, to the extent relevant, that you (and any person on whose behalf you apply) comply or have complied with the provisions therein; and
- 19.9 declare that a loan has not been made to you or any associate, which would not have been made or not have been made on the same terms, but for your offering to subscribe for, or acquiring C Shares and that the C Shares are being acquired for *bona fide* commercial purposes and not as part of a scheme or arrangement the main purpose of which is the avoidance of tax.

## **20. Money Laundering**

- 20.1 You agree that, in order to ensure compliance with the Money Laundering Regulations 2007, Capita Registrars, the Company or the Administrator may respectively in its absolute discretion require verification of identity of you the applicant(s) lodging an Application Form and further may request from you and you will assist in providing identification on:
  - 20.1.1 the owner(s) and/or controller(s) (the "payor") of any bank account not in the name of the applicant(s) on which is drawn a payment by way of banker's draft or building society cheque; or
  - 20.1.2 where it appears to the Receiving Agent that an applicant or the payor is acting on behalf of some other person or persons, such person or persons.

Failure to provide the necessary evidence of identity may result in your application being rejected or delays in the despatch of documents.

20.2 Without prejudice to the generality of paragraph 3.1 under the Money Laundering Regulations 2007, Capita Registrars Limited may be required to check the identity of persons who subscribe for in excess of the sterling equivalent of Euro 15,000 of C Shares (approximately £12,500).

Capita may therefore undertake electronic searches for the purposes of verifying identity. To do so Capita may verify the details against the Applicant's identity, but also may request further proof of identity. Capita reserve the right to withhold any entitlement (including any refund cheque) until such verification of identity is completed to its satisfaction.

Payments must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom, of a bank or building society. Cheques, which must be drawn on the personal account of the individual investor where they have sole or joint title to the funds, should be made payable to Capita Registrars Limited re: FCSS PLC Offer for Subscription A/C" and crossed "a/c payee only". Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or Bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/bankers' draft to such effect.

The account name should be the same as that shown on the application.

20.3 An applicant making an application for C Shares will not be considered as forming a business relationship with either the Company or with Capita Registrars but will be considered as effecting a one-off transaction with either the Company or with Capita Registrars.

20.4 The applicant submitting an application for C Shares will ordinarily be considered to be acting as principal in the transaction unless Capita Registrars determines otherwise, whereupon you may be required to provide the necessary evidence of identity of the underlying beneficial owner(s).

20.5 If the amount being subscribed exceeds £12,500 you must provide with the Offer for Subscription Application Form the identity documentation detailed in section 7 of the Application Form for each underlying beneficial owner.

## **21. Non United Kingdom Investors**

21.1 If you receive a copy of the Prospectus or an Offer for Subscription Application Form in any territory other than the United Kingdom you may not treat it as constituting an invitation or offer to you, nor should you, in any event, use an Offer for Subscription Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to you or an Offer for Subscription Application Form could lawfully be used without contravention of any registration or other legal requirements. It is your responsibility, if you are outside the United Kingdom and wish to make an application for C Shares under the Offer for Subscription, to satisfy yourself as to full observance of the laws of any relevant territory or jurisdiction in connection with your application, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.

21.2 None of the C Shares have been or will be registered under the laws of Canada, Japan, the Republic of South Africa or Australia, nor under the United States Securities Act of 1933, as amended, or with any securities regulatory authority of any state or other political subdivision of the United States, Canada, Japan, the Republic of South Africa or Australia. Accordingly, unless an exemption under such Act or laws is applicable, the C Shares may not be offered, sold or delivered, directly or indirectly, within Canada, Japan, the Republic of South Africa, Australia or the United States. If you subscribe for C Shares you will, unless the Company and Capita Registrars agree otherwise in writing, be deemed to represent and warrant to the Company that you are not a US Person or a resident of Canada, Japan, the Republic of South Africa or Australia or a corporation, partnership or other entity organised under the laws of any such jurisdiction (or any state or other political subdivision of it) and that you are not subscribing for such C Shares for the account of any US Person or resident of Canada, Japan, the Republic of South Africa or Australia and will not offer, sell, renounce, transfer or deliver, directly or indirectly, any of the C Shares in or into the United States, Canada, Japan, the Republic of South Africa or Australia or to any US Person or resident in Canada,

Japan, South Africa or Australia. No application will be accepted if it shows the applicant or payor having an address in the United States, Canada, Japan, the Republic of South Africa or Australia.

## **22. Summary of Terms and Conditions of Admission**

- 22.1 To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent representations), other than of the Applicant are expressly excluded in relation to the C Shares and the Offer for Subscription.
- 22.2 The rights and remedies of the Company and Capita Registrars under these "Terms and Conditions of Application under the Offer for Subscription" are in addition to any rights and remedies which would otherwise be available to either of them and the exercise or partial exercise of one will not prevent the exercise of others.
- 22.3 The Company reserves the right to delay the closing time of the Offer for Subscription from 11 a.m. on 15 February 2011 by giving notice to the UK Listing Authority. In this event, the revised closing time will be published in such manner as the Company in consultation with Capita Registrars determines subject, and having regard, to the requirements of the UK Listing Authority.
- 22.4 The Company may terminate the Offer for Subscription in its absolute discretion at any time prior to Admission. If such right is exercised, the Offer for Subscription will lapse and any monies will be returned as indicated without interest.
- 22.5 You agree that Capita Registrars is acting for the Company and Cenkos Securities in connection with the Issue and for no one else and that Capita Registrars will not treat you as its customer by virtue of such application being accepted or owe you any duties concerning the price of C Shares or concerning the suitability of C Shares for you or otherwise in relation to the Issue.
- 22.6 You authorise Capita Registrars or any person authorised by them or the Company, as your agent, to do all things necessary to effect registration of any C Shares subscribed by you into your name(s) and authorise any representatives of Capita Registrars to execute and/or complete any document required in this regard.
- 22.7 You agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer for Subscription shall be governed by and construed in accordance with English law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances and contracts in any other manner permitted by law or in any court of competent jurisdiction.

Save where the context requires otherwise, terms used in these "Terms and Conditions of Application under the Offer for Subscription" have the same meaning as where used in the Prospectus.

## PART VIII: TAXATION

The following is a summary of certain tax matters that should be considered by potential investors. Potential investors are advised, however, to consult their own professional tax advisers about the tax consequences to them of the acquisition, ownership and disposal of Shares.

The statements are based upon current tax law in the relevant jurisdiction and what is understood to be the current practice of the relevant taxation authority, both of which are subject to change, possibly with retrospective effect. The statements are intended only as a general guide and may not apply to certain Shareholders, such as dealers in securities, insurance companies, collective investment schemes or Shareholders who have (or are deemed to have) acquired their Shares by virtue of an office or employment, who may be subject to special rules. The statements in relation to the UK taxation consequences for Shareholders apply only to Shareholders resident and ordinarily resident for UK tax purposes in the UK (except in so far as express reference is made to the treatment of non-UK residents), who hold Shares as an investment rather than trading stock and who are the absolute beneficial owners of those Shares.

### A. The Company

#### **China**

The Company has been advised as follows with respect to PRC taxation. The following narrative summarises certain Chinese taxation issues relating to the Company and to investments in the Company. This narrative does not purport to describe all of the Chinese tax consequences applicable to the Company or its investors. The actual tax consequences of the purchase, ownership and disposition of an interest in the Company will vary depending upon an investor's particular circumstances. Potential investors should consult their own tax advisers on the actual PRC implications of their contemplated investment in the Company.

This summary has been prepared based on Chinese tax laws and practices in force as of 30 December 2010 (being the latest practicable date prior to the publication of this document) and is subject to change after such date.

#### **Corporate Income Tax ("CIT") — resident and non-resident**

Under the CIT Law and the CIT Regulations, companies which were incorporated in the PRC and companies which were incorporated outside the PRC but are deemed to have a place of effective management in the PRC (collectively, "Resident Enterprises") are subject to Chinese CIT at the general rate of 25% on a worldwide basis; and companies incorporated outside the PRC and not deemed to have a place of effective management in the PRC ("Non-resident Enterprises") would be subject to Chinese CIT only with respect to their income attributable to their respective business establishment (the "BE") through which they carried on business activities in the PRC or the passive income such as capital gains, dividends, interest and royalties they receive from companies or individuals in the PRC, and such passive income is not effectively connected with the BE in question.

A "place of effective management" refers to the place where the material and overall management and control over the business, personnel, accounts and assets of the enterprise are exercised. Although it is intended that the Company's investment in China will be managed in a way so that the Company will not be deemed to have a place of effective management in China, there is no assurance that this objective will be achieved. It is possible that the PRC tax authorities may take an aggressive position that the Company is deemed to have such a place of effective management in China, and as a result the Company would be taxed in China as a Resident Enterprise.

#### **CIT — permanent establishment exposure**

According to the PRC-UK Double Tax Agreement ("DTA"), a permanent establishment ("PE") would be triggered for the Company in China by means of either a BE where the Company carries on business activities or a dependent agent who is invested with the authority and power to carry out activities and conclude contracts on behalf of the Company in China. Any agent (individual, company or other community) who works wholly or almost wholly for the Company may be deemed a PE in China. Therefore, although the Company does not intend to directly carry on any investment activities in China, there is still an agent PE risk for the Company. It is intended that the Company's investments in China will

be managed in such a way so that the Company will not be deemed to have constituted a PE in China; however, there is no assurance that this objective will be achieved.

#### *CIT — withholding tax on the Company's investment income*

In the absence of a BE or PE, the Company would only be subject to a 10% PRC withholding tax on dividends and capital gains realised from its investment in, and disposition of, the shares of Chinese companies.

After the implementation of the CIT Law on 1 January 2008, the PRC State Administration of Taxation issued tax circulars (i.e. Guo Shui Han (2008) No. 897, Guo Shui Han (2009) No. 47 and Guo Shui Han (2009) No. 394) specifying tax treatment of dividends from China A shares received by QFIIs and from China B shares and China H shares by non-Chinese tax resident enterprises (non-TREs). Accordingly, QFIIs or the respective non-TREs are subject to the PRC income withholding tax at the rate of 10% on dividends from investing in PRC listed securities.

According to Guo Shui Han (2009) No. 698 ("Circular 698"), gains derived by Non-TREs from the buying and selling of Chinese companies' shares effected through public stock exchanges could be exempt from withholding tax in China, however Circular 698 does not specify the types of shares applicable to the prescribed tax exemption.

With the exception of Circular 698, as of 30 December 2010 (being the latest practicable date prior to the publication of this document), China has not yet issued any tax rules specifying tax treatment of capital gains derived by QFIIs or non-TREs from investing in PRC listed securities. In the absence of such specific tax rules, the tax treatment of capital gains realised by QFIIs or the respective non-TREs from the disposition of China listed securities other than those falling under Circular 698 is governed by the general provisions of the CIT Law.

Under the general provisions of the CIT Law, QFIIs or the respective non-TREs are subject to PRC income withholding tax at the rate of 10% on capital gains from investing in PRC listed securities, since they are not generally considered to be a PRC resident enterprise by reason of having a place of effective management in the PRC, or otherwise as having a PE in the PRC. However, QFIIs or the respective non-TREs may be exempted from, or granted a reduction in, such withholding tax under the tax treaty between China and the home country of the financial institution which set up the QFII or the home country of the non-TREs.

#### *PRC Business Tax ("BT")*

Under PRC Business Tax Regulations effective from 1 January 2009, no BT is payable in respect of dividend income or profit distributions received by foreign and PRC domestic investors, including the Company. However, gains arising from the disposal of financial products such as foreign exchanges, marketable securities and futures etc should be subject to 5% BT in China. There is no further clarification as to whether marketable securities includes China A shares, B shares and H shares, although based on Circular Caishui (2005) No 155, gains derived by QFIIs on the disposal of securities in China should be exempt from BT. In this regard, BT should not be payable by QFIIs in respect of the disposal of China A shares. However, 5% BT may be applied to capital gains derived by the Company from the selling of China B shares and H shares.

#### ***United Kingdom***

It is the intention of the Directors to conduct the affairs of the Company so that the Company continues to satisfy the conditions necessary for it to remain approved by HM Revenue & Customs ("HMRC") as an investment trust for the purposes of Chapter 4 of Part 24 of CTA 2010. However, neither the Investment Manager nor the Directors can guarantee that this approval will be maintained. In respect of each accounting period for which the Company continues to be approved by HMRC as an investment trust, the Company will be exempt from UK taxation on its capital gains. The Company will be liable to UK corporation tax on its income in the normal way but dividend income will in most cases be exempt from UK corporation tax.

## B. UK Shareholders

### *Taxation of capital gains*

Individual Shareholders who are resident or ordinarily resident in the UK for tax purposes will generally be subject to capital gains tax at rates of 18% and 28% (the rate applicable to an Individual Shareholder will depend on the amount of that Shareholders total taxable income and gains) in respect of any gain arising on a disposal or deemed disposal of their Shares. No indexation allowance will be available to individual Shareholders. However, each individual has an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £10,100 for the tax year 2010-2011.

Shareholders who are individuals and who are temporarily resident outside the UK for tax purposes may, under anti-avoidance legislation, also be liable to UK tax on any capital gain realised whilst temporarily non-resident (subject to any available exemption or relief).

Corporate Shareholders who are resident in the UK for tax purposes will generally be subject to corporation tax on chargeable gains arising on a disposal of their Shares. The indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

### *Subscription for C Shares*

As a matter of UK tax law, the acquisition of C Shares pursuant to the Open Offer may not strictly speaking constitute a reorganisation of share capital for the purposes of UK taxation of chargeable gains. The published practice of HMRC to date has been to treat any subscription of shares by an existing shareholder which is equal to or less than the shareholder's minimum entitlement pursuant to the terms of an open offer as a reorganisation, but it is not certain that HMRC will apply this practice in circumstances where an open offer is not made to all shareholders. HMRC's treatment of the Open Offer cannot therefore be guaranteed and specific confirmation has not been requested in relation to the Open Offer.

The acquisition of C Shares pursuant to the Offer for Subscription or the Placing will not constitute a reorganisation of share capital for the purposes of UK taxation of chargeable gains.

To the extent that the acquisition of the C Shares is regarded as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains, C Shares subscribed for by a Shareholder will be treated as the same asset as, and as having been acquired at the same time as, that Shareholder's holding of existing Ordinary Shares on the Record Date (his or her "**Existing Holding**"). The amount of subscription moneys paid for the C Shares will be added to the base cost of the Shareholder's Existing Holding. For the purposes of a disposal or part disposal of Ordinary Shares or C Shares taking place on or prior to Conversion, the Shareholder's original base cost in his or her Existing Holding, together with the subscription monies paid for the C Shares, will be apportioned between his or her Existing Shares and the C Shares by reference to their respective market values on the day of Admission.

To the extent that, the acquisition of C Shares under the Open Offer is not regarded as a reorganisation, the relevant C Shares will, for the purposes of UK taxation of chargeable gains, be treated as having been newly acquired and the price paid for those C Shares will constitute their base cost.

### *Conversion of C Shares to Ordinary Shares*

The Conversion should constitute a reorganisation of share capital for the purposes of UK taxation of chargeable gains.

To the extent that the subscription for C Shares is treated as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains:- (a) upon Conversion, a Shareholder's Existing Holding and the new Ordinary Shares and deferred shares resulting from the Conversion will be treated as the same asset as, and as having been acquired at the same time as, that Shareholder's Existing Holding; and (b) for the purposes of a disposal or part disposal of Ordinary Shares or deferred shares taking place after Conversion, the base cost in his or her Existing Holding and C Shares will be apportioned between his or her Ordinary Shares and the deferred shares by reference to their respective market values on the day on which Conversion takes place.

To the extent that the subscription for C Shares is not treated as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains:- (a) a Shareholder's new Ordinary Shares and deferred shares resulting from the Conversion will be treated as the same asset as, and as having been acquired at the same time as, that Shareholder's holding of C Shares on the date of Conversion, and the new Ordinary Shares into which the C Shares will be converted will be treated as having been acquired at a different time from the Existing Holding; and (b) for the purposes of a disposal or part disposal of Ordinary Shares or deferred shares taking place after Conversion, the Shareholder's base cost in his or her C Shares will be apportioned between the Ordinary Shares arising on Conversion and the deferred shares arising on Conversion by reference to their respective market values on the day on which Conversion takes place.

To the extent that a Shareholder receives a payment in respect of a fractional entitlement on Conversion, such payment may be treated as a part disposal of a Shareholder's C Shares. Notwithstanding this, if the proceeds resulting from such disposal are 'small' as compared to (to the extent that the acquisition of C Shares is treated as a reorganisation of share capital for the purposes of UK taxation of chargeable gains) the value of the Existing Holding and the C Shares held or (to the extent that the acquisition of C Shares is not treated as a reorganisation of share capital for the purposes of UK taxation of chargeable gains) the value of the C Shares held, (a) there should be no part disposal of the C Shares and (b) on a subsequent disposal of Ordinary Shares (or deferred shares if any base cost is allocated to the deferred shares) the amount of the payment will be deducted from the base cost of such Ordinary Shares (or deferred shares) for the purposes of computing any chargeable gain or allowable loss. HMRC will normally treat the amount (if any) received by a holder as 'small' if the amount either: (i) does not exceed 5% of the market value of (to the extent that the acquisition of C Shares is treated as a reorganisation of share capital for the purposes of UK taxation of chargeable gains) the value of the Existing Holding and the C Shares held, or (to the extent that the acquisition of C Shares is not treated as a reorganisation of share capital for the purposes of UK taxation of chargeable gains) the value of the C Shares held (in each case measured immediately before the Conversion); or (ii) does not exceed £3,000.

#### *Taxation of dividends*

There is no UK withholding tax on dividends.

A Shareholder who is an individual resident (for tax purposes) in the UK and who receives a dividend from the Company will be entitled to a tax credit equal to one-ninth of the dividend received. The dividend received plus the related tax credit (the "gross dividend") will be part of the Shareholder's total income for UK income tax purposes and will be regarded as the top slice of that income. However, in calculating the Shareholder's liability to income tax in respect of the gross dividend, the tax credit (which equates to 10% of the gross dividend) is set off against the tax chargeable on the gross dividend.

In the case of a Shareholder who is liable to income tax at the basic rate, the Shareholder will be subject to tax on the gross dividend at the rate of 10%. The tax credit will, in consequence, satisfy in full the Shareholder's liability to income tax on the gross dividend.

In the case of a Shareholder who is liable to income tax at the higher rate, the Shareholder will be subject to tax on the gross dividend at the rate of 32.5%, to the extent that the gross dividend falls above the threshold for the higher rate but below the threshold for the additional rate when it is treated (as mentioned above) as the top slice of the Shareholder's income. The tax credit will, in consequence, satisfy only part of the Shareholder's liability to income tax on the gross dividend, and the Shareholder will have to account for income tax equal to 22.5% of the gross dividend (which equates to 25% of the dividend received). For example, if the Shareholder received a dividend of £80 from the Company, the dividend received would carry a tax credit of £8.89 and therefore represent a gross dividend of £88.89. The Shareholder would then be required to account for income tax of £20 on the gross dividend, being £28.89 (i.e. 32.5% of £88.89) less £8.89 (i.e. the amount of the tax credit).

In the case of a Shareholder who is liable to income tax at the additional rate, the Shareholder will be subject to tax on the gross dividend at the rate of 42.5%, to the extent that the gross dividend falls above the threshold for the additional rate when it is treated as the top slice (as mentioned above) of the Shareholder's income. After setting off the tax credit comprised in the gross dividend, the Shareholder will, accordingly, have to account for income tax equal to 32.5% of the gross dividend (which equates to approximately 36.1% of the dividend received). For example, if the Shareholder received a dividend of £80 from the Company, the dividend would carry a tax credit of £8.89 and the Shareholder would be

required to account for income tax of £28.89 on the dividend, being £37.78 (i.e. 42.5% of £88.89) less £8.89 (i.e. the amount of the tax credit).

Subject to special rules for small companies, UK resident Shareholders within the charge to UK corporation tax will be subject to UK corporation tax on dividends paid by the Company, unless the dividends fall within an exempt class and certain conditions are met. It is expected that the dividends paid by the Company will generally be exempt from UK corporation tax.

A Shareholder who is not liable to tax on dividends received from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the UK and the country in which the holder is resident. Shareholders who are not solely resident in the UK should consult their own tax adviser concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

#### **Stamp duty and stamp duty reserve tax**

No stamp duty or stamp duty reserve tax ("SDRT") will generally arise on the issue of the Shares.

Transfers on the sale of Shares will generally be subject to UK ad valorem stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the nearest multiple of £5.00). Transactions not exceeding £1,000 in value which are certified appropriately will be exempt from UK ad valorem stamp duty. The purchaser normally pays the stamp duty.

An agreement to transfer Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is repayable, generally with interest, and otherwise the SDRT charge will be cancelled. SDRT will be, in general, payable by the purchaser of the Shares.

Subject to the paragraph below, where Shares are issued or transferred (i) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services (a "clearance service") or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts (a "depositary receipt system"), stamp duty or SDRT will generally be payable at the rate of 1.5% of the consideration paid (rounded up to the nearest multiple of £5.00 in the case of stamp duty). The stamp duty or SDRT will generally be paid by the clearance service or the depositary receipt system, as the case may be, but will, in practice, generally be reimbursed by the relevant participant in the clearance service or the depositary receipt system. A clearance service can elect under section 97A of the Finance Act 1986, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT to apply to issues or transfers of shares into, and transactions within, such clearance service instead of the higher rate of 1.5% generally applying to an issue or transfer of shares into the clearance service and the ability to transfer shares while in the clearance service without there being stamp duty or SDRT.

Following a recent decision of the European Court of Justice, HMRC has announced that it will not seek to apply the 1.5% SDRT charge where new shares are first issued into an EU clearance service or an EU depositary receipt system. In the light of that announcement it would seem that, in the view of HMRC, the 1.5% SDRT charge will continue to apply to (i) the transfer of existing Shares to clearance services or depositary receipt systems, in each case whether or not in the EU and (ii) the issue of new Shares to non-EU clearance services or non-EU depositary receipt systems. However, a charge to SDRT at 1.5% on the issue of new Shares to a non-EU clearance service or a non-EU depositary receipt system is arguably not consistent with the aforementioned decision of the European Court of Justice.

Paperless transfers of Shares within the CREST system will be liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT, unless the transfer into CREST is itself for consideration.

## ISAs

Shares issued pursuant to the Open Offer and Offer for Subscription will be qualifying investments for a stocks and shares ISA, subject to applicable annual subscription limits (£10,200 for the 2010-2011 tax year). Investments held in ISAs will be free of UK tax on both capital gains and income. The opportunity to invest in Shares through an ISA is restricted to certain UK resident individuals aged 18 or over. A disposal of Shares held in an ISA will not serve to make available again any part of the annual subscription limit that has already been used by the Shareholder in the relevant tax year. Individuals wishing to invest in Shares through an ISA should contact their professional advisers regarding their eligibility.

## *Self-Invested Personal Pensions (SIPPs)*

The C Shares may constitute permitted investments for SIPPs. Potential investors wishing to include C Shares in SIPPs should seek independent confirmation of the eligibility of the C Shares from their professional tax or financial advisers after taking into account the rules of their schemes.

## PART IX: ADDITIONAL INFORMATION

### 1. Responsibility

The Company, whose registered office appears at paragraph 2.1.6 of this Part IX, and the Directors, whose names and functions appear on pages 39 and 40 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

### 2. The Company

#### 2.1 Incorporation

- 2.1.1 The Company was incorporated in England and Wales with registered number 07133583 on 22 January 2010 as a private limited company under the 2006 Act. The Company was re-registered as a public limited company under the 2006 Act on 24 February 2010.
- 2.1.2 The Company has no subsidiaries.
- 2.1.3 As an investment trust, the Company is not regulated as a collective investment scheme by the FSA. However, as a company whose shares are listed on the Official List, it is subject to the Listing Rules and the Disclosure and Transparency Rules.
- 2.1.4 Application has been made to the UK Listing Authority for the C Shares of the Company to be admitted to the Official List with a standard listing and to the London Stock Exchange for admission to trading of those C Shares on its main market for listed securities. It is expected that such admissions will become effective and that dealings in the C Shares will commence at 8 a.m. on 28 February 2011. Application will be made for the Ordinary Shares arising on Conversion to be admitted to the Official List with a premium listing and to the London Stock Exchange for trading on its main market for listed securities. The C Shares will have a standard listing category.
- 2.1.5 The principal legislation under which the Company operates is the 2006 Act and regulations promulgated thereunder. The Company is domiciled in England and Wales.
- 2.1.6 The registered office of the Company is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP, with telephone number 01732 361144.

#### 2.2 Principal activities of the Company

The principal object of the Company is to carry on business as an investment trust company.

### 3. Share capital

- 3.1 On incorporation, the share capital of the Company was £1 represented by 1 Ordinary Share of nominal value of £1, which was taken by the subscriber to the Company.
- 3.2 To enable the Company to re-register as a public limited company under section 90 of the 2006 Act, on 19 February 2010, 50,000 redeemable shares were allotted to the Investment Manager for 100p in cash for each such redeemable share. Such redeemable shares were, on Initial Listing, redeemed in full out of the proceeds of the offer for subscription and placing made under the IPO Prospectus.
- 3.3 On 19 April 2010, pursuant to the initial public offering by the Company 460,000,000 Ordinary Shares were issued to placees and offerees.
- 3.4 An aggregate of 38,750,000 Ordinary Shares have been issued since 19 April 2010, comprising:
  - 3.4.1 11,000,000 Ordinary Shares on 18 June 2010 at a price per Ordinary Share of 100.1p;
  - 3.4.2 1,500,000 Ordinary Shares on 22 July 2010 at a price per Ordinary Share of 101.5p;
  - 3.4.3 2,700,000 Ordinary Shares on 26 August 2010 at a price per Ordinary Share of 103.3p;
  - 3.4.4 2,750,000 Ordinary Shares on 08 September 2010 at a price per Ordinary Share of 106.30p;
  - 3.4.5 3,750,000 Ordinary Shares on 28 September 2010 at a price per Ordinary Share of 110.5p;

3.4.6 3,750,000 Ordinary Shares on 11 October 2010 at a price per Ordinary Share of 116p;

3.4.7 4,250,000 Ordinary Shares on 11 November 2010 at a price per Ordinary Share of 126p; and

3.4.8 9,050,000 Ordinary Shares on 20 December 2010 at a price per Ordinary Share of 119p.

3.5 Set out below is the issued share capital of the Company as at the date of this document:

	Issued No. of Shares	£ nominal
Ordinary Shares .....	498,750,000	4,987,500

The Ordinary Shares are fully paid.

3.6 Subject to the passing of the Resolutions and assuming that the Issue is fully subscribed, the maximum issued share capital of the Company (all of which will be fully paid up) immediately following the Issue will be as follows:

	Issued No. of Shares	Nominal
Ordinary Shares .....	498,750,000	4,987,500
C Shares .....	166,250,00	166,250,00

3.7 All the Issued C Shares will be fully paid up. The ISIN of the C Shares is GBOOB4PY9B85.

3.8 The Ordinary Shares in issue are in registered form and capable of being held in certificated or uncertificated form. The C Shares (and the Ordinary Shares to be issued on Conversion) will also be in registered form and capable of being held in certificated or uncertificated form. Temporary document of title will not be issued.

3.9 The C Shares (and the Ordinary Shares to be issued on Conversion) will be and the Ordinary Shares currently in issue have been, created under the 2006 Act.

3.10 By ordinary and special resolutions passed on 19 February 2010:

- (A) the Directors were generally and unconditionally authorised in accordance with section 551 of the 2006 Act to exercise all the powers of the Company to allot Ordinary Shares up to an aggregate nominal amount of £6,500,000, such authority expired on 30 April 2010;
- (B) the Directors were generally empowered (pursuant to section 571(1) of the 2006 Act) to allot Ordinary Shares for cash pursuant to the authority referred to in paragraph 3.10(A) above as if section 561 of the 2006 Act did not apply to any such allotment, such power expired on 30 April 2010;
- (C) the Directors were generally and unconditionally authorised in accordance with section 551 of the 2006 Act to exercise all the powers of the Company to allot Ordinary Shares up to an aggregate nominal amount of £650,000 or, if less, 10% of the aggregate nominal amount of the issued ordinary share capital of the Company immediately following the completion of the offer for subscription and placing made under the IPO Prospectus, such authority to expire at the conclusion of the first annual general meeting of the Company, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require the allotment of shares in pursuance of such an offer or agreement as if such authority had not expired;
- (D) the Directors were empowered (pursuant to section 571(1) of the 2006 Act) to allot Ordinary Shares for cash pursuant to the authority referred to in paragraph 3.10(C) above as if section 561 of the 2006 Act did not apply to any such allotment or sale, such power to expire at the conclusion of the first annual general meeting of the Company, save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power, and the Directors may allot equity securities in pursuance of such an offer or an agreement as if such power had not expired;
- (E) the Company was authorised in accordance with section 701 of the 2006 Act to make market purchases (within the meaning of section 693(4) of the 2006 Act) of Ordinary Shares, provided that the maximum number of Ordinary Shares authorised to be purchased was 14.99% of the

issued Ordinary Shares following the conclusion of the offer for subscription and placing made pursuant to the IPO Prospectus. Such authority will expire on the earlier of the conclusion of the first annual general meeting of the Company and the date 18 months after the date on which the resolution was passed; and

(F) upon the issue of Ordinary Shares by the Company pursuant to the offer for subscription and placing made under the IPO Prospectus, the Company was authorised to implement two tender offers of up to 15% of the Shares then in issue for each tender offer, provided that the second tender shall not take place more than 12 months after the first.

- 3.11 It is expected that the C Shares will be allotted pursuant to a Resolution of the General Meeting to be passed on or before 11 February 2011 conditional upon Admission.
- 3.12 Following the Open Offer, Offer for Subscription and Placing, the issued share capital of the Company will be fully paid as to its nominal value.
- 3.13 The provisions of section 561 of the 2006 Act (which, to the extent not disapplied pursuant to section 571 of the 2006 Act, confer on Shareholders rights of pre-emption in respect of the allotment or sale of equity securities for cash) shall apply to any unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraphs 3.10(B) and 3.10(D) above and the resolutions to be proposed at the general meeting, and set out on pages 153 and 154 of this document, if approved by the shareholders.
- 3.14 Save as disclosed in this paragraph 3 or paragraph 10 below, since the date of its incorporation, (i) there has been no alteration in the share capital of the Company, (ii) no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued for cash or any other consideration and (iii) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital and no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.
- 3.15 Applicants who have signed and returned Application Forms in respect of the Offer for Subscription may not withdraw their applications for C Shares.

#### **4. Articles of Association**

A summary of the main provisions of the Articles is set out below. Capitalised terms used in this paragraph 4 which are not defined in Part X (*Definitions*) of this document have the meanings they are given in the Articles. The objects of the Company are unlimited.

##### **4.1 Limited liability**

The liability of members of the Company is limited to the amount, if any, unpaid on the Shares held by them.

##### **4.2 Change of name**

The Company may change its name by resolution of the Board.

##### **4.3 Share capital**

The Shares have such rights, preferences and restrictions attached to them as are set out in the Articles. Subject to any rights attached to existing Shares, any Share may be issued with or have attached to it such rights and restrictions as the Company decides by ordinary resolution or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may decide. Such rights and restrictions will apply to the relevant Shares as if the same were set out in the Articles.

The Articles do not confer any additional rights for the holders of Shares to share in any surplus in the event of liquidation of the Company, other than rights provided by legislation.

The Company shall have a first and paramount lien on Shares not fully paid for all amounts payable to the Company and the Board may waive any lien that has arisen or declare any Share to be wholly or partially exempt. Subject to the terms of issue, the Board may from time to time make calls upon the members in respect of any moneys unpaid on their Shares and the Articles provide for forfeiture for non-compliance.

The rights conferred upon the holders of any Shares shall not, unless otherwise expressly provided in the rights attaching to those Shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

#### 4.4 Allotment of Shares

- (i) Subject to the provisions of the 2006 Act, the Articles and to any relevant authority of the Company in a general meeting required by the 2006 Act, the Board, may offer, allot, grant options over or otherwise deal with or dispose of Shares to such persons, at such times and for such consideration and upon such terms as the Board may decide.
- (ii) Subject to the provisions of the 2006 Act and to any rights attached to existing Shares, any Share may be issued which is to be redeemed, or is liable to be redeemed at the option of the Company or the holder. The Board may determine the terms, conditions and manner of redemption of any redeemable Share so issued. Such terms and conditions shall apply to the relevant Shares as if the same were set out in the Articles.

#### 4.5 Voting rights

- (i) Subject to any special terms as to voting upon which any Shares may be issued or may at the relevant time be held and to any other provisions of the Articles, each Shareholder shall be entitled to vote at a general meeting whether on a show of hands or on a poll as provided in the 2006 Act. For this purpose, where a proxy is given discretion as to how to vote on a show of hands, this shall be treated as an instruction by the relevant member to vote in the way that the proxy elects to exercise that discretion.
- (ii) No member shall, unless the Board otherwise decides, be entitled in respect of any Share held by him to attend or vote (either personally or by proxy) at any general meeting of the Company or upon a poll or to exercise any other right conferred by membership in relation to general meetings unless all calls or other sums presently payable by him in respect of that Share have been paid.

#### 4.6 Dividends

The Company may, subject to the provisions of the 2006 Act and the Articles, by ordinary resolution from time to time declare dividends to be paid to members not exceeding the amount recommended by the Board. Subject to the provisions of the 2006 Act, except in the case of the Redeemable Shares, in so far as, in the Board's opinion, the Company's profits justify such payments, the Board may pay interim dividends on any class of Shares (and may by ordinary resolution direct that it shall be satisfied wholly or partly by the distribution of assets). The Company may cease to send payment for any dividend payable if in respect of two consecutive dividends payable the dividend has not been cashed or payment has been returned (or where the same occurs after one dividend is payable and reasonable enquiries have failed to establish any new postal address), unless the holder or person entitled by transmission requests recommencement. Any dividend, which remains unclaimed after a period of 12 years from the date such dividend was declared or became payable shall, if the Board resolves, be forfeited and revert to the Company.

The Board may, if authorised by an ordinary resolution (and subject to the relevant provisions of the Articles), offer any holders of Ordinary Shares (excluding any member holding Ordinary Shares as treasury shares) the right to elect to receive fully paid Ordinary Shares instead of cash in respect of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

#### 4.7 Sub-division and fractions

Any resolution authorising the Company to sub-divide its Shares or any of them may determine that, as between the Shares resulting from the sub-division, any of them may have any preference or advantage or be subject to any restriction as compared with the others. Whenever as a result of a consolidation, consolidation and sub-division or sub-division of Shares any holders would become entitled to fractions of a Share, the Board may deal with the fractions as it thinks fit including by aggregating and selling them or by dealing with them in some other way. The person to whom any Shares are transferred or delivered shall not be bound to see to the application of the purchase

money nor shall his title to the Shares be affected by any irregularity in, or invalidity of, the proceedings relating to the sale.

#### 4.8 Transfer of Shares

- (i) Each member may transfer all or any of his Shares by instrument of transfer, in the case of certificated Shares, in any usual form or in any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and, in the case of partly paid Shares, by or on behalf of the transferee, and, in relation to uncertificated Shares, by means of a relevant system in such manner provided for, and subject as provided in the Uncertificated Securities Regulations.
- (ii) The Board may refuse to register any transfer of any Share which is not a fully paid Share. The Board may also refuse to register any transfer of a certificated Share unless:
  - (a) it is in respect of only one class of Share;
  - (b) in the case of transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
  - (c) it is duly stamped (if so required) or duly certified or otherwise shown to the Board to be exempt from stamp duty; and
  - (d) it is delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied, except in the case of a transfer by a recognised person where a certificate has not been issued, by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.
- (iii) The Board may also refuse to register a transfer of uncertificated Shares in such other circumstances as may be permitted or required by the Uncertificated Securities Regulations and the relevant system and where, in the case of transfer to joint holders, the number of joint holders to whom the uncertificated Share is to be transferred exceeds four.
- (iv) No fee shall be charged by the Company for registering any transfer, document or instruction relating to or affecting the title to any Share or for making any other entry in the register.

#### 4.9 Compulsory transfer of Shares

- (i) If it comes to the notice of the Directors that any Shares:
  - (a) are or may be owned or held directly or beneficially by any person whose ownership or holding of those Shares might in the sole and conclusive determination of the Directors cause the assets of the Company to be considered "plan assets" within the meaning of ERISA; or
  - (b) are or may be owned or held directly or beneficially by any person to whom a transfer of Shares or whose ownership or holding of any Shares might in the opinion of the Directors require registration of the Company as an investment company under the United States Investment Company Act of 1940,

the Directors may serve a notice (a "Transfer Notice") upon the person appearing in the register as the holder (the "Vendor") of the Shares (the "Relevant Shares") requiring the Vendor within 21 days to transfer the Relevant Shares to another person who, in the sole and conclusive determination of the Directors, would not fall within (a) or (b) above and whose ownership or holding of such shares would not result in the aggregate number of US Persons who are beneficial owners or holders of Shares or other securities of the Company being 75 or more (an "Eligible Transferee"). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Shares to which it relates, the rights and privileges attaching to the Relevant Shares will be suspended and not capable of exercise.

- (ii) If within 21 days after the giving of a Transfer Notice, the Transfer Notice has not been complied with to the satisfaction of the Directors, the Company may sell the Relevant Shares

on behalf of the holder thereof by instructing a member of the London Stock Exchange to sell them in accordance with the best practice then obtaining to any Eligible Transferee(s).

- (iii) A person who becomes aware that his holding, directly or beneficially, of Shares will, or is likely to, fall within either sub-paragraph (i)(a) or (b) above or, being a US Person and a beneficial owner or holder of shares, becomes aware that the aggregate number of US Persons who are beneficial owners or holders of Shares or other securities of the Company is more than 75, must immediately either transfer the Shares to an Eligible Transferee(s) or give a request in writing to the Directors for the issue of a Transfer Notice.
- (iv) The Directors may at any time call upon any holder of Shares by notice in writing to provide such information and evidence as they require upon any matter connected with or in relation to such holder of Shares. If such information and evidence is not so provided within a reasonable period (not being less than 21 days after service of the notice) as may be specified by the Directors, the Directors may, in their absolute discretion, treat any Share held by such a holder as being held in such a way as to entitle them to serve a Transfer Notice in respect thereof.

#### 4.10 Variation of rights and alteration of capital

- (i) Subject to the provisions of the 2006 Act, all or any of the rights attached to any Share or class of Shares (whether or not the Company is being wound up) may be varied with the consent in writing of the holders of not less than 75% in nominal value of the issued Shares of that class (excluding any Shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those Shares. All provisions of the Articles relating to general meetings shall apply, but so that the quorum thereat shall be two persons entitled to vote and holding or representing by proxy at least one third in nominal value of the issued Shares of the class in question. Any holder of Shares entitled to vote at such a meeting may demand a poll.

#### 4.11 Suspension of rights where non-disclosure of interest

Where the holder of any Shares, or any other person appearing to be interested in those Shares, fails to comply within 14 days of receipt of any statutory notice in respect of those Shares or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, the Company may give the holder of those Shares a further notice (a "restriction notice") to the effect that from the service of the restriction notice those Shares will be subject to some or all of the relevant restrictions. To enforce this provision, the Board may give notice to the relevant member requiring the member to change the relevant Shares held in uncertificated form to certificated form. If after the service of a restriction notice the Board is satisfied that all information required has been supplied, the Company shall, within seven days, cancel the restriction notice. The Company shall cancel a restriction notice within seven days after receipt of a notice in writing that the relevant Shares have been transferred pursuant to an arm's length sale. Where any restriction notice is cancelled or ceases to have effect in relation to any Shares, any moneys relating to those Shares which were withheld by reason of that notice shall be paid without interest to the person who would but for the restriction notice have been entitled to them or as he may direct. This article is in addition to, and will not in any way prejudice or affect, the statutory rights of the Company arising from any failure by any person to give any information required by a statutory notice within the time specified in it.

#### 4.12 Directors

- (i) Unless otherwise determined by the Company by ordinary resolution, the number of Directors (other than any alternate Directors) shall not be less than two, but there shall be no maximum number of Directors. The Company may elect Directors by ordinary resolution.
- (ii) The Directors shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine, provided that the amount paid to each Director by way of fees shall not exceed £50,000 in any financial year, or such greater sum as may be determined from time to time by ordinary resolution of the Company. The Directors shall also be entitled to be repaid all reasonable travelling, hotel and other incidental expenses properly incurred by them in or about the performance of their duties as Directors,

including expenses incurred in attending meetings. If, by arrangement with the Board, any Director shall perform or render any special duties or services outside his ordinary duties as a Director, he may be paid such reasonable additional remuneration as the Board may determine.

- (iii) The Board or any committee authorised by the Board may exercise all the powers of the Company to provide benefits, either by the payment of gratuities or pensions or by insurance or in any other manner whether similar to the foregoing or not, for any Director or former Director or for the relations or dependants of, or persons connected to, any Director or former Director provided that no benefits (except such as may be provided for by any other article) may be granted to or in respect of a Director or former Director who has not been employed by, or held an executive office or place of profit under, the Company or any body corporate which is or has been its subsidiary undertaking or any predecessor in business of the Company or any such body corporate without the approval of an ordinary resolution of the Company. No Director or former Director shall be accountable to the Company or the members for any benefit provided pursuant to this article and the receipt of any such benefit shall not disqualify any person from being or becoming a Director of the Company.
- (iv) At every AGM, any Director who:
  - (a) has been appointed by the Board since the last AGM; or
  - (b) held office at the time of the two preceding AGMs and who did not retire at either of them; or
  - (c) has held office with the Company, other than employment of executive office, for a continuous period of nine years or more at the date of the meeting,shall retire from the office and may offer himself for re-appointment by the members.
- (v) In addition to any power of removal conferred by the 2006 Act, the Company may by special resolution remove any Director before the expiration of his period of office and may (subject to the Articles) by ordinary resolution appoint another person who is willing to act to be a Director in his place.
- (vi) No shareholding qualification for Directors shall be required.
- (vii) The Board may, subject to the quorum and voting requirements set out in the Articles, authorise any matter which would otherwise involve a Director breaching his duty under the 2006 Act to avoid conflicts of interest ("Conflict").
- (viii) A Director seeking authorisation in respect of a Conflict shall declare to the Board the nature and extent of his interest in a Conflict as soon as is reasonably practicable. The Director shall provide the Board with such details of the relevant matter as are necessary for the Board to decide how to address the Conflict, together with such additional information as may be requested by the Board.
- (ix) Any Director (including the relevant Director) may propose that the relevant Director be authorised in relation to any matter which is the subject of a Conflict. Such proposal and any authority given by the Board shall be effected in the same way that any other matter may be proposed to and resolved upon by the Board under the provisions of the Articles save that:
  - (a) the relevant Director and any other Director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority; and
  - (b) the relevant Director and any other Director with a similar interest may, if the other members of the Board so decide, be excluded from any Board meeting while the Conflict is under consideration.
- (x) Where the Board gives authority in relation to a Conflict:
  - (a) the Board may (whether at the time of giving the authority or subsequently) (i) require that the relevant Director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the Board or otherwise) related to the Conflict and (ii) impose upon the relevant Director such other terms for the purpose of dealing with the Conflict as it may determine;

- (b) the relevant Director will be obliged to conduct himself in accordance with any terms imposed by the Board in relation to the Conflict;
- (c) the Board may provide that, where the relevant Director obtains (otherwise than through his position as a Director of the Company) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence;
- (d) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
- (e) the Board may revoke or vary such authority at any time but this will not affect anything done by the relevant Director prior to such revocation in accordance with the terms of such authority.

- (xi) If a Director is in any way directly or indirectly interested in a proposed contract with the Company or a contract that has been entered into by the Company, the Director must declare the nature and extent of that interest to the Directors in accordance with the 2006 Act.
- (xii) Provided he has declared his interest in accordance with paragraph (ix) above, a Director may:
  - (a) be party to, or otherwise interested in, any contract with the Company or in which the Company has a direct or indirect interest;
  - (b) hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director, for such period and upon such terms, including as to remuneration, as the Board may decide;
  - (c) act by himself or through a firm with which he is associated in a professional capacity for the Company or for any other company in which the Company may be interested (otherwise than as auditor);
  - (d) be or become a director or other officer of, or employed by or otherwise interested in any holding company or subsidiary company of the Company or any other company in which the Company may be interested; and
  - (e) be or become a director of any other company in which the Company does not have an interest and which cannot reasonably be regarded as giving rise to a Conflict at the time of his appointment as a director of that other company.
- (xiii) A Director shall not, by reason of his office or of the fiduciary relationship thereby established, be liable to account to the Company for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised or permitted under the Articles and no contract shall be liable to be avoided on the grounds of a Director having any type of interest authorised or permitted under the Articles.
- (xiv) A Director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, or as the holder of any office or place of profit with the Company or with any other company in which the Company is interested. A Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any contract or arrangement or proposal in which he has an interest and, if he shall do so, his vote shall not be counted, but this prohibition shall not apply to any resolution where that interest cannot reasonably be regarded as likely to give rise to a Conflict or where that interest arises only from one or more of certain permitted matters as set out in the Articles.

#### 4.13 Borrowing powers

Subject as provided in the Articles, the Board may exercise all the powers of the Company to borrow money to guarantee, to indemnify, to mortgage or charge all or any part of the undertaking, property and assets (present or future) and uncalled capital of the Company, and, subject to the provisions of the 2006 Act, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so that (so far as it is able), without the previous sanction of an ordinary resolution of the Company, no new borrowings are incurred if, as a result, the aggregate principal amount outstanding of all net borrowings by the group (excluding certain borrowings owing by one member of the group to another member of the group) exceeds (or would as a result of such borrowing exceed) an amount equal to twice the adjusted capital and reserves Shareholders' Funds.

The provisions summarised above may be varied with the sanction of special resolution of the Company.

#### 4.14 General meetings

##### *Quorum*

Save as provided in the Articles, no business shall be transacted unless two persons entitled to attend and to vote on the business to be transacted, each being a member or a proxy for a member, are present. If, within five minutes (or such longer period not exceeding one hour as the chairman of the meeting thinks fit) from the time appointed for the holding of the meeting, a quorum is not present, or if a quorum ceases to be present during a meeting, the meeting shall stand adjourned to such other day (being not less than 10 clear days later) and at such other time or place as the chairman of the meeting may decide, unless the meeting was called on the requisition of members, in which case it shall be dissolved.

##### *Method of voting*

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded. A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least five persons present and entitled to vote on the resolution; or
- (iii) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the members having the right to vote on the resolution; or
- (iv) any member or members present in person or by proxy and holding Shares conferring a right to vote on the resolution on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

The chairman of the meeting can also demand a poll before a resolution is put to the vote on a show of hands.

##### *Postponement*

If the Board, in its absolute discretion, considers that it is impractical or undesirable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone or move the general meeting to another date, time and/or place. The Board shall take reasonable steps to ensure that notice of the date, time and place of the rearranged meeting is given to any member trying to attend the meeting at the original time and place. Notice of the date, time and place of the rearranged meeting shall, if practicable, also be placed in at least two national newspapers in the United Kingdom. Notice of the business to be transacted at such rearranged meeting shall not be required.

#### 4.15 Capitalisation of reserves

The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount standing to the credit of any reserve or fund (including retained earnings) at the relevant time, whether or not the same is available for distribution and accordingly that the amount to be capitalised be set free for distribution among the members or any class of members who would be entitled to it if it were distributed by way of dividend and in the same proportions, on the footing

that it is applied either in or towards paying up the amount unpaid at the relevant time on any Shares held by those members respectively or in paying up in full unissued Shares debentures or other obligations of the Company to be allotted and distributed credited as fully paid up among those members, or partly in one way and partly in the other, but so that, for the purposes of this article (i) a share premium account and a capital redemption reserve, and any reserve or fund representing unrealised profits, may be applied only in paying up in full unissued Shares of the Company, and (ii) where the amount capitalised is applied in paying up in full unissued Shares, the Company will also be entitled to participate in the relevant distribution in relation to any Shares of the relevant class held by it as treasury shares and the proportionate entitlement of the relevant class of member to the distribution will be calculated accordingly. The Board may authorise any person to enter into an agreement with the Company on behalf of the persons entitled to participate in the distribution, and the agreement shall be binding on those persons.

#### 4.16 *Distribution of realised capital profits*

The Board shall establish a reserve to be called the "capital reserve" and shall either carry to the credit of such reserve, or apply in providing for depreciation or contingencies, all surpluses arising on the realisation of investments. Subject to the 2006 Act, the Board may determine whether any amount received by the Company is to be dealt with in the income account or capital reserve or partly one way and partly the other. Any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the 2006 Act, any expenses, loss or liability (or provision therefore) which the Board considers to relate to a capital reserve item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. Any reserve arising on the cancellation of share capital or share premium shall be credited to the capital reserve of the Company. All sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable, except and provided that, notwithstanding any other provision of the Articles, no part of the capital reserve or any other money in the nature of accretion to capital reserves shall be available for distribution as dividend.

#### 4.17 *Accounting standards*

The financial statements of the company shall be prepared and audited based on the International Financial Reporting Standards.

#### 4.18 *Summary Financial Statements*

The Company may send or supply summary financial statements to members instead of copies of its full accounts and reports.

#### 4.19 *Uncertificated Shares*

- (i) Pursuant and subject to the Uncertificated Securities Regulations, the Board may permit title to Shares of any class to be evidenced otherwise than by a certificate and title to Shares of such a class to be transferred by means of a relevant system and may make arrangements for a class of Shares (if all Shares of that class are in all respects identical) to become a participating class. Title to Shares of a particular class may only be evidenced otherwise than by a certificate where that class of Shares is at the relevant time a participating class. The Board may also, subject to compliance with the Uncertificated Securities Regulations, determine at any time that title to any class of Shares may from a date specified by the Board no longer be evidenced otherwise than by a certificate or that title to such a class shall cease to be transferred by means of any particular relevant system.
- (ii) In relation to a class of Shares which is a participating class and for so long as it remains a participating class, no provision of these Articles shall apply or have effect to the extent that it is inconsistent in any respect with:
  - (a) the holding of Shares of that class in uncertificated form;
  - (b) the transfer of title to Shares of that class by means of a relevant system; and
  - (c) any provision of the Uncertificated Securities Regulations;

and, without prejudice to the generality of this Article, no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with the maintenance, keeping or entering up by the operator, so long as that is permitted or required by the Uncertificated Securities Regulations, of an operator register of securities in respect of that class of Shares in uncertificated form.

- (iii) Shares of a class which is at the relevant time a participating class may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the Uncertificated Securities Regulations.
- (iv) If, under the Articles or the 2006 Act, the Company is entitled to sell, transfer or otherwise dispose of, forfeit, re-allot, accept the surrender of or otherwise enforce a lien over an uncertificated Share, then, subject to the Articles and the 2006 Act, such entitlement shall include the right of the Board to:
  - (a) require the holder of that uncertificated Share by notice in writing to change that Share from uncertificated to certificated form within such period as may be specified in the notice and keep it as a certificated share for as long as the Board requires;
  - (b) appoint any person to take such other steps, by instruction given by means of a relevant system or otherwise, in the name of the holder of such Share as may be required to effect the transfer of such Share and such steps shall be as effective as if they had been taken by the registered holder of that Share; and
  - (c) take such other action that the Board considers appropriate to achieve the sale, transfer, disposal, forfeiture, re-allotment or surrender of that share or otherwise to enforce a lien in respect of that Share.
- (v) Unless the Board otherwise determines, Shares which a member holds in uncertificated form shall be treated as separate holdings from any Shares which that member holds in certificated form. However Shares held in uncertificated form shall not be treated as forming a class which is separate from certificated Shares with the same rights.
- (vi) Unless the Board otherwise determines or the Uncertificated Securities Regulations otherwise require, any Shares issued or created out of or in respect of any uncertificated Shares shall be uncertificated Shares and any Shares issued or created out of or in respect of any certificated Shares shall be certificated Shares.
- (vii) The Company shall be entitled to assume that the entries on any record of securities maintained by it in accordance with the Uncertificated Securities Regulations and regularly reconciled with the relevant operator register of securities are a complete and accurate reproduction of the particulars entered in the operator register of securities and shall accordingly not be liable in respect of any act or thing done or omitted to be done by or on behalf of the Company in reliance on such assumption; in particular, any provision of the Articles which requires or envisages that action will be taken in reliance on information contained in the register shall be construed to permit that action to be taken in reliance on information contained in any relevant record of securities (as so maintained and reconciled).

#### 4.20 Untraced Shareholders

The Company is entitled to sell at the best price reasonably obtainable any certificated Share on behalf of a Shareholder or any Share to which a person is entitled by transmission if: (i) for a period of 12 years the Shares have been issued and in the course of which at least three dividends have become payable in respect of the Share in question, (ii) no cheque or warrant in respect of a dividend has been cashed and no communication has been received by the Company from the Shareholder or the person entitled by transmission; (iii) the Company has at the expiration of that 12 year period by advertisement in a newspaper with national circulation in the United Kingdom and in a newspaper circulating in the area in which the address referred to in (i) above is located given notice of its intention to sell such Share; and (iv) the Company has not during a further period of three months after the date of advertisement and prior to the exercise of the power of sale received any communication from the Shareholder or person entitled by transmission.

The Company must account to the Shareholder or other person entitled to the Share for the net proceeds of sale and shall be deemed to be his debtor and not a trustee for him in respect of the

same. Any money not accounted for to the Shareholder or other person entitled to such Share shall be carried to a separate account and shall be a permanent debt of the Company. Money in that account may either be employed in the business of the Company or invested in such investments as the Directors may from time to time think fit.

#### 4.21 Auditors

The Company's auditors shall be independent of the Company, the Investment Manager and the Custodian.

#### 4.22 Indemnity

To the extent permitted by the 2006 Act, the Company may indemnify any Director or former Director of the Company or of any associated company against any liability and may purchase and maintain company insurance against any liability.

#### 4.23 Trusts not recognised

Except as ordered by a court or as required by law, no person shall be recognised by the Company as holding any Share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice of it) any interest in any Share or (except only as by the Articles or by law otherwise provided) any other right in respect of any Share other than an absolute right to the whole of the Share in the holder.

### 5. Portfolio Investments

Details of the Company's investment and the type of investee company, which represents a comprehensive and meaningful analysis of the Company's investment portfolio, are set out below.

As at close of business on 30 December 2010 (being the latest practicable date prior to the publication of this document), the company's portfolio comprised 106 investments with an aggregate value of £621.8 million (unaudited management accounts). As at 30 December 2010 (being the latest practical date prior to the publication of this document) the majority of the portfolio comprised medium and small capitalisation stocks with less than 30 per cent of the portfolio at this date invested in stocks with a market capitalisation of more than US\$5 Billion.

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the geographic breakdown of the portfolio (unaudited) was as follows:

Country	% of Total gross assets	Benchmark %
China .....	66.96	100
Hong Kong .....	24.96	0.00
Taiwan .....	1.07	0.00
South Korea .....	1.33	0.00
Singapore .....	2.11	0.00
Cash and Other .....	3.58	0.00
<b>Total .....</b>	<b>100</b>	<b>100</b>

(Benchmark: MSCI China Index)

Geographic designation generally reflects the country in which the issuer is incorporated or headquartered except for certain companies whose principal activity is in China in which case it is China.

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company's portfolio split by share type was (unaudited) as follows:

Share Type	% of Total gross assets	Benchmark %
A Shares <sup>i</sup> .....	8.35	0.00
B Shares .....	0.45	1.19
H Shares .....	5.03	50.50
Red-Chip <sup>ii</sup> .....	16.94	25.03
Other Stocks Listed in HK <sup>iii</sup> .....	44.72	23.27
China Stocks Listed in Singapore .....	2.60	0.00
China Stocks Listed in Korea .....	1.33	0.00
China Stocks Listed in the UK .....	1.84	0.00
China Stocks Listed in US .....	14.11	0.00
China Stocks Listed in Taiwan .....	1.07	0.00
Cash and Other .....	3.58	0.00
<b>Total</b> .....	100	100

(Benchmark: *MSCI China Index*)

The Company holds ELNs which provide indirect exposure to China A Shares with a number of counterparties. As at 30 December 2010, (being the latest practicable date prior to the publication of this document) the Company held 9.28% of Total Net Assets indirectly in China A shares, which represented the total counterparty indirect exposure to China A Share market at that date.

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company's portfolio split by currency exposure was as follows:-

Currency	Share Type	% of Total gross assets	Benchmark
Hong Kong Dollar .....	B and H Shares and Red Chips	77.64	99.27
Korean Won .....	Shares listed in South Korea	1.33	0.00
Singapore Dollar .....	Shares listed in Singapore	0.49	0.00
Taiwan Dollar .....	Shares listed in Taiwan	1.07	0.00
UK Sterling .....	Shares listed in the UK	0.85	0.00
US Dollar .....	Shares listed in the US and A Shares	17.21	0.73
Renminbi .....	A Shares	1.42	0.00
<b>Total</b> .....		100	

(Benchmark: *MSCI Index*)

i As at 30 December 2010 (being the latest practicable date prior to the publication of this document) the Company held Equity Loan Notes which provide indirect exposure to China A Shares with a number of counterparties.

ii As classified in the website of HKEx.

iii Non-H-share and non-red-Chip companies listed in Hong Kong held by the fund or as part of MSCI China

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company's portfolio split by industry was as follows:

<b>Industry</b>	<b>% of Total gross assets</b>	<b>Benchmark %</b>
Financial .....	22.87	37.38
Consumer Discretionary .....	24.38	5.53
Telecommunications .....	9.66	11.35
Health Care .....	7.87	0.75
Information Technology .....	8.13	5.49
Materials .....	8.38	6.16
Consumer Staples .....	7.56	5.17
Industrials .....	6.26	8.36
Energy .....	0.91	18.00
Utilities .....	0.39	1.80
Cash and Other .....	3.58	0.00
<b>Total</b> .....	<b>100</b>	<b>100</b>

(Benchmark: *MSCI China Index*)

As at 30 December 2010 (being the latest practicable date prior to publication of this document) the Company's portfolio split by size of issuer was as follows:

<b>Market capitalisation</b>	<b>Company</b>	<b>Benchmark</b>
Large (greater than US\$5 billion) .....	31.2%	87.3%
Medium (US\$1-5 billion) .....	23.4%	12.7%
Small (less than \$1 billion) .....	41.8%	0.00%
Other .....	3.6%	0.00%
<b>Total</b> .....	<b>100%</b>	<b>100%</b>

(Benchmark: *MSCI China Index*)

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company's largest investments, representing 50% of portfolio value (unaudited), was as follows:

Holding	Sector	Market Value (£'000)	% <sup>i</sup>
Bank of China Hong Kong Limited . . . . .	Financial	36,687	5.69
China Unicom (Hong Kong) Limited . . . . .	Telecommunications	30,742	4.77
Ping An Insurance Company Limited . . . . .	Financial	26,003	4.03
China Mobile Limited. . . . .	Telecommunications	23,869	3.70
Zhaojin Mining Industries Company Limited . . . . .	Materials	19,635	3.04
HSBC Holdings Plc. . . . .	Financial	19,263	2.99
China Merchants Bank Company Limited . . . . .	Financial	18,675	2.90
United Laboratories International Holdings . . . . .	Healthcare	15,616	2.42
Brilliance China Auto Holdings Limited . . . . .	Consumer Discretionary	15,409	2.39
Gome Electronic Appliances Holdings. . . . .	Consumer Discretionary	14,268	2.21
Jardine Strategic Holdings. . . . .	Industrials	13,614	2.11
Tencent Holdings Limited . . . . .	Information Technology	12,433	1.93
ChinaCast Education Corporation . . . . .	Consumer Discretionary	10,665	1.65
CNinsure Inc. . . . .	Financial	10,163	1.58
Television Broadcasts Limited. . . . .	Consumer Discretionary	9,748	1.51
Hang Lung Properties Limited . . . . .	Financial	9,698	1.50
SJM Holdings Limited . . . . .	Consumer Discretionary	9,333	1.45
PCCW Limited . . . . .	Telecommunications	7,683	1.19
Shandong Chenming Paper Holdings Limited . . . . .	Materials	7,332	1.14
Xingda International Holdings Limited . . . . .	Materials	7,244	1.12
Perfect World Company Limited . . . . .	Informational Technology	7,135	1.11
<b>Total . . . . .</b>		<b>325,215</b>	<b>50.43</b>

As at 30 December 2010 (being the latest practicable date prior to the publication of this document), the Company held no investments in unlisted securities which were not tradable with other counterparties nor investments in collective investment schemes, fixed income securities or convertible securities.

<sup>i</sup> % of total gross assets less current liabilities excluding the fixed rate loan of £64,722,637.

There has been no significant change in the Company's investments since the close of business on 30 December 2010.

## **6. Mandatory bids, squeeze-out and sell-out rules relating to the Shares**

### **6.1 Mandatory bid**

The City Code applies to the Company. Under rule 9 of the City Code, if:

- (i) a person acquires an interest in shares which, when taken together with shares already held by him or persons acting in concert with him, carry 30% or more of the voting rights in the Company; or
- (ii) a person who, together with persons acting in concert with him, is interested in not less than 30% and not more than 50% of the voting rights in the Company acquires additional interests in shares which increase the percentage of shares carrying voting rights in which that person is interested,

the acquirer and, depending on the circumstances, his concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interests in the shares by the acquirer or his concert parties during the previous 12 months.

### **6.2 Compulsory acquisition**

Under sections 974 – 991 of the 2006 Act, if an offeror acquires or contracts to acquire (pursuant to a takeover offer) not less than 90% of the shares (in value and by voting rights) to which such offer relates, it may then compulsorily acquire the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding holders of shares telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for the outstanding holders of shares. The consideration offered to the holders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

In addition, pursuant to section 983 of the 2006 Act, if an offeror acquires or agrees to acquire not less than 90% of the shares (in value and by voting rights) to which the offer relates, any holder of shares to which the offer relates and who has not accepted the offer may require the offeror to acquire his shares on the same terms as the takeover offer.

The offeror would be required to give any holder of shares notice of his right to be bought out within one month of that right arising. Sell-out rights cannot be exercised after the end of the period of three months from the last date on which the offer can be accepted or, if later, three months from the date on which the notice is served on the holder of shares notifying them of their sell-out rights. If a holder of shares exercises his/her rights, the offeror is bound to acquire those shares on the terms of the takeover offer or on such other terms as may be agreed.

## **7. Borrowing**

Subject to the 2006 Act, the Articles and to any directions given to the Company in general meeting, the Directors shall manage the Company's business and can use all the Company's powers. In particular, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property (present and future) and uncalled capital or any part or parts thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights, powers of control or rights of influence exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the Company and any such subsidiary undertakings and for the time being owing to persons outside the Company and any such subsidiary undertakings shall not at any time without

the previous sanction of an ordinary resolution of the Company exceed an amount equal to the adjusted capital and reserves (as defined in the Articles).

## **8. Interests of Directors, major shareholders and related party**

### **8.1 Directors' interests**

Save as set out below, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company:

<u>Director:</u>	<u>Holding:</u>
John Owen(i) . . . . .	40,000
Nicholas Bull(ii). . . . .	50,000
David Causer(iii) . . . . .	50,000
Peter Pleydell-Bouverie(iv) . . . . .	45,000

Notes:

- (i) The holding consists of 20,000 Shares in the name of John Owen and 10,000 Shares in the name of his spouse. Both holdings are held in two separate ISA accounts. An additional 10,000 Shares are held by John Owen's self-administered pension fund.
- (ii) The holding is held in a SIPP.
- (iii) The holding consists of 25,000 Shares in the name of David Causer and 25,000 Shares in the name of his spouse. Both holdings are held in two separate ISA accounts.
- (iv) The holding consists of 30,000 Shares in the name of Peter Pleydell-Bouverie and 15,000 Shares in the name of his spouse.

The Directors and their spouses intend to subscribe for C Shares pursuant to the Open Offer.

8.2 Save as disclosed in paragraph 8.1 above, immediately following Admission no Director will have any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company.

### **8.3 Directors' contracts with the Company**

- 8.3.1 None of the Directors provides his services to the Company pursuant to a service contract with the Company. Their appointments are subject to the terms of their letters of appointment.
- 8.3.2 Each Director is engaged by the Company as a non-executive Director. John Owen, Nicholas Bull, David Causer, Peter Pleydell-Bouverie and Douglas Naismith were appointed on 4 February 2010.
- 8.3.3 The Company has not made any loans to the Directors which are outstanding, nor has it ever provided any guarantees for the benefit of any Director or the Directors collectively.
- 8.3.4 No remuneration or other benefits in kind have been paid by the Company to any Director since the date of incorporation of the Company, nor are any remuneration or benefits in kind payable by the Company to any Director under any arrangement in force at 30 December 2010 (being the latest practicable date prior to the publication of this document) other than the Director's fees pursuant to the Directors' letters of appointment.

The aggregate of the remuneration and benefit in kinds payable to the Directors for the year ending 31 March 2011 are estimated to be approximately £200,000.

#### 8.4 Other interests

Over the five years preceding the date of this document, the Directors have held the following directorships (apart from their directorships of the Company or subsidiaries of the Company) and/or partnerships:

##### **John Owen**

CLS Fabrications Limited .....	Current
Auto Port North America Inc. .....	Current
Iceman Capital Advisors Limited .....	Current
Scimitar Advisers Limited .....	Current
Queensgate Bank Limited .....	Current
Queensgate Trust Company Limited .....	Current
The Loriners Investment Company Limited .....	Current
Isle of Wight Chamber of Commerce, Tourism and Industry .....	Current
The Grandparents Association (Trading) Limited .....	Resigned on 9 September 2009

##### **Nicholas Bull**

The Conran Foundation .....	Current
Smith's Corporate Advisory Limited. ....	Current
Westhouse Holdings PLC .....	Current
De Vere Group Holdco Limited (formerly AHG Venice Holdings Limited) .....	Current
AHG Venice Group Limited. ....	Current
The Great River Race .....	Resigned on 8 December 2010

##### **David Causer**

Schroder Income Growth Fund plc .....	Current
The Maria Montessori Training Organisation .....	Current
Leap Confronting Conflict .....	Current
Britcross Limited .....	Resigned 31 December 2007
The St. John and Red Cross Defence Medical Welfare Service .....	Resigned 31 July 2007

##### **Douglas Naismith**

FIL Life Insurance Limited .....	Current
FIL Pensions Management .....	Current
FIL Investment Advisors (UK) Limited .....	Current
Member of the Supervisory Board of FIL Investissements SAS .....	Current

##### **Peter Pleydell-Bouverie**

Director of Ebble Developments Limited .....	Current
Director of Longford Farms Limited .....	Current
Folkestone High Holborn Number 1 Limited .....	Current
Folkestone High Holborn Number 2 Limited .....	Current
Wessex Chalk Stream and River Trust .....	Current
Trustee and Governor of Wiltshire Historic Buildings Ltd. ....	Current
The Salisbury and South Wiltshire Museum Trust. ....	Current

8.5 Save for Douglas Naismith's employment with a FIL company, the Directors have no potential conflicts of interest between any duties to the Company and their private interests and other duties.

8.6 In the five year period prior to the date of this document, none of the Directors:

8.6.1 had any convictions in relation to fraudulent offences;

8.6.2 was associated with any bankruptcies, receiverships or liquidations of any partnership or company through acting in the capacity as a member of the administrative, management or

supervisory body or as a partner, founder or senior investment manager of such partnership or company; or

8.6.3 received any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) nor has any Director been disqualified by a court from acting as a member of the administration, management of supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

## 8.7 Major shareholders

8.7.1 As at 30 December 2010 (being the latest practicable date before publication of this document) insofar as known to the Company, the following parties had declared a notifiable interest in the Company's capital or voting rights (under the Disclosure and Transparency Rules):

<u>Shareholder</u>	<u>Number of ordinary shares</u>	<u>% of voting rights</u>
FIL Nominee (Shareholdings) Ltd GENPEP (held for Fidelity ISA clients) . . . . .	170,532,766	34.19
Puddle Dock Nominees Limited (held for Fidelity Shareplan clients) . . . . .	44,898,049	9.03
BBHISL Nominees Ltd (held for FIL beneficially) . . . . .	32,000,000	6.42
Legal & General Group PLC . . . . .	15,109,300	3.12

FIL's non-beneficial holding of 215,593,506 Ordinary Shares (43.22% of voting rights) is held on behalf of non-discretionary clients.

8.7.3 All Shareholders have the same voting rights in respect of the share capital of the Company.

8.7.4 The Company and the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

8.7.5 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

## 8.8 Related party transactions

Save for the Management Agreements and the Secretarial Agreement (described in paragraph 10 of this Part IX), the Company is not a party to, nor had any interest in, any related party transaction.

## 8.9 Other material interests

The Company is receiving legal advice from Slaughter and May and financial advice from Cenkos Securities, in addition to certain administrative services from third parties in connection with the Offer for Subscription and Placing. The legal and financial advisers act for many other clients, including others in the investment funds sector and, on occasion, the professional advisers may face conflicts of interest as a result of acting both for the Company and such other clients. In the event of a conflict of interest, the legal and financial advisers will take reasonable steps to ensure it is resolved fairly.

Save as disclosed in this paragraph 8, none of the Directors has any conflict of interest between any duties to the Company and his private interests and any other duties. The Investment Manager, the Secretary, their respective directors, officers, employees, agents and affiliates and any person or company with whom they are affiliated or by whom they are employed (each an "Interested Party") may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company. In particular, Interested Parties may provide services similar to those provided to the Company to other entities and shall not be liable to account for any profit from any such services. For example, an Interested Party may acquire on behalf of a client an investment in which the Company may invest.

## 9. Share options and share scheme arrangements

No share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

## **10. Material contracts**

Save as described below, the Company has not (i) entered into any material contracts (other than contracts in the ordinary course of business) within the two years immediately preceding the publication of the document or (ii) entered into any contracts that contain provisions under which the Company has any obligation or entitlement that is material to the Company as at the date of this document.

### *10.1 Management Agreement*

The Company entered into a management agreement (the "Management Agreement") with the Investment Manager on 25 February 2010 under which the Investment Manager has agreed to provide investment management services for an annual fee equal to 1.5% of the NAV (excluding investments in other funds managed by the Investment Manager or associated companies, with the exception of Fidelity Institutional Cash Fund plc and any other money market fund of which the Investment Manager, or any of its associates, is the manager) payable quarterly in arrear and calculated as of the last Business Day of March, June, September and December in each year.

In addition, the Investment Manager is 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 valuation calculated at the end of each month during the year. Any outperformance above this cap will be carried forward. If the Company underperforms 2% above the returns on the MSCI China Index in any year, the underperformance must be made good before any further Performance Fee becomes payable in future years. Both the NAV and the MSCI China Index will be calculated on a total return basis, while the NAV will be based on the weighted average number of Shares in issue.

The Management Agreement will continue unless and until terminated by either party giving to the other not less than twelve months' notice in writing expiring no earlier than the third anniversary of the Management Agreement. The Management Agreement may, however, be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles regarding the Company's continuation. The Management Agreement may also be terminated forthwith as a result of a material breach of the Management Agreement or on the insolvency of the Investment Manager.

In addition, the Company may terminate the Management Agreement by two months' notice in writing if the Investment Manager ceases to be a subsidiary of FIL Limited.

The Management Agreement was amended, with effect from 5 January, 2011, to reflect that (a) responsibility for management of the Company's investments in unlisted securities is transferred to the Unlisted Investment Manager pursuant to the Unlisted Management Agreement described in paragraph 9.2 below; (b) the Investment Manager's undertaking to meet any liability of the Company on a derivative contract to the extent it exceeds 15% of Gross Assets (at the time the derivative was acquired).

### *10.2 Unlisted Management Agreement*

The Company has entered into a management agreement (the "Unlisted Management Agreement") with the Unlisted Investment Manager on the same terms as the Management Agreement, mutatis mutandis, but with effect from 5 January, 2011 and in respect of only the investments of the Company in unlisted securities.

### *10.3 Placing Agreement*

On 7 January 2011 the Company entered into a placing agreement with the Secretary and Cenkos Securities (the "Placing Agreement"), whereby Cenkos Securities agreed to act as placing agent and as sponsor to the Company and to make application on behalf of the Company to the UK Listing Authority for the admission of the C Shares and the Ordinary Shares arising on Conversion to the Official List pursuant to the open offer, offer for subscription and placing made pursuant to this Prospectus.

Under the terms of the Placing Agreement, Cenkos Securities is entitled for its services to a corporate finance fee of £295,000 and a commission equal to 1% of the gross proceeds of the Issue less proceeds attributable to FIL and FIL clients. Certain warranties and indemnities were also given which were of a customary nature for contracts of this type.

#### *10.4 IPO Placing Agreement*

On 25 February 2010 the Company entered into a placing agreement with the Secretary and Cenkos Securities (the "IPO Placing Agreement"), whereby Cenkos Securities agreed to act as placing agent and as sponsor to the Company and to make application on behalf of the Company to the UK Listing Authority for the admission of Shares to the Official List pursuant to the offer for subscription and placing made pursuant to the IPO Prospectus.

Under the terms of the IPO Placing Agreement, Cenkos Securities was entitled to a commission for its services equal to 1% of the gross proceeds of the offer for subscription and placing pursuant to the IPO Prospectus that were not attributable to FIL. Certain warranties and indemnities were also given which were of a customary nature for contracts of this type.

#### *10.5 Receiving Agent Agreement*

The Company entered into a receiving agent agreement with Capita Registrars on 7 January 2011 pursuant to which Capita Registrars agreed to act as receiving agent in connection with the Issue made pursuant to this Prospectus.

#### *10.6 IPO Receiving Agent Agreement*

The Company entered into a receiving agent agreement with Capita Registrars on 25 February 2010 pursuant to which Capita Registrars agreed to act as receiving agent in connection with the offer for subscription made pursuant to the IPO Prospectus.

#### *10.7 Registrars' Agreement*

The Company entered into a registrars' agreement (the "Registrars' Agreement") with Capita Registrars on 25 February 2010 pursuant to which Capita Registrars agreed to act as registrar to the Company. The IPO Registrars' Agreement may be terminated by either party on not less than three months' written notice expiring no earlier than the third anniversary of the date of the IPO Registrars' Agreement. Under the IPO Registrars' Agreement, Capita Registrars is entitled to receive a fee based on the number of Shareholders on the register during the fee year subject to a minimum annual fee of £3,250 together with other agreed transaction charges. The fee for maintenance of registers was initially £73,000 per annum. The Company will reimburse Capita Registrars for all out-of-pocket costs and expenses reasonably and properly incurred in connection with the performance of the services.

#### *10.8 Custody Agreement*

On 25 February 2010, the Company entered into a custody agreement with JPMorgan Chase Bank N.A. (London branch) (the "Custody Agreement"). Pursuant to the terms of the Custody Agreement, the Custodian is entrusted with the safe custody of the assets of the Company. In particular, it carries out all usual duties relating to cash and securities and, in addition, may delegate such duties to sub-custodians. The Custodian will use reasonable care in the selection and appointment of sub-custodians.

The following sub-custodians hold stock on behalf of the Company:

<u>Country</u>	<u>Name of sub-custodian</u>	<u>Regulatory status of sub-custodian</u>
Australia . . . . .	JPMorgan Chase Bank, N.A.	Regulated
China — Shanghai . . . . .	HSBC Bank (China) Company Limited	Regulated
China — Shenzhen . . . . .	HSBC Bank (China) Company Limited	Regulated
Hong Kong . . . . .	The Hongkong and Shanghai Banking Corporation	Regulated
Japan . . . . .	Mizuho Corporate Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Limited	Regulated Regulated
Singapore . . . . .	DBS Bank Ltd.	Regulated
South Korea . . . . .	Standard Chartered First Bank Korea Limited	Regulated
Taiwan . . . . .	JPMorgan Chase Bank, N.A.	Regulated
Thailand . . . . .	Standard Chartered Bank (Thai) Public Company Limited	Regulated
United Kingdom . . . . .	JPMorgan Chase Bank, N.A.	Regulated
United States . . . . .	JPMorgan Chase Bank, N.A.	Regulated

The Custody Agreement may be terminated by either party upon giving sixty days' notice in writing to the other party. The Custody Agreement is subject to earlier termination by either party in the event of the other party's liquidation or unremedied material breach of contract, and by the Company in the event of the Custodian ceasing to be authorised by FSA or ceasing to maintain other appropriate authorisations or permissions.

The Company will pay and the Custodian will receive a fee for its services under the Custody Agreement, together with the Custodian's reasonable out-of-pocket or incidental expenses. The amount, as may be agreed upon in writing, may only be increased if agreed between the parties in writing.

The Custody Agreement contains provisions for the indemnification by the Company of the Custodian, the sub-custodians and their respective nominees, directors, officers, agents and employees (together, the "Custody Indemnified Party") against any costs, claims, losses, liabilities, damages, expenses, fines, penalties, taxes and other matters that may be imposed on, incurred by or asserted against the Custody Indemnified Party by reason of the Custody Indemnified Party acting pursuant to the Custody Agreement or by their status as a holder of record of the Company's securities, except to the extent that they result from the fraud, negligence or wilful default of the Custodian or from the action of the Custody Indemnified Party for which the Custodian is liable to under the Custody Agreement.

The Custodian does not provide custodian services in respect of investments in unlisted securities which are not acquired or dealt in through international clearance and settlement systems but will provide assistance in relation to the custody of such investments, including the safe-keeping of certificates where practicable.

#### 10.9 Secretarial Agreement

The Company entered into a Secretarial Agreement with the Secretary on 25 February 2010 under which FIL Investments International has agreed to provide services of a company secretarial, accounting and administrative nature (excluding registration services) to the Company. The Secretary receives an annual fee based on the services provided of up to £600,000 (plus an amount equal to any applicable VAT). The Secretarial Agreement will continue in force until terminated by either party on not less than twelve months' notice in writing, expiring no earlier than the third anniversary of the Secretarial Agreement.

#### 10.10 Revolving Facility Agreement

The Company entered into an unsecured revolving facility agreement ("RFA") with JP Morgan Chase Bank, N.A.; London Branch dated 19 April 2010 comprising a HK\$275,000,000 committed multicurrency facility and a HK\$500,000,000 uncommitted multicurrency facility. Each facility is provided for the purpose of financing the purchase of Investments (as defined in the RFA) in accordance with the Funds Investment Policy. Each facility has been fully drawn down. Loans made under the RFA bear interest at

rate per annum equal to the aggregate of (a) the Margin, (b) LIBOR; and (c) the Mandatory Cost (if any) (each as defined in the RFA).

## 11. Working capital

The Company believes that it has sufficient working capital for its present requirements (that is, for the 12 months following publication of this Prospectus).

## 12. Significant change

There has been no significant change in the trading or financial position of the Company since 30 September 2010, being the end of the last financial period of the Company for which interim financial information has been published.

## 13. Capitalisation and indebtedness statement

The following table, sourced from the Company's internal accounting records, shows the Company's unaudited indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 October 2010 (being the latest practicable date prior to the publication of this document) and the Company's audited capitalisation as at 30 September 2010 (being the latest date in respect of which the Company has published financial information).

	31 October 2010 (unaudited) £'000
<b>Capitalisation</b>	
Total current debt	
– Guaranteed .....	—
– Secured .....	—
– Unguaranteed/unsecured.....	—
Total non-current debt .....	62,399
– Guaranteed .....	—
– Secured .....	—
– Unguaranteed/unsecured.....	—
 <b>Shareholders equity</b>	
Share capital .....	4,817
Legal reserve (share premium).....	21,899
Other reserve .....	452,232
Total .....	478,948

Following 30 September 2010 the Company has issued the following shares:

<b>Date</b>	<b>Number of shares issued</b>	<b>Issue price per share in pence</b>
11 October 2010.....	3,750,000	116
11 November 2010 .....	4,250,000	126
21 December 2010 .....	9,050,000	119

Following these share issues, as at 30 December 2010 (being the latest practicable date prior to the publication of this document) the share capital of the Company is £4,987,500 and the share premium account is £42,203,000.

The following table shows the Company's unaudited net indebtedness as at 31 October 2010.

<u>Capitalisation</u>	<u>31 October 2010 (unaudited) £'000</u>
A. Cash . . . . .	22,516
B. Cash equivalent . . . . .	10
C. Trading securities . . . . .	—
D. Liquidity (A + B + C) . . . . .	22,526
E. Current financial receivable . . . . .	—
F. Current bank debt. . . . .	62,399
G. Current portion of non-current debt. . . . .	—
H. Trading securities payable . . . . .	—
I. Other current financial debt. . . . .	—
J. Current financial indebtedness (F + G + H + I) . . . . .	62,399
K. Net current financial indebtedness (J – E – D) . . . . .	39,873
L. Non-current bank loans. . . . .	—
M. Bonds issued. . . . .	—
N. Other non-current loans. . . . .	—
O. Non-current financial indebtedness (L + M + N) . . . . .	—
P. Net Financial Indebtedness (K + O) . . . . .	39,873

#### **14. Capital resources and liquidity**

The Company's capital resources derive from the proceeds from the initial issue of Ordinary Shares as part of the Initial Listing and the subsequent issues, details of which are set out in paragraph 3.4 of this Part IX and from the Net Proceeds from the Issue (on the assumption it proceeds). They are supplemented by borrowings and may be supplemented by future borrowing in accordance with the Investment Policy.

The capital is invested in accordance with the Investment Policy with expenses, including investment expenses, met from income received on investments or, to the extent necessary, from sales of investments. Sales may also be used to fund repayment of sums borrowed but sales proceeds will normally be reinvested in accordance with the Investment Policy.

Income, but not capital, may be used to fund dividends and other distributions to Shareholders to the extent not required to meet expenses. Capital may be used to fund share redemption and repurchases. There are no restrictions on the use of capital that have accrued or that would normally affect the Company's operations although the Company is subject to the investment restrictions set out in Part II (*Information on the Company*) of this document.

#### **15. Corporate governance**

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which will enable the Company to comply with the Combined Code and the AIC Code. Save as disclosed below, as at the date of this document, the Company complies with the best practice provisions of the Combined Code and the AIC Code.

The Combined Code includes provisions relating to:

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

For the reasons set out in the AIC Corporate Governance Guide and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company.

The Board, currently chaired by John Owen, consists of five non-executive Directors, four of whom are regarded by the Board as independent of the Investment Manager, including the Chairman. Douglas Naismith is regarded as non-independent due to his employment with a FIL company.

All appointments to the Board and replacements of Directors take place in accordance with the 2006 Act and the Company's Articles. The Nomination and Remuneration Committee is responsible for identifying

possible candidates for consideration by the Board. External consultants may also be used to identify potential candidates.

#### *The Audit Committee*

The Audit Committee consists of all of the independent Directors, and David Causer chairs this Committee as the Board believes it appropriate for him to do so given his accounting qualifications and experience as a chairman of an audit committee. The Committee considers that collectively the members of the Committee have sufficient recent and relevant financial experience to discharge its responsibilities fully.

The Committee's authority and duties are clearly defined in its written terms of reference which are available on the Company's pages of the website: [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china). These include responsibility for reviewing the half-yearly financial statements and annual reports and financial statements, reviewing the scope and results of the audit and the effectiveness and cost of the audit process, and reviewing the Company's internal financial controls. They also include responsibility for reviewing and monitoring 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.

The Audit Committee of the Board meets at least three times a year and with the Auditor at least once a year to review these and other appropriate matters. The members of the Audit Committee are David Causer (Chairman), John Owen, Nicholas Bull and Peter Pleydell-Bouverie.

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

- Reviewing the Company's draft annual and half-yearly financial statements prior to Board approval and reviewing 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.
- 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 of the external audit process and the external Auditor's independence and objectivity.
- 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.

#### *The Nomination and Remuneration Committee*

The Nomination and Remuneration Committee consists of all of the independent non-executive Directors. John Owen, Chairman of the Company, also chairs this Committee. The Committee is charged with nominating new Directors for consideration by the Board of Directors, and subsequent approval by Shareholders. It believes that the best way of ensuring that the Board as a whole and each independent Director individually carry out their duties in an independent manner, irrespective of the interests of the Investment Manager, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is entirely controlled by this Committee. The Nomination and Remuneration Committee also considers the re-election of Directors who are retiring by rotation.

The Committee also concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors' fees of other investment trust companies and other comparable entities. The level of remuneration of the non-executive Directors is set by the Nomination and Remuneration Committee.

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

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

#### *The Management Engagement Committee*

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

The level of remuneration of the Investment Manager and the Secretary is determined by the Management Engagement Committee; it relates to the investment management function carried out by the Investment Manager, on which a percentage of the funds under management is paid (where a performance fee is paid) and to the administrative function carried out by the Secretary. The Board is mindful that the amounts paid to the Investment Manager and to the Secretary should be sufficient to ensure that both the Investment Manager and the administrators within the Secretary who is engaged to look after the Company's affairs are highly skilled and that those individuals should be duly focused on the Company's business.

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

- Quality of team — the skills and particular experience of the teams involved in managing all aspects of the Company's business.
- Commitment of the Investment Manager to the investment trust business generally and to the Company in particular.
- Managing the Company — in running and controlling the administration, the accounting and the company secretarial function of the Company.
- Investment management — portfolio management skills, experience and track record and other investment related considerations.
- Shareholders — shareholder consciousness and relations, discount management and commitment to the Company's goals.
- Management Agreement and Secretarial Agreement — consideration of fees, notice period and duties.
- Marketing — commitment to and execution of activities designed to secure sustainable demand from potential long-term investors.

The Committee's terms of reference are available on the Company's pages of the website: [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china). Details of the Management Agreement and the Secretarial Agreement appear at paragraphs 10.1 and 10.9 respectively of this Part IX.

#### *The Investment Committee*

The Investment Committee consists of all of the independent non-executive 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 no less than once a year and at such other times as the Chairman of the Committee shall require.

## **16. Litigation**

There have been no governmental, legal or arbitration proceedings (and no such proceedings are pending or threatened of which the Company is aware) in the previous 12 months which may have, or have had in the recent past, significant effects on the Company's financial position or profitability. The Company has no subsidiaries.

## **17. Third party information and consents**

- 17.1 Cenkos Securities has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.
- 17.2 Grant Thornton LLP has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.
- 17.3 In relation to information in this document provided by third parties, the Company confirms that that information has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by those third parties, no facts have been omitted which would render the information reproduced inaccurate or misleading.

## **18. General**

- 18.1 The Company will not conduct any significant trading activity.
- 18.2 The Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability.
- 18.3 The Company does not have, nor has it had since its incorporation, any employees.

## **19. Auditor**

The auditor to the Company is Grant Thornton UK LLP.

## **20. Incorporation by reference**

Your attention is drawn to the following document that is incorporated by reference in its entirety into this document:

Preliminary announcement of unaudited interim financial results of the Company for the period from 19 April 2010 to 30 September 2010 (available for viewing on the Company's website at [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china)).

## **21. Documents on display**

The following documents will be available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP for so long as this document remains valid:

- 21.1 this Prospectus;
- 21.2 the Articles of Association and the proposed new Articles of Association of the Company; and
- 21.3 the Directors' letters of appointment referred to in paragraph 8.3 above.

## **22. Availability of Prospectus**

Copies of this document can be obtained during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document from the National Storage Mechanism ([www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do)) and free of charge from the date of this document until Admission from either of the following:

Fidelity China Special Situations PLC  
Beech Gate, Millfield Lane  
Lower Kingswood, Tadworth  
Surrey KT20 6RT

Fidelity International  
Investor Centre  
25 Cannon Street  
London, EC4M 5TA

## 23. Sources

The statements under each heading of Part III (*China and the Investment Opportunity*) of this document have been taken from the sources references under each relevant heading below.

### Why invest in China?

- China Statistical Yearbook 2009, National Bureau of Statistics of China
- IMF World Economic Outlook, October 2010
- Gearing up for a Global gravity shift, PricewaterhouseCoopers, 2007
- Credit Suisse Global Investment Returns Yearbook 2010
- MSCI All Country World Index
- IMF World Economic Outlook Database (October 2010)
- Asian Bank Reflections Vol 4
- IMF Regional Economic Outlook, Asia Pacific, October 2010

### The economic case for investing in China

- CIA World Factbook [www.cia.gov/library/publications/the-world-factbook](http://www.cia.gov/library/publications/the-world-factbook)
- IMF Word Economic Outlook, October 2009
- China Statistical Yearbook 2009, National Bureau of Statistics of China
- Bloomberg article: China Overtakes Japan as World's Second-Biggest Economy (dated August 16, 2010)
- PWC document: The World in 2050 — Beyond the BRICS (pages 2 and 11 to 12); Foreign Policy website article
- Statistics — U.S. Department of Treasury/Federal Reserve Board (dated November 16 2010)
- IMF Global Economic Review October 2010
- IMF Global Economic Review October 2009
- IMF World Economic Outlook Database
- Datastream
- The World Economy: a millennial perspective, Maddison, Organisation for Economic Co-operation and Development, 2003
- The World Economy: historical statistics, Maddison, Organisation for Economic Co-operation and Development, 2003

### Rapidly growing GDP

- IMF World Economic Outlook, October 2010
- Bloomberg article: China Overtakes Japan as World's Second-Biggest Economy (dated August 16, 2010)
- IMF World Economic Outlook Database, October 2010
- Asian Bank Reflections vol 4
- Asian Bank Reflections Vol. 4, Nomura, December 2009
- China Statistical Yearbook 2009, National Bureau of Statistics of China

### Social and economic developments and challenges

- World Population Prospectus, United Nations, Department of Economic and Social Affairs - Population Division, Population Estimates and Projections Section, 2008 revision

- The CIA World Factbook [www.cia.gov/library/publications/the-world-factbook](http://www.cia.gov/library/publications/the-world-factbook)

#### **Moving up the value chain**

- China Statistical Yearbook 2008, National Bureau of Statistics of China
- Gearing up for a Global gravity shift, PricewaterhouseCoopers, 2007

#### **Infrastructure spending**

- China Statistical Yearbook 2009, National Bureau of Statistics of China
- UN World Urbanisation Prospects, 2009

#### **Consumption**

- Datastream
- FT Article: "China Vehicle Sales Underline Power Shift" (dated January 12 2010)
- Statistics from U.S. Department of Transportation release (dated 2008)
- China Statistical Yearbook 2009, National Bureau of Statistics of China
- Merchandise Trade by Product, World Trade Organisation

#### **China's presence in the global economy and the global stock market**

- IMF World Economic Outlook, October 2009

The information referred to above has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by the references third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## PART X: DEFINITIONS

In this document, the words and expressions listed below have the meanings set out opposite them, except where the context otherwise requires:

2006 Act	the Companies Act 2006
Admission	the admission of the C Shares (i) to the Official List and (ii) to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with the Listing Rules and the Admission and Disclosure Standards
Admission and Disclosure Standards	the admission and disclosure standards of the London Stock Exchange for securities admitted or seeking to be admitted to trading, as amended from time to time
AIFM Directive	the Alternative Investment Fund Managers Directive
AGM	annual general meeting of the Company
AIC	the Association of Investment Companies
AIC Code	the Association of Investment Companies Code of Corporate Governance, as amended from time to time
AIM	Alternative Investment Market operated by the London Stock Exchange
Application Form	the Offer for Subscription Application Form and/or the Open Offer Application Form as the context requires
Articles of Association or Articles	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
Board or Directors	the board of directors of the Company or any duly constituted committee thereof
Business Day	any day on which banks are open for business in London (excluding Saturdays, Sundays and public holidays)
C Shares	convertible shares of 1p each in the capital of the Company carrying the rights and restrictions set out in Part VI of this document
Capita or Capita Registrars	a trading name of Capita Registrars Limited
Cenkos Securities	Cenkos Securities plc
CFD	contract for difference
China or PRC	the People's Republic of China (excluding Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC)
China A Shares	shares issued by companies incorporated in the PRC and listed on either of the Chinese Stock Exchanges, traded in Renminbi and available for investment by domestic (Chinese) investors and holders of a QFII licence
China B Shares	shares issued by companies incorporated in the PRC and listed on either of the Chinese Stock Exchanges, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors
China H Shares	shares issued by companies incorporated in the PRC and listed on the Hong Kong Stock Exchange and traded in Hong Kong Dollars

Chinese Stock Exchanges	the Shanghai Stock Exchange, the Shenzhen Stock Exchange and any other stock exchange located within the PRC from time to time
CIT Law	Corporate Income Tax Law of the PRC
CIT Regulations	the Detailed Implementation Regulations for the implementation of the CIT Law
CTA	Corporation Tax Act 2010
City Code	the UK City Code on Takeovers and Mergers
Combined Code	the Financial Reporting Council's Combined Code on Corporate Governance
Company	Fidelity China Special Situations PLC
Conversion	means the conversion of C Shares into Ordinary Shares and Deferred Shares in accordance with Part VI of this document
Conversion Ratio	the ratio at which the C Shares convert into Ordinary Shares in accordance with Part VI of this document
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations
CREST Manual	the rules governing the operation of CREST consisting of the CREST Reference Manual, the CREST International Manual, the CREST Central Counterparts Services Manual, the CREST Rules, the CCSS Operations Manual, the Daily Timetable, the CREST Applications Procedures and the CREST Glossary of Terms issued by Euroclear
CREST member	a person who has been admitted to CREST as a system-member (as defined in the CREST Manual)
CREST member account ID	the identification code or number attached to a member account in CREST
CREST participant	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations)
CREST participant ID	has the meaning given in the CREST Manual
CREST payment	shall have the meaning given in the CREST Manual
CREST Regulations or Regulations	the Uncertificated Securities regulations 2001 (S.I. 2001/3755), as amended from time to time
CREST Shareholder	Shareholders holding existing Ordinary Shares in uncertificated form
CREST sponsor	a CREST participant admitted to CREST as a CREST sponsor
CREST sponsored member	a CREST member admitted to CREST as a sponsored member
CSRC	China Securities Regulatory Commission, the main securities regulator of the PRC
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
Deferred Shares	means redeemable deferred shares of £0.01 each in the capital of the Company arising on Conversion

Directors	means the directors of the Company listed in the section headed "Directors, Investment Manager, Secretary and Advisers", and Director shall mean anyone of them
Disclosure and Transparency Rules	the disclosure rules made by the UK Listing Authority under Part VI of the FSMA, as amended from time to time
EEA	the European Economic Area
EEA State	a member state of the EEA
ELN	equity linked loan note
ERISA	the regulations adopted under the United States Employee Retirement Income Security Act 1974
EU	European Union
Euroclear	Euroclear UK & Ireland Limited, the operator of the CREST UK system
European Commission	the Commission of the European Union
FIE	foreign investment enterprise(s) incorporated in the PRC (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign-owned enterprises established in the PRC)
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
Financial Services Authority or FSA	the single regulatory authority for the UK financial services industry
Form of Proxy	the form of proxy for use by Shareholders in respect of the General Meeting
FSMA	the Financial Services and Markets Act 2000 (as amended)
GDP	Gross Domestic Product
Gross Assets	the sum of the value of each of the assets that the Company owns as calculated in accordance with the Company's valuation policy
Gross Asset Exposure	the value of the total portfolio to which the investor (i.e. the Company) is exposed, whether through direct or indirect investment (including through derivatives, but excluding collateral held in respect thereof). The Gross Asset Exposure divided by the NAV is often referred to as the level of gearing.
General Meeting	the general meeting of the Company to be held at 3 p.m. on 11 February 2011 for the purposes of approving the proposals contained in this Prospectus
High Court	the High Court of England and Wales
HMRC	HM Revenue & Customs
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Dollars or HK\$	the lawful currency of Hong Kong
Hong Kong Stock Exchange	the Stock Exchange of Hong Kong Limited
IFRS	International Financial Reporting Standards

Initial Listing	the admission of the Ordinary Shares on the Official List and to trading on the main market of the London Stock Exchange pursuant to the IPO on 19 April 2010
Investment Manager or Manager	FIL Investment Management (Hong Kong) Limited
Investment Managers or Managers	together, the Investment Manager and the Unlisted Investment Manager
Investment Policy	the investment policy of the Company as set out in Part II ( <i>Information on the Company</i> ) of the Prospectus or as determined by the Directors from time to time and published in the Company's annual report and financial statements
Investment Regulations	(i) the Measures; (ii) the "Notice on Relevant Issues in relation to the Implementation of the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors" as may be amended from time to time; and (iii) the "Regulations for Foreign Exchange Control of Investment in Domestic Securities by Qualified Foreign Institutional Investors" and such other regulations governing the establishment and operation of the qualified foreign institutional investors regime in the PRC
IPO	the initial public offer made pursuant to the IPO Prospectus
IPO Prospectus	prospectus relating to the initial public offer by the Company for subscription and placing of up to 650,000,000 Shares dated 26 February 2010
Issue	the Open Offer, Offer for Subscription and Placing made pursuant to this Prospectus
Issue Price	100p per C Share
ISA	an individual savings account maintained in accordance with the UK Individual Savings Account Regulations 1998, as amended from time to time
Listing Rules	the listing rules made by the UK Listing Authority under Part VI of the FSMA, as amended from time to time
London Stock Exchange	London Stock Exchange plc
Management Agreement	the agreement between FIL Investment Management (Hong Kong) Limited and the Company regarding the management of the Company's investments dated 25 February 2010
Management Agreements	the Management Agreement and the Unlisted Management Agreement
Management Fee	the annual management fee payable by the Company to the Investment Manager as described in paragraph 10.1 of Part IX ( <i>Additional Information</i> ) of this document
Measures	the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors promulgated by CSRC, People's Bank of China and SAFE on 24 August, 2006 and effective on 1 September, 2006, as may be amended from time to time
MSCI China Index	a free float-adjusted market capitalisation-weighted index of Chinese equities that includes China-affiliated corporations and China H Shares listed on the Hong Kong Stock Exchange, and China B Shares listed on any of the Chinese Stock Exchanges, measured on a total return basis

Net Asset Value or NAV	net asset value as calculated in accordance with the Company's valuation policies and the Articles
Net Proceeds	the aggregate net cash proceeds of the issue of C Shares after deduction of all expenses and commissions payable by the Company in respect of the Issue.
Non-CREST Shareholder	Shareholders holding existing Ordinary Shares in certificated form
Offer for Subscription	the offer to the public in the UK to subscribe for C Shares on the terms and conditions set out in this document
Offer for Subscription Application Form	the form of application as appended to this document by which application may be made under the Offer for Subscription
Official List	the Official List maintained by the UK Listing Authority
Open Offer	the offer to Shareholders, constituting an invitation to apply for C Shares, on the terms and subject to the conditions set out in this document and, in the case of Non-CREST Shareholders, the Open Offer Application Form
Open Offer Application Form	the application form on which Non-CREST Shareholders who are registered on the register of members of the Company as at the Record Date may apply for C Shares under the Open Offer
Open Offer Entitlement	the entitlement of Shareholders to apply for C Shares pursuant to the Open Offer on the basis of one C Share for every three existing Ordinary Shares held and registered in their names at the close of business on the Record Date
Ordinary Shares	ordinary shares of nominal value of 1p each in the capital of the Company and "Ordinary Share" means any one of them
Overseas Investors	a person who is not resident in, or who is outside, or who has a registered address outside, the United Kingdom
People's Bank of China	the PRC central bank
Performance Fee	the performance fee payable by the Company to the Investment Manager as described in paragraph 10.1 of Part IX (Additional Information) of the Prospectus
Placees	the placees under the Placing
Placing	the placing of C Shares by Cenkos Securities at the Placing Price pursuant to the Placing Agreement, as described in this document
Placing Agreement	the conditional agreement between, inter alia, the Company and the Sponsor relating to the Placing dated 5 January 2011, a summary of which is set out in paragraph 10.3 of Part IX (Additional Information) of this document
Placing Price	100p per C Share
Prospectus	this document
Prospectus Directive	Directive 2003/71/EC and any implementing measure in a relevant EEA member state
Prospectus Rules	the rules and regulations made by the FSA under Part VI of the FSMA, as amended from time to time
QFII	qualified foreign institutional investor approved by CSRC pursuant to the Measures
Receiving Agent	Capita Registrars

Record Date	30 December 2010
Red Chips	companies incorporated outside the PRC and listed on the Hong Kong Stock Exchange and controlled by PRC entities, by way of direct or indirect shareholding and/or representation on the board of directors
Register	the register of members of the Company
Registrar	Capita Registrars
Regulatory Information Service	a service authorised by the UK Listing Authority to release regulatory announcements to the London Stock Exchange
Renminbi	the lawful currency of China
Resolution(s)	the resolution(s) to be proposed at the General Meeting
Restricted Jurisdiction	each and anyone of Australia, Canada, Japan, the Republic of Italy or the Republic of South Africa
SAFE	State Administration of Foreign Exchange of the PRC
SAFE Rules	the Regulations on Administration of Foreign Exchange regarding Onshore Securities Investment by QFII promulgated by SAFE
SDRT	Stamp Duty Reserve Tax
Secretarial Agreement	the agreement between the Secretary and the Company regarding the provision of company secretarial and administrative services dated 25 February 2010, a summary of which is set out in paragraph 10.9 of this document
Secretary	FIL Investments International
Shares	the Ordinary Shares and/or the C Shares and/or the Deferred Shares as the context requires
Shareholder	a holder of Shares
SIPP	self invested personal pension
SORP	AIC Statement of Recommended Practice
Sponsor	Cenkos Securities plc
SSAS	small self-administered pension scheme
Sterling, £, p	the lawful currency of the United Kingdom
Total Net Assets	total gross assets less (i) current liabilities and (ii) fixed term bank loans
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)
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK Listing Authority	the Financial Services Authority acting in its capacity as the competent authority for the purposes of admissions to the Official List
Uncertificated Securities Regulations	the Uncertificated Securities Regulations 2001
United States or US	the United States of America
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
US\$ or US Dollars	the lawful currency of the United States of America
US Person	has the meaning given to it under Regulation S of the US Securities Act
US Securities Act	the US Securities Act of 1933, as amended
VAT	value added tax
WTO	World Trade Organisation

## GLOSSARY

collateral	Assets provided as security for the unrealised profits or losses under CFDs
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 speculate that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). A contract for difference does not involve buying or selling the underlying asset, only agreeing to receive or pay the movement in its price. A contract for difference only requires a small deposit ("margin") on trades meaning that an investor can make large losses or profits on money committed resulting from small movements in the price of the specified financial instrument.
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 futures, options and swaps.
equity linked notes or ELNs	Debt instruments whose return on investment is linked to the equity markets. The return on equity linked notes may be determined by a stock index, a basket of stocks, or a single stock.
forward or forward contract	An agreement to sell a currency, commodity or other asset at a specified future date and at a predetermined price. It is not standardised and is not traded on organised exchanges.
future or future contract	An agreement to buy or sell a stated amount of a security, currency or commodity at a specific future date and at a pre-agreed price. Futures contracts are often traded on the futures market.
hedging	A strategy aimed at minimising or eliminating risk, normally involving positions in two different markets, with one offsetting the other. Derivatives — futures and options — are widely used for hedging purposes because they can protect an investor against changes in the value of an underlying asset or currency.
index linked securities	Debt instruments whose return on investment is linked to commodity prices, interest rates, stock exchange, or other price indices.
investment funds or funds or collective investment schemes or open ended funds	Investment vehicles in which assets are pooled and jointly managed by "fund managers" for investors. Investors participate by owning securities in the funds;
long or long side	The position of an investor who buys a security or derivative with a view to an expected price increase before selling;
marked to market	Assigning a value to a position held in a financial instrument based on the current fair market price for the instrument or similar instruments
money market instruments	Short-term debt instruments that give the owner 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.

options or options contract	A contract that entitles the holder to buy or sell an underlying asset at a given price and before a certain date
short position or short 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;
structured instruments or structured products	Synthetic investment instruments specially created to meet specific needs that cannot be met from the standardised financial instruments available in the markets. Structured products are typically used as an alternative to a direct investment or as part of an asset allocation process to reduce the risk exposure of a portfolio.
volatility	A measure of dispersion of a set of data from its average. It is the degree of uncertainty of returns on an asset. The higher the value, the more the overall data varies from its average. A fund with an annualised return of 10% and an annualised volatility of 5% indicates that over the relevant performance period, returns in any 12 month period have been between 5% and 15% about two-thirds of the time.

**NOTICE OF GENERAL MEETING**  
**FIDELITY CHINA SPECIAL SITUATIONS PLC**

*Incorporated and registered in England and Wales with company number 07133583*

Terms defined in the Prospectus of the Company dated 7 January 2011 and not otherwise defined in this Notice of General Meeting will bear the same meaning in this Notice of General Meeting.

Notice is hereby given that a General Meeting (the "Meeting") of Fidelity China Special Situations PLC (the "Company") will be held at 25 Cannon Street, London EC4M 5TA at 3 p.m. on 11 February, 2011 to consider and, if thought fit, approve the following Resolution:

**SPECIAL RESOLUTION**

1. THAT subject to the admission of C Shares in the capital of the Company (the "C Shares") to the Official List to be issued pursuant to the C Share Issue described in the Prospectus (the "C Share Issue") and London Stock Exchange plc agreeing to admit such C Shares to trading on its market for listed securities:
  - (A) the Company's Articles of Association ("Articles") be hereby amended so as to include provisions reflecting the rights and restrictions attaching to the C Shares and the new Articles produced to the Meeting marked "B" and signed by the Chairman of the Meeting for the purposes of identification be adopted as the Company's new Articles (the "New Articles") in substitution for, and to the exclusion of, the existing Articles of the Company;
  - (B) in addition to any existing authority under the 2006 Act granted to the Directors before the passing of this Resolution, for the purposes of section 560 of the 2006 Act (and so that expressions used in this resolution shall bear the same meanings as in the said section 560) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot C Shares pursuant to the C Share Issue as set out in the New Articles to be adopted pursuant to sub-paragraph (A) of this Resolution, up to a maximum aggregate nominal amount of £166,250,000 provided that such authority shall expire at the conclusion of the Company's annual general meeting to be held in 2011, save that the Company may prior to the expiry of such period make any offer or agreement which would or might require such C Shares to be allotted after such expiry and the Directors may allot such C Shares in pursuance of any such offer or agreement as if the authority conferred hereby had not expired; and
  - (C) any consolidation, conversion, or redemption of share capital required in the opinion of the Directors to give effect to the rights of the holders of C Shares be hereby approved.

**ORDINARY RESOLUTION**

2. THAT in addition to any existing authority under the 2006 Act granted to the Directors before the passing of this Resolution, for the purposes of section 560 of the 2006 Act (and so that expressions used in this resolution shall bear the same meanings as in the said section 560) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Ordinary Shares, up to a maximum aggregate nominal amount equal to 10% of the aggregate nominal amount of Ordinary Shares in issue following the conversion of C Shares issued pursuant to the authority granted by resolution 1 into Ordinary Shares and Deferred Shares provided that such authority shall expire at the conclusion of the Company's annual general meeting to be held in 2011, save that the Company may prior to the expiry of such period make any offer or agreement which would or might require such C Shares to be allotted after such expiry and the Directors may

allot such C Shares in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

**BY ORDER OF THE BOARD**

*FIL Investment International*

Secretary

Date: 7 January 2011

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

Notes:

- (i) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in his place. A proxy need not be a member of the Company.
- (ii) To appoint a proxy you may use the Form of Proxy enclosed with this Notice of General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be completed and returned in accordance with the instructions printed thereon to the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or delivered by hand during office hours to the same address as soon as possible and in any event by not later than 3 p.m. on 9 February 2011.
- (iii) Completion of the Form of Proxy will not prevent you from attending and voting in person.
- (iv) Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Ad 2006 (a "Nominated Person") should note that the provisions in Notes (i) to (iii) above concerning the appointment of a proxy or proxies to attend the General Meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated 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/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the Meeting.
- (v) Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
- (vi) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only Shareholders registered in the register of members of the Company by not later than 6.00 p.m. two days prior to the time fixed for the Meeting shall be entitled to attend and vote at the Meeting in respect of the number of Shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 6.00 p.m. two days prior to the time of the adjournment. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

- (vii) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy 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 of the Company in respect of the relevant joint holding.
- (viii) 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.
- (ix) If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes 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 3 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 a separate notification to the Company and the Financial Services Authority.
- (x) As at 30 December 2010 (being the latest practicable date prior to the publication of this Notice), the Company's issued capital consisted of 498,750,000 Ordinary Shares carrying one vote each. Therefore, the total voting rights in the Company as at 30 December 2010 are 498,750,000 Ordinary Shares carrying one vote each.
- (xi) The proposed New Articles are available for inspection at the registered office of the Company, Beechgate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the conclusion of the Meeting and will be available for inspection at the place of the Meeting for at least 15 minutes prior to and during the meeting.

## PROCEDURE FOR APPLICATION FOR OFFER FOR SUBSCRIPTION

Before completing the Offer for Subscription Application Form, ALL APPLICANTS should read notes 1-5, 7 and 8 below. JOINT APPLICANTS should also read note 6 below. Applications should be returned so as to be received no later than 11 a.m. (London time) on 15 February 2011.

**HELP DESK:** If you have a query concerning completion of the Application Form please call Capita Registrars on 0871 664 0321 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 a.m. to 5.00 p.m. (London Time) Monday to Friday. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

### 1. Personal details

Fill in (in BLOCK CAPITALS) the full name and address of the Applicant. If the Application is being made jointly with other persons, please read note 6 below before completing Box 1.

### 2. Application

Fill in (in figures) the number of C Shares you wish to apply for under the Offer for Subscription along with the total amount in Sterling. There is no maximum application value but Applications must be for a minimum of £1,000 and in multiples of £1.

Applicants may make multiple applications under the Offer for Subscription.

### 3. How to pay

Attach your cheque(s), building society cheque(s) or banker's draft(s) for the exact amount inserted in Box 7 to your completed Application Form. Your cheque(s), building society cheque(s) or banker's draft(s) must be made payable to "Capita Registrars Limited re FCSS PLC Offer for Subscription A/C" and crossed "a/c payee only".

Your payment must relate solely to this Application. No receipt will be issued.

Your cheque(s), building society cheque(s) or banker's draft(s) must be drawn in sterling on an account at a bank branch in the United Kingdom and must bear a United Kingdom bank sort code number. Third party cheques will not be acceptable.

Verification of identity will not usually be required from any person lodging an Application Form who tenders payment by way of personal cheque. However, Applications by the same Applicant with a combined value of £12,500 or greater which are to be settled by way of a third party payment (i.e. a building society cheque or banker's draft) will be subject to the United Kingdom's verification of identity requirements which are contained in the Money Laundering Regulations 2003. For UK applicants, this may involve verification of names and addresses (only) through a reputable agency. For non-UK Applicants, verification of identity may be sought from your bankers or from another reputable institution or professional adviser in the Applicant's country of residence.

If satisfactory evidence of identity has not been obtained within a reasonable time, and in any event (unless the relevant Offer is extended) by 24 February 2011, your Application may not be accepted.

### 4. Signature

The Applicant named in Box 2 must date and sign Box 5.

The Application Form may be signed by another person on your behalf if that person is duly authorised to do so under a power of attorney. The original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity should be stated.

## **5. Contact telephone number**

Insert in Box 2 a daytime contact telephone number, including STD code (and, if different, from the person named in Box 2, the name of the person to contact) in the case of any queries regarding your Application.

## **6. CREST**

If you wish to register your C Shares directly into your CREST account, you should insert the relevant details in Box 4. If you do not complete Box 4, you will receive your C Shares in certificated form.

## **7. Joint Applicants**

If you make a joint application, you will not be able to transfer your C Shares into an ISA. If you are interested in transferring your C Shares into an ISA, you should apply in your name only.

If you do wish to apply jointly, you may do so with up to three other persons. Box 2 must be completed and Box 5 must be signed by one Applicant, who is intended to be the proposed first-named holder. All other persons who wish to join in the Application must complete Box 3 and sign Box 5.

Another person may sign on behalf of any joint Applicant if that other person is duly authorised to do so under a power of attorney. The original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) must be enclosed for inspection. Certificates, cheques or other correspondence will be sent to the address in Box 2.

## **8. Instructions for delivery of completed Application Forms**

Completed Application Forms should be returned, by post (or, during normal business hours only, by hand) to Capita Registrars Limited at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received by no later than 11 a.m. on 15 February 2011 (or such later time and date as the Company may have announced through a Regulatory Information Service), together, in each case, with payment in full in respect of the Application. If you post your Application Form, you are recommended to use first class post and to allow at least three Business Days for delivery. Application Forms received after 11 a.m. on 15 February 2011 (or such later time and date as the Company may have announced through a Regulatory Information Service) may be rejected and returned.



## APPLICATION FORM FOR OFFER FOR SUBSCRIPTION

# Fidelity China Special Situations PLC

Before completing this Offer for Subscription Application Form you should read the Terms and Conditions of Issue and Application Procedure.

Make your cheque payable to **Capita Registrars Limited re: FCSS PLC Offer for Subscription A/C** (crossed a/c payee only) and return it together with this form by post or (during normal business hours only) by hand to **Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** so as to arrive no later than 11 a.m. on 15 February 2011.

**PLEASE COMPLETE IN BLOCK CAPITALS ONLY and in BLACK INK**

## Box 1 — Application and Amount Payable

Applications must be for a **minimum of 1,000 C Shares** and thereafter in **the multiples of 1 C Share**:

Number of Shares: \_\_\_\_\_ at £1 per Share. I have attached a cheque for: £ \_\_\_\_\_

## Box 2 — Applicant Details

### Box 3 — Joint Applicants

You may apply with up to 3 joint applicants

#### Box 4 — CREST

If you would like your shares to be credited to your CREST account please provide details below.  
The CREST Account must be in same name(s) as the Applicant Details provided in Boxes 2 and 3 above.

**Participant ID**      **Member Account**

## Box 5 — Signature

Execution by Individuals:

First Applicant Signature		Date	
Second Applicant Signature		Date	
Third Applicant Signature		Date	
Fourth Applicant Signature		Date	

Execution by a Company:

Executed by (Name of Company):				
Name of Director:		Signature:	Date	
Name of Director/Secretary:		Signature:	Date	
If you are affixing a company seal, please mark a cross here:		Affix Company Seal here:		

## BOX 6 MUST BE COMPLETED BY AUTHORISED FINANCIAL INTERMEDIARIES ONLY

### Box 6 — Authorised Financial Intermediaries Details

By completing and stamping Box 6 below you are deemed to have given the warranty and undertaking set out in Note 6 of the accompanying Notes on Completion of the Application Form.

AUTHORISED FINANCIAL INTERMEDIARIES STAMP	Name of Firm
	FSA Number
	Signature
	Name
	Position
	Date
	Telephone No

PLEASE AFFIX YOUR CHEQUE HERE

## Notes on Completion of the Application Form

---

**It is essential that you complete all parts of the Application Form in accordance with the following instructions.**

**Authorised Financial Intermediaries MUST read Point 6 of these notes.**

### **1. Application and Amount Payable**

Insert in Box 1 the number of shares you wish to apply for in Fidelity China Special Situations PLC. You must also insert your total payment. Your cheque or bankers draft should be for an amount that represents £1.00 multiplied by the number of shares you are applying for.

Your application must be for a minimum of 1,000 C Shares and thereafter in multiples of 1 share.

### **Payment**

Payments must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society. Cheques, which must be drawn on the personal account of the individual investor where they have sole or joint title to the funds, should be made payable to "**Capita Registrars Limited re: FCSS PLC Offer for Subscription**" and crossed "a/c payee only". Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/bankers' draft to such effect.

The account name should be the same as that shown on the application.

### **Money Laundering Regulations**

Under the Money Laundering Regulations 2007, Capita Registrars Limited (Capita) may be required to check the identity of persons who subscribe for in excess of the sterling equivalent of €15,000 of C Shares.

Capita may therefore undertake electronic searches for the purposes of verifying identity. To do so Capita may verify the details against the applicant's identity, but also may request further proof of identity. Capita reserve the right to withhold any entitlement (including any refund cheque) until such verification of identity is completed to its satisfaction.

### **2. Applicant Details**

Insert your title, full name, address and daytime telephone number in BLOCK CAPITALS and black ink in Box 2.

Applications can only be made by persons over the age of 18.

### **3. Joint Applicants**

You may apply with up to three joint applicants. Joint applicants should insert their title and full name in Box 3.

### **4. CREST**

If you would like to receive your new Shares in uncertificated form into your CREST account please insert your Participant ID and Member Account in Box 4. The CREST Account must be in same name(s) as the Applicant Details provided in Boxes 2 and 3 above. If you are not a CREST Participant or CREST Sponsored Member you should leave Box 4 blank and you will automatically receive a share certificate for your new Shares.

### **5. Signature**

#### Execution by Individuals:

Please sign and date Box 5. All applicants must sign.

The Application Form may only be signed by someone other than the applicant(s) named in Box 2 (and 3) if duly authorised to do so. In such cases the original Power of Attorney (or other relevant legal document) or duly certified copy thereof must be enclosed for inspection.

#### Execution by a Company:

A corporation should sign under the hand of a duly authorised official whose representative capacity should be stated and a copy of a notice issued by the corporation authorising such person to sign should accompany the Application Form.

**PLEASE AFFIX YOUR CHEQUE OR BANKERS DRAFT TO THE BOTTOM LEFT CORNER OF THE FORM**

**NOTES FOR AUTHORISED FINANCIAL INTERMEDIARIES ONLY**

**6. Authorised Financial Intermediaries Details**

Authorised financial intermediaries must complete and stamp (giving their full name and address) Box 6 in BLOCK CAPITALS, giving a contact name, telephone number, email address and details of their authorisation under the Financial Services and Markets Act 2000.

**Money Laundering Regulations**

If you complete and stamp Box 6 of the Application Form you are warranting that the applicant is known to you and that you have completed all the verification procedures as required by the relevant rules and guidance of the FSA, the Joint Money Laundering Steering Group Guidance Notes and other anti-money laundering laws and regulations as may be considered appropriate.

You also confirm that this information can be relied upon by the Receiving Agent and will, subject to reasonable notice, be made available to the Company or the Receiving Agent for inspection upon request.

In the event of delay or failure to produce such information, the Company may refuse to accept an application for the Offer for Subscription.

If you have any queries regarding the procedure for application and payment please call the

**Capita Registrars Helpline on +44 (0)871 664 0321**

Calls to the +44 (0)871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 am to 5.00 pm (London time) Monday to Friday (except UK public holidays). Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Offer for Subscription nor give any financial, legal or tax advice.

Return this form by post or (during normal business hours only) by hand to

**Capita Registrars, Corporate Actions,**

**The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU**

to arrive no later than 11 a.m. on 15 February 2011

