# FIDELITY CHINA SPECIAL SITUATIONS PLC
# Preliminary Announcement of Results
# For the year ended 31 March 2013

## Chairman's Statement

## RESULTS FOR THE YEAR ENDED 31 MARCH 2013

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

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

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

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

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

– that no investor should ignore an economy of China's importance and every portfolio should consider dedicating a portion of funds to investing in China;

– that the growth in China should now come from the increase in wealth of the growing middle class which would be evidenced by growth in domestic consumption; and

– that over time an investment in Chinese equities should generate a good return for shareholders.

**SHARE ISSUES AND SHARE REPURCHASES**
The Board believes it is in the best interests of shareholders if the share price of the Company tracks closely to the underlying NAV, which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy back shares at a discount to NAV for cancellation. During the reporting year, in furtherance of this policy, the Board authorised the repurchase and cancellation at a discount of 6,525,000 Ordinary Shares. Since the year end, the Company has repurchased a further 15,250,000 Ordinary Shares for cancellation. The Board is seeking shareholder consent at the forthcoming Annual General Meeting to continue exercising these powers.

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

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

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

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

**ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ("AIFMD")**
The implementation date for the AIFMD is expected to be July 2014, the scope of which will require all UK investment trusts to revise their current operational framework and ultimately lead to increased operational expenses.

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

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

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

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

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

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

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

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

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

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

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

**John Owen CMG MBE DL**
Chairman
17 June 2013

**Manager's Report**

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

**PERFORMANCE REVIEW**

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

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

1. Exposure to consumption and services, both of which largely depend on the strength of the domestic economy in China. These are the sectors that I believe have the best growth prospects. The leaders of the new administration have reinforced the policy of their predecessors – shifting Chinese economic growth more towards consumption.

2. A focus on private medium and small sized businesses rather than large state owned enterprises. These are the entrepreneur-run businesses on which I believe China's long-term prospects are based. An extra attraction is that the new administration is committed to increasing the role of private enterprise in the economy and reducing the role of the state.

3. Concentration, wherever possible, on business models that are similar to those I used to invest in when I ran funds focused on the UK and Continental Europe. These are the models that I am familiar with and I know work well. In China they are at an early stage of their development which means that, if successful, they should have a long period of growth ahead of them.

4. Buying shares in these companies on reasonable and, if possible, cheap valuations. There are still many bargains available today, particularly in smaller Hong Kong and American-listed Chinese businesses. Some of them sell at discounts to their international peers despite, in many cases, having better growth prospects.

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

**INVESTMENT REVIEW**

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

Real GDP growth in the first quarter of 2013 was 7.7%. Much focus has been put on this figure being below the 7.9% seen in the last quarter of 2012 and below some expectations. I am not too fazed by this number as this was held back by some one-off factors, although I do acknowledge that not all economic data coming out of China at the moment is positive. I believe the slow but steady recovery of the economy continues, although there are definite challenges for certain areas such as industrial exporters who are suffering from the combined effects of rising wage costs and an appreciating currency. It seems likely that the authorities will ensure that growth in the first year of the new administration will be good and above the target figure of 7.5%. However, as I have argued in previous reports, in the medium-term China must accept a lower level of growth than in the past due to the shift of the economy towards consumption and away from investment. Many commentators suggest consumption-led growth is more sustainable and therefore of better quality. I agree with this view and note that the Politburo has talked about focusing on the quality and profitability of growth. In some ways I am disappointed that the current recovery is once again based on credit and investment and there was also a stronger recovery in the residential property market than I had expected. That said, I do recognise that the shift of the economy towards consumption is something that will take a number of years to complete.

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

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

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

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

I favour companies with businesses in Hong Kong. Hong Kong remains the key gateway for many

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

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

I still see the Hong Kong-listed Chinese companies as the most attractive. Over time, I expect mainland investors to be allowed to invest more freely in Hong Kong-listed shares. In a similar way to how mainlanders have transformed the shopping environment in Hong Kong, I think they could also transform the stock market, where valuations in general are still well below those on the mainland. Moreover, it is an interesting anomaly that on the "A" share market smaller companies are generally more popular than large companies and they get higher valuations, but in Hong Kong the reverse is the case. As money flows more freely between the two markets I expect this valuation gap to close.

**OUTLOOK**

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

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

**Anthony Bolton**
Portfolio Manager
17 June 2013

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

**Wing Hang Bank (Market Capitalisation: £2,116m) (Portfolio Weighting: 3.0%)**
Wing Hang Bank is one of the smaller Hong Kong Banks. The Fung family and directors own about 22% of the shares and Bank of New York Mellon 20%. The majority of its operations are in Hong Kong but it has a growing presence in the PRC and Macau. Its conservative and prudent management has guided the bank well through various cycles. In the long run I expect a number of the smaller Hong Kong Banks to be acquired. It sells on only one point three times book value whilst having a normalised return on equity of 10%.

**SAIC (£17,300m) (2.1%)**
Shanghai Auto owns its own automobile brands in China but also has significant interests in two key Chinese joint ventures – one with General Motors and one with VW (although VW also has a second joint venture in China with another local company). Many consider these two joint ventures to be leaders in one mass market. The shares, which are "A" shares listed in Shanghai, sell at about seven times our estimate of 2013 earnings. In many cases, "A" shares sell at premium valuations to the "H" shares of companies in the same industry, but with SAIC the reverse has been the case.

**Ports Design (£305m) (2.0%)**
Ports, a company I first met in 2005, is a unique business that has developed one of the few Chinese-originated luxury fashion brands. It has about three hundred and fifty stores in China and also owns fifty stores selling BMW-labelled apparel and accessories. For many years it grew very quickly, but recently the growth has slowed down. There have also been some governance-related issues within the group which now appear to have been resolved. However, selling at only about eight times this year's earnings, I believe the shares to be a bargain.

**21Vianet Group (£358m) (1.6%)**
21Vianet is the leading independent data centre owner in China. The growth of internet businesses in China and the demand for hosting by cloud services is rapidly increasing demand for data storage. It is a similar business to Telecity in the UK or Equinix in the US which have both been very good stock market performers over the last few years. 21Vianet sells on a lower valuation of enterprise value relative to earnings before interest, amortisation, depreciation and tax (the most common valuation yardstick used in this industry) than these two companies despite the fact that its growth is significantly higher.

**Lee's Pharmaceutical (£239m) (1.4%)**
Lee's Pharmaceutical is a Chinese pharmaceutical company that licenses products from medium-sized global pharmaceutical companies that do not have a presence in China. It also develops its own drugs. Lee's Pharmaceutical focuses on cardiovascular, oncology, ophthalmology, dermatological and gynaecological diseases. When I first met the company the shares were exceptionally cheap. Although they have performed well today they sell at about seventeen times 2013 earnings while growth is about 30% p.a. Morgan Stanley has recently valued the company's drug pipeline alone (over thirty drugs at different stages of development) at over three-quarters of the company's market valuation.

**Bitauto (£271m) (1.1%)**
Bitauto operates one of the leading new car listing websites in China and the leading used car listing website. It also provides car dealers with marketing software and services. The dealer network in China is expanding rapidly as more car brands compete in the world's largest car market. Last autumn, Autotrader.com, the US company with a similar line of business, bought a 22% stake in the company. Revenue is growing at about 30% p.a. and the shares sell at about thirteen times 2013 earnings.

**China International Travel Services (£3,077m) (1.2%)**
This "A" share listed company owns a major travel agency business and is one of the two main duty-free shop operators in China. The majority of profits come from its duty-free business. In duty-free it has a dominant position on the holiday island of Hainan where visitor numbers are increasing rapidly and where it is building a new mega-store. Chinese travellers are spending an increasing amount of money overseas but the government has a strong incentive to keep more consumption in the country, which means potentially more favourable policies for the duty-free industry. The shares sell at about nineteen times 2013 earnings, not a giveaway valuation, but considerably cheaper than many "A" shares that have much less attractive prospects.

**SPT Energy (£472m) (1.2%)**
SPT is one of the largest non-state-owned oil service companies in China. It offers a wide range of integrated and specialised drilling services including turnkey drilling, vertical drilling, directional drilling, fluids and fracking. China is very keen to build up more onshore oil and gas resources. Indeed it has ambitious production targets for shale gas which involve a considerable increase in the number of onshore wells being drilled in China, which should benefit companies like SPT. The shares sell at about fourteen times 2013 estimated earnings, a discount to its listed competitors despite similar growth prospects.

**Changyou.com (£1,008m) (1.0%)**
Changyou is one of the leading P.C. games developers in China. Its core product is a martial arts game called 'Tian Long Ba Bu'. It is also a leader in the web games sector via its subsidiary 7Road and it owns a games portal, 17173.com. Changyou is one of the cheapest companies in China, selling at under five times 2013 estimated earnings and with half its market capitalisation in net cash.

**Global Logistic Properties (£6,621m) (1.0%)**
Global Logistics Properties owns one of the largest estates of logistics warehouses in China. Its network covers twenty nine cities and it has operations in seven cities in Japan as well as a small business in Brazil. China accounts for just over half of its assets. With the expansion of the domestic economy in China, the demand for modern, high-standard distribution facilities is growing strongly and there are few national chains. Although the shares only sell at a small discount to their estimated net asset value, the outlook for growth in capital values is very good.

**Alibaba (unlisted) (2.1%)**
Alibaba, the largest unlisted holding in the portfolio, is the leading e-commerce company in China. Over 75% of e-commerce transactions in China go through one of its two main portals, which handled over US$170bn of sales last year – more than eBay and Amazon combined. Alibaba has a clever business model; it is a platform for other retailers rather than handling goods itself. This means it is much less capital-intensive than other e-commerce companies and much more profitable. The Company holds a convertible which was issued on a valuation of the company around US$48bn. The listing which could take place in Hong Kong later this year is likely to be at a significant premium to this. If it is, it will be one of the biggest IPOs in Hong Kong.

## **Income Statement** for the year ended 31 March 2013

| | **Year ended 31.03.13 revenue £'000** | **Year ended 31.03.13 capital £'000** | **Year ended 31.03.13 total £'000** | Year ended 31.03.12 revenue £'000 | Year ended 31.03.12 capital £'000 | Year ended 31.03.12 total £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Overseas dividends | **13,195** | – | **13,195** | 11,145 | – | 11,145 |
| Overseas scrip dividends | **526** | – | **526** | 1,252 | – | 1,252 |
| UK dividends | **284** | – | **284** | 515 | – | 515 |
| UK scrip dividends | **273** | – | **273** | – | – | – |
| Deposit interest | **5** | – | **5** | 9 | – | 9 |
| Dividends received on long CFDs | **1,234** | – | **1,234** | 1,064 | – | 1,064 |
| Interest paid on long CFDs | **(328)** | – | **(328)** | (390) | – | (390) |
| Interest received on short CFDs | **8** | – | **8** | 10 | | 10 |
| Dividends paid on short CFDs | **(58)** | – | **(58)** | (134) | – | (134) |
| **Total income** | **15,139** | – | **15,139** | 13,471 | – | 13,471 |
| Gains/(losses) on investments designated at fair value through profit or loss | – | **87,198** | **87,198** | – | (155,156) | (155,156) |
| Net (losses)/gains on derivative instruments held at fair value through profit or loss | – | **(115)** | **(115)** | – | 27,460 | 27,460 |
| Foreign exchange (losses)/gains on other net assets | **(19)** | **890** | **871** | 80 | 6 | 86 |
| Foreign exchange losses on bank loans | – | **(4,898)** | **(4,898)** | – | (1,605) | (1,605) |
| **Total income and gains/(losses)** | **15,120** | **83,075** | **98,195** | 13,551 | (129,295) | (115,744) |
| **Expenses** | | | | | | |
| Investment management fee | **(4,187)** | **(4,187)** | **(8,374)** | (4,156) | (4,156) | (8,312) |
| Other expenses | **(1,573)** | – | **(1,573)** | (1,655) | – | (1,655) |
| **Profit/(loss) before finance costs and taxation** | **9,360** | **78,888** | **88,248** | 7,740 | (133,451) | (125,711) |
| **Finance costs** | | | | | | |
| Interest on bank loans | **(871)** | **(871)** | **(1,742)** | (878) | (878) | (1,756) |
| **Profit/(loss) before taxation** | **8,489** | **78,017** | **86,506** | 6,862 | (134,329) | (127,467) |
| Taxation ([1]) | **(289)** | **(809)** | **(1,098)** | (289) | (237) | (526) |
| **Net profit/(loss) after taxation for the year** | **8,200** | **77,208** | **85,408** | 6,573 | (134,566) | (127,993) |
| **Earnings/(loss) per Ordinary Share** | **1.25p** | **11.76p** | **13.01p** | 0.99p | (20.33)p | (19.34)p |

([1]) This relates to overseas taxation only.

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

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

All of the profit/(loss) and total comprehensive income/(loss) is attributable to the equity shareholders of the Company. There are no minority interests. All items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

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

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

## Balance Sheet as at 31 March 2013

Company number 7133583

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

## Cash Flow Statement for the year ended 31 March 2013

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

The above statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). This Preliminary Statement, which has been agreed with the Independent Auditor, was approved by the Board on 17 June 2013. It is not the Company's Statutory Financial Statements. The Statutory Financial Statements for the year ended 31 March 2013 have been approved and audited but have not yet been filed with the Registrar of Companies. The Statutory Financial Statements for the year ended 31 March 2013 have received an unqualified audit report do not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying the report and do not contain statements under section 498(2) and (3) of the Companies Act 2006.

The Annual Report and Financial Statements will be posted to shareholders as soon as is practicable and in any event no later than 24 June 2013.