



**Fidelity**<sup>TM</sup>  
INTERNATIONAL

# FIDELITY CHINA SPECIAL SITUATIONS PLC

Half-Yearly Report for the  
6 months ended 30 September 2021

The purpose of the Company is to offer to investors who are building a diversified portfolio a direct exposure to China, recognising the size and growing importance of China within the world economy and its weighting within global stock market indices.

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, both listed and unlisted, as well as Chinese companies listed elsewhere. The Company may also invest in companies with significant interests in China.



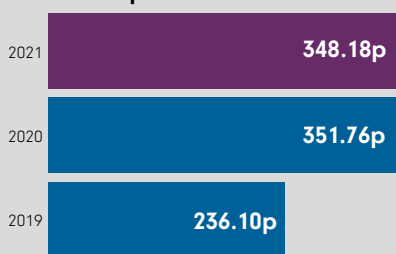
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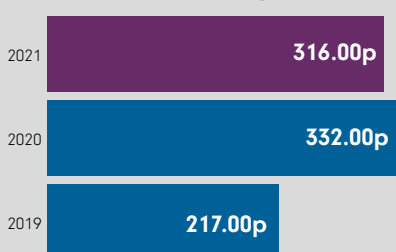
## Portfolio Manager's Half-Yearly Review

Read more page 04

### Net Asset Value per Share as at 30 September



### Share Price as at 30 September



## Directors' Reports

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# At a Glance

Six months ended 30 September 2021

**Net Asset Value per  
Share total return<sup>1,2</sup>**

**-16.9%**

(30 September 2020: +51.1%)

**Share Price total return<sup>1,2</sup>**

**-23.7%**

(30 September 2020: +56.2%)

**MSCI China Index total return  
(in UK sterling terms)<sup>1,3</sup>**

**-14.4%**

(30 September 2020: +24.4%)

1 Includes reinvested income.

2 Alternative Performance Measures (see Glossary to the Half-Yearly Report on page 34).

3 The Company's Benchmark Index.

## As at 30 September 2021

### Equity Shareholders' Funds

£1,793.2m

### Market Capitalisation

£1,627.5m

### Capital Structure

Ordinary Shares of 1 pence held outside of Treasury

515,023,483

## Summary of the key aspects of the Investment Policy

The Portfolio Manager will focus on identifying companies which are most likely to benefit from China's growth and changing economy.

The Company is not restricted in terms of size or industry when including companies in the portfolio and may invest in unlisted securities.

The Company may also invest into other transferable securities, collective investment schemes, money market instruments, cash and deposits and is also able to use derivatives and bank borrowing for gearing purposes and efficient portfolio management.

The Company operates a variable management fee arrangement which is calculated by referencing performance relative to the MSCI China Index (in UK sterling terms).

# Financial Highlights

|   | 30 September<br>2021 | 31 March<br>2021 |
|---|----------------------|------------------|
| <b>Assets</b>   |                      |                  |
| Gross Asset Exposure  | £2,287.0m            | £2,754.9m        |
| Net Assets  | £1,793.2m            | £2,183.0m        |
| Gross Gearing <sup>1,2</sup>  | 27.5%                | 26.2%            |
| Net Gearing <sup>1,2</sup>  | 21.9%                | 18.4%            |
| Net Asset Value ("NAV") per Share <sup>2</sup>  | 348.18p              | 423.50p          |
| <b>Share Price and Discount data</b>  |                      |                  |
| Share Price   | 316.00p              | 419.00p          |
| Share Price: period/year high   | 436.50p              | 498.00p          |
| Share Price: period/year low  | 312.50p              | 212.00p          |
| Discount <sup>2</sup>   | (9.2%)               | (1.1%)           |
| Discount: period/year high  | (10.3%)              | (13.2%)          |
| Premium: period/year low  | 2.7%                 | 2.3%             |
| <b>Earnings for the six months ended 30 September – see pages 18 and 19</b>                         |                      |                  |
|   | 2021                 | 2020             |
| Revenue Earnings per Ordinary Share <sup>2,3</sup>  | 6.08p                | 4.55p            |
| Capital (Loss)/Earnings per Share <sup>2,3</sup>  | (76.74p)             | 114.20p          |
| Total (Loss)/Earnings per Ordinary Share <sup>2,3</sup>   | (70.66p)             | 118.75p          |
| Ongoing Charges for the six months to 30 September <sup>2,4</sup>                                   | 0.92%                | 0.98%            |
| Variable Management Fee   | 0.20%                | -                |
| Ongoing Charges including Variable Management Fee for the six months to 30 September <sup>2,4</sup> | 1.12%                | 0.98%            |

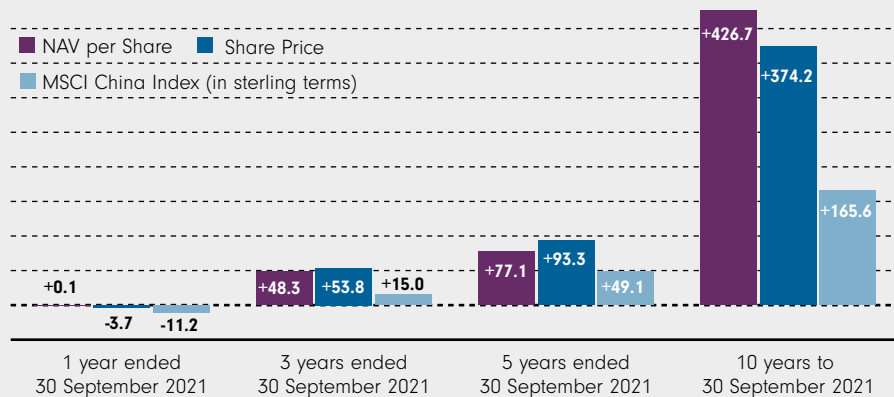
1 Defined in the Glossary to the Half-Yearly Report on page 36.

2 Alternative Performance Measures.

3 Based on the weighted average number of shares held outside of Treasury during the reporting period.

4 Ongoing charges (excluding finance costs and taxation) expressed as a percentage of the average net asset values for the period (prepared in accordance with methodology recommended by the Association of Investment Companies ("AIC")).

## Standardised Performance Total Return<sup>1</sup> (%)



<sup>1</sup> Includes reinvested income.

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Portfolio Manager's Half-Yearly Review

## The period under review – some commentary on key events

Well-publicised concerns over increasing regulation were a major factor in the Chinese markets' decline during the reporting period. However, the current regulatory 'cycle' really began in the fourth quarter of 2020 when Ant Financial unexpectedly cancelled its initial public offering (IPO). This was followed by a series of anti-trust related measures in the internet sector, including Alibaba paying a hefty fine of US\$2.8 billion. The next area of focus was on data and national security, culminating in a cybersecurity investigation into Didi (which is still ongoing) and the suspension of new downloads of its app. Outside the internet space, we saw policies focused on areas associated with 'common prosperity', which affected the property, healthcare and education industries – also dubbed China's 'Three Mountains'. The after-school tutoring sector was most severely impacted with many businesses unable to survive the restrictions imposed on certain core exam subjects and services.

Against this backdrop, the Company's NAV declined 16.9% in UK sterling terms, while the MSCI China Index (the Benchmark Index) was down by 14.4% in the six-month reporting period to 30 September 2021. The Company's share price fell by 23.7% over the same period, reflecting a widening of the discount to NAV.

In trying to understand and analyse the government's actions, I believe it is important to recognise some key points. First, the 'hand' of the government, coupled with regulatory direction and implementation, is core to the investment landscape in any market. This is particularly true in China. Therefore, one needs to be aware of trends and the general direction of policy. We have clearly had periods of tightening in the past, for example,

government-imposed restrictions around online gaming in 2018. In terms of future policy direction, it is important to be cognisant of the long-term goals laid out in policy documents like the Five-Year Plan when assessing how the regulatory landscape could change and impact an industry's growth profile.

Second, many of these crackdowns are addressing problems that confront countries globally. Big tech and related challenges around anti-trust and data security are examples, as are the challenges around income inequality. While in many cases we can trace the path of regulation, unlike in most other countries, Beijing's implementation can be swift, which often roils markets.

The property sector has been under the spotlight of both policymakers and investors for some time. Reining in property speculation is a crucial aspect of President Xi's vision of a more equal society – think back to 2017 when he commented that houses are 'for living in, not for speculation'. In this current period of scrutiny, it is worth remembering the second half of 2020 when there was a significant recovery in property sales in response to easy monetary policy being rolled out to stave off an economic slowdown amidst the COVID-19 pandemic. After the strong rebound, new measures were announced to control property developers. Of note, the 'three red lines policy' was imposed to limit developers' leverage, with regulation targeting banks to control their overall exposure to the property sector; and at the start of 2021, a centralised land supply policy was implemented with the aim of controlling and lowering land costs.

At the time of writing, the market remains nervous about the property segment as no concrete plans have been announced by the authorities to assist with the potential defaults

of struggling developers – with Evergrande the leading example of the sector’s woes (the portfolio does not have any exposure to this company). While it is likely that we will see some developers default, I feel that the systemic risk remains low. Although comparisons to the situation in the US around the financial crisis of 2008 can be drawn, they are very different given the nature of the companies involved and the general control Beijing has over the economy. In terms of Evergrande itself, it remains an evolving situation. My base case is a government led restructuring, with a focus on project completion and asset disposals to meet social obligations.

Broadly speaking, while I do not expect President Xi’s drive towards a healthier, less speculative property sector to be reversed anytime soon, one should not be surprised to see some policy fine tuning in the near-term as both property and land sales continue to slow down. All things considered; it is reasonable to expect some level of policy normalisation in the form of faster mortgage release in the not too distant future. More importantly, on the back of a period of tightening, there is significant scope to loosen policy.

The slowdown in the property sector combined with weaker than expected credit growth and the negative impact from the power shortage situation, have had a detrimental effect on the wider economy with annualised gross domestic product growth of only 4.9% in the third quarter of 2021. It should be noted that economists and market commentators are broadly anticipating growth of around 8% overall for the year as China’s economy recovers from the effects of the pandemic. Consequently, I believe there is good potential for greater monetary and fiscal stimulus measures towards the end of this year.

## Performance and Portfolio review

Regulatory concerns weighed on technology-related shares over the period, particularly in sectors such as communication services in the Company’s portfolio. Significant exposure in this sector was a key factor in the Company’s underperformance over the review period. In particular, the holding in the Chinese short-video application company Kuaishou Technology detracted from performance in light of negative regulatory news flow along with increased competitive pressures which have resulted in higher-than-expected promotional costs. Regulatory changes are also expected to impact its advertising network business as data sharing with external parties becomes more difficult. However, its short-video platform is still among the most popular social media companies in China, ranking third in terms of total time spent online following Tencent’s Weixin and ByteDance’s Douyin (both owned in the portfolio). It is also one of the few internet companies that has robust growth in users. Also, in the same sector, an exposure to Autohome, the largest auto internet platform in China, detracted from returns. The slowdown in car sales, with chip shortages being a major factor, have impacted promotional spend in the sector. However, I remain positive given its value proposition to OEMs (original equipment manufacturers) and dealers remains intact and would benefit from a recovery in car sales as supply chain pressures alleviate.

21Vianet Group is one of the largest carrier-neutral internet data centre (“IDC”) operators in China. However, its share price performance suffered with concerns over growing competition in the IDC market and news of a large shareholder announcing the sale of its stake. The latter is a short-term overhang, and I remain positive on the mid-term outlook for the stock. IDC demand is a structural growth story in China driven by factors such as increasing



## Portfolio Manager's Half-Yearly Review continued

usage of internet via mobile devices on the consumer side and increasing demand for cloud and IT services on the enterprise side. Competitive intensity is rising on the wholesale side of the business – mostly serving the large internet companies – but this is now factored into forecasts and well understood in the market. The company's management has been executing and delivering on its ambitious growth plans and earnings have either been in-line with or exceeded expectations.

The portfolio's materials exposure also proved unrewarding over the period. A holding in Asia Cuanon Technology, a leading paint producer, underperformed as rising input costs negatively impacted margins. On the positive side, this company is pushing through price hikes and industry dynamics remain unchanged. I believe that the long-term story around industry consolidation is in place, and the company will continue to gain market share in this highly fragmented industry.

In terms of positive contributors, an overweight position in the healthcare space, coupled with an underweight real estate exposure, benefited the Company's performance.

Within healthcare, an overweight position in WuXi AppTec Group supported returns. Policy-wise, as one of the 'Three Mountains', investors appeared overly cautious regarding potential regulatory changes in the healthcare sector. While I believe that we need to be concerned over pricing pressures in the generic drug sector, the continued emphasis from the government on developing the innovative drug sector remains very much intact. WuXi is a key facilitator in this area, especially as more Chinese companies increase their global market share and also license their products to global players. Furthermore, I believe the prospects for China establishing itself as a

global hub for innovation in drug development will gain traction. WuXi AppTec's management is very focused on its key strengths in talent attraction and retention. Long-term revenue/earnings visibility remains compelling, with over 30% compound annual growth rate ("CAGR") likely over the next three years.

Similarly, Bio-pharmaceutical company Hutchison China MediTech also added value over the six-month reporting period as it made progress on what continues to be an exciting development pipeline. The company is also building out its commercial platform in China with strong sales growth recently announced in its interim results. The announcement of an in-licensing deal with Epizyme also looks to be a positive step towards the company leveraging its growing domestic sales operation.

Meanwhile, in the consumer discretionary sector, an overweight exposure to Xtep International proved rewarding. Chinese sportswear brands benefit from the secular tailwind of growing disposable income and rising awareness and interest in sports and healthy lifestyles. With the sector growing at low-to-mid teens CAGR and policymakers' focus on increased sporting and exercising activities, top local brands (as well as top foreign labels) are outgrowing the industry. Whilst the long-term structural growth story regarding Chinese sports brands remains attractive, given where valuations reached during summer, I took profit and sold out of the holding.

Within industrials, the Company's exposure to CIMC Enric, a manufacturer of gas equipment and liquid tanks with leading technology was positive. It has a product mix and strategy well aligned with China's environmental goals. Clean energy equipment is leveraged to the increase in gas consumption, as its proportion in China's primary energy mix



grows, particularly with a higher proportion of LNG (liquefied natural gas). Hydrogen-related equipment has long-term option value. The company's joint venture with Hexagon of Norway in advanced hydrogen engines as well as its first-mover advantage in hydrogen energy products (including hydrogen cylinder, container, compressors, which incidentally also share some commonalities from its existing gas business) allow CIMC Enric to tap into the tremendous long-term demand in the green hydrogen market, although the current earnings contribution remains limited.

### **The continued focus on ESG and Sustainability**

The evaluation of environmental, social and governance ("ESG") factors is a core part of Fidelity's investment process and I continue to see progress regarding the level of engagement and transparency with Chinese companies. In particular, much has improved in areas such as board diversity and the environment. Sustainability factors are key topics of conversation with corporates and many management teams are looking at ways to generate a more sustainable outcome for their companies.

ESG market scores, such as Morningstar's Sustainability Atlas, report that China continues to lag most other major markets. Despite this, we are encouraged by the fast rates of improvement we are seeing with China's regulatory commission engaging with companies to improve the disclosure of ESG metrics to align themselves more with the standards in Hong Kong – Hong Kong ranks fourth in Morningstar's Sustainability Atlas and is the most sustainable non-European market (the US ranks 13th out of 48 countries, while the UK is 15th).

Not only is this a good outcome globally, but I also believe better ESG practices are a key source of performance for the portfolio over the longer-term. In the past, I have referred to Fidelity's proprietary ESG ratings system whereby its internal analysts assign ESG ratings to investee companies. For me, these ratings are far more 'up to date' than those of mainstream ratings agencies and also better reflect the result of our direct engagement with the companies that we invest in. Furthermore, I am pleased to highlight that the scores of the companies in the portfolio are well ahead of the Benchmark Index and continue to improve.

An ESG example in the portfolio is Beijing Oriental Yuhong Waterproof Technology, a leading player in the waterproofing industry, which is a key element in building construction. This company is extremely well managed, and scores well across our key ESG metrics. It has a strong environmental discipline, delivers high quality products, has good labour management, and maintains strong interest alignment with a significant proportion of staff being shareholders. By some measures, buildings are responsible for over 40% of global emissions, and thus, building technology can be a major factor in controlling and reducing emissions. It is also a major supplier of insulation – a key area for potential reduction.

### **Current positioning**

As discussed in the Annual Report for the year ended 31 March 2021, one of the bigger shifts in the portfolio has been a reduction in holdings in the consumer discretionary sector, mostly because of valuation levels, and an increase in holdings in materials and industrials. The thesis around industry consolidation in areas like building materials remains very much in place. However, I have trimmed some positions given rising concerns

## Portfolio Manager's Half-Yearly Review continued

over the residential property slowdown and potential knock-on effects to the industry from the troubled developers in the market.

In the financial space, I remain positive on the outlook for life insurance on rising penetration over the mid-term. Near-term fundamentals generally remain tepid, but I believe this is more than factored into what remain very attractive valuations. Whilst I remain underweight the banking sector, I have built a position in the Postal Savings Bank of China, which I believe is undervalued given its strong, growing position in retail banking and wealth management helping to drive superior returns relative to the sector. We are encouraged by the clear focus of the new management team, including a strong emphasis on growing its green financing.

After the significant recent correction in technology related names, I feel that the risk/reward payoff is now tipping much more in our favour in these companies. While there is still risk of new regulation, as we think about what could come next, there is a good chance that we are near or close to a "peak" in terms of negative news flow. As discussed earlier, the government has ambitious long-term goals in areas of economic development and innovation. Clearly these will be difficult to achieve without a vibrant private sector. At the same time, valuations for many companies have moved to historical lows and look even more compelling when we compare them to global peers.

As is often the case with broad-based corrections, some stocks with lesser regulatory risk have also been sold off, presenting opportunities. Interestingly, this includes some smaller companies that could actually benefit since most of the new regulation focuses on larger companies. As I have added to some

long positions, and closed some of the short positions, net gearing for the portfolio has increased and, at the time of writing, was around 23%.

Also contributing to the higher leverage is the addition of three new unlisted holdings. Tuhu Car is the number one brand for independent auto aftermarket product and services in China. It greatly improves efficiency through an Online-to-Offline model by combining its outstanding online platform to offline branded franchisees. Cutia Therapeutics is an emerging leader in the dermatology and medical aesthetics space in China, an area of great growth potential. Beijing Beisen is a first-class HRM (human resource management) software company. It is the clear leader and should continue to take market share from its competitors due to its superior cloud and integrated solutions for talent management. Despite the market correction, I still feel positive about the outlook for the unlisted portion of the portfolio and the progress being made in the respective businesses. I am pleased with and appreciative of shareholders approval of the proposal at the AGM in July 2021 to raise the limit on unlisted stocks to 15% of Net Assets plus Borrowings, given the flexibility that this provides to capitalise on potential new opportunities. As at 30 September 2021, the level of investment in unlisted securities was 11.3%. The unlisted investments in the portfolio contributed 1.7% to the Company's NAV return during the six month reporting period.

Looking forward, it is important to be focused on the risks in China and to follow regulatory developments closely. In addition, developments in the property sector will be keenly monitored as this has been a significant driver of both economic growth and of local government finances, and a major component of the health of the consumer balance sheet. Clearly, we are

at a turning point for the sector – lower levels of activity are a given, but any significant correction in prices could clearly impact the consumers’ mindset. Higher taxes, including property taxes, are other possibilities that will need to be considered. Having said this, and as mentioned earlier in my report, when coming out of a period of tightening there is significant scope for Beijing to adjust its policies.

It has been a volatile period, but we have seen times like this before, and most likely will see them again. While the combination of the risks I have outlined above is negatively impacting sentiment towards China currently, history teaches us that these are usually the periods that offer the most attractive opportunities. Corporate earnings for the market are forecast to grow over 15% for the next twelve months, with the Company’s portfolio comfortably above this level. Meanwhile, the market overall is trading on a price earnings multiple that is attractive relative to history and relative to other stock markets globally. On the ground in the region, Fidelity continues to place key emphasis on growing and developing its research team to help identify and analyse the best investment opportunities – both in the listed and unlisted areas of the market. Furthermore, as we engage with companies, we note that even those in the regulatory cross hairs generally remain positive and resilient as they navigate the changing environment.

Details of the Company’s Top 5 Holdings can be found on the next two pages and include my theses for investing in these positions.

I have always disclosed in the Annual Report that I am a shareholder in the Company and in line with recommendations around disclosing one’s “skin in the game”, I can confirm that I currently own 96,742 shares.

### **Dale Nicholls**

Portfolio Manager

29 November 2021

# Spotlight on the Top 5 Holdings

as at 30 September 2021

The top five holdings comprise 28.9% of the Company's Net Assets.

## Industry Information Technology



## Tencent Holdings

### % of Net Assets

10.7%

The Portfolio Manager remains positive on the Company's holding in Tencent given its strong position in running the dominant social network in China and the attendant benefits of powerful network effects. As China's internet user growth slows down, Tencent has carefully nurtured and enriched its user experience, and its enviable user base distinguishes it from global peers. Tencent recently consolidated its leading position in internet gaming by mediating a merger between Chinese game broadcasting platforms Huya and DouYu, thereby securing a controlling stake in the new company after the completion of the merger. The recent sell-off has brought valuations to attractive levels.

## Industry Consumer Discretionary



## Alibaba Group Holding

### % of Net Assets

8.5%

Alibaba holds a leading position in the e-commerce market. The company has built a comprehensive ecosystem that has superior breadth and depth and is the foundation of the highly sticky merchants and consumers base, which ultimately supports its pricing power. Furthermore, the company built an environment of continuous innovation which has enabled it to expand and increase its addressable market. The pandemic has accelerated the trend towards digitalisation, which is a long-term driver of Alibaba's growth in the e-commerce business. Its cloud business is also likely to continue its strong growth trajectory, as more corporates use its infrastructure to become digital ready. We also saw anti-trust regulation in the technology space, which resulted in a fine for Alibaba. The extent of the fine was largely as expected and Alibaba fully intends to comply and look at ways to further strengthen the customer value creation and experience and introduce new measures to lower entry barriers and costs of operations on its platform. Valuations are now very attractive, particularly compared with global peers.

## Industry Information Technology



## WuXi AppTec Group

### % of Net Assets

4.7%

The company is a long-term beneficiary from increasing pharmaceutical and biotech contract research and manufacturing ("CDMO/CMO") demand globally. China's CDMO/CMO business has significant investment potential, driven by a structural shift from generic to innovative drugs in the country's pharmaceutical market. WuXi has established a talent pool with strong technical skills which has helped to drive a loyal client base. Looking ahead, there is exciting potential upside from new technology developments, such as its cell/gene therapy business.

Industry Financials



Noah Holdings

% of Net Assets

2.6%

The company is a leading independent wealth management service provider in China offering comprehensive one-stop advisory services. It offers a long runway for growth and is well positioned in China's booming wealth management and private banking industry. The business is transitioning from selling high credit risk/implicit guarantee products to standard/equity-oriented products. Broadening interest in mutual fund markets supports the transition, as will any shift in household assets away from the property market.

Industry Information Technology



21Vianet Group

% of Net Assets

2.4%

The company is one of the largest carrier-neutral internet data centre ("IDC") operators in China. IDC demand is a structural growth story in China driven by factors such as the increasing usage of internet via mobile devices on the consumer side and the increasing demand for cloud and IT services on the enterprise side. While building upon its traditional retail market, 21Vianet has kickstarted its wholesale business from 2019, and this dual engine strategy should put it in a strong position in the coming years. The stock was derated recently on competitive and regulatory concerns which appear to be overstated.

# Twenty Largest Holdings

as at 30 September 2021

The Asset Exposures shown below measure the exposure of the Company's portfolio to market price movements in the shares, equity linked notes and convertible bonds owned or in the shares underlying the derivative instruments. The Fair Value is the value the portfolio could be sold for and is the value shown on the Balance Sheet. Where a contract for difference ("CFD") is held, the fair value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying shares has moved.

|   | Asset Exposure |                | Fair Value |
|---|----------------|----------------|------------|
|   | £'000          | % <sup>1</sup> | £'000      |
| <b>Long Exposures – shares unless otherwise stated</b>                                |                |                |            |
| <b>Tencent Holdings (shares and long CFDs)</b>  |                |                |            |
| Internet, mobile and telecommunications service provider                              | 191,546        | 10.7           | 102,984    |
| <b>Alibaba Group Holding (shares and long CFDs)</b>                                   |                |                |            |
| e-commerce group  | 153,022        | 8.5            | 84,339     |
| <b>WuXi AppTec Group (long CFDs)</b>  |                |                |            |
| Pharmaceutical, biopharmaceutical and medical device outsourcing provider             | 84,967         | 4.7            | 3,381      |
| <b>Noah Holdings</b>  |                |                |            |
| Asset managers  | 47,410         | 2.6            | 47,410     |
| <b>21Vianet Group</b>   |                |                |            |
| Internet and data center service provider   | 42,114         | 2.4            | 42,114     |
| <b>Hutchison China MediTech</b>   |                |                |            |
| Pharmaceutical and healthcare group   | 41,079         | 2.3            | 41,079     |
| <b>China Pacific Insurance Group (long CFDs)</b>                                      |                |                |            |
| Insurance company   | 35,969         | 2.0            | 439        |
| <b>Beijing Oriental Yuhong Waterproof Technology (shares and equity linked notes)</b> |                |                |            |
| Waterproof system provider  | 35,030         | 2.0            | 35,030     |
| <b>SKSHU Paint Company</b>  |                |                |            |
| Paint manufacturing company   | 34,620         | 1.9            | 34,620     |
| <b>Pony.ai (unlisted)</b>   |                |                |            |
| Developer of artificial intelligence and autonomous driving technology solutions      | 32,596         | 1.8            | 32,596     |
| <b>Zhejiang Dahua Technology</b>  |                |                |            |
| Provider of video surveillance products and services                                  | 28,711         | 1.6            | 28,711     |

|   | Asset Exposure   |                | Fair Value       |
|---|------------------|----------------|------------------|
|   | £'000            | % <sup>1</sup> | £'000            |
| <b>China Life Insurance (shares and long CFDs)</b>                  |                  |                |                  |
| Insurance company   | 28,220           | 1.6            | 2,086            |
| <b>HollySys Automation Technologies</b>                             |                  |                |                  |
| Provider of automation control system solutions                     | 27,994           | 1.6            | 27,994           |
| <b>DJI International Company (unlisted)</b>                         |                  |                |                  |
| Manufacturer of drones  | 27,971           | 1.6            | 27,971           |
| <b>Full Truck Alliance (ADS and unlisted)</b>                       |                  |                |                  |
| Provider of specialised freight trucking services                   | 27,785           | 1.6            | 27,785           |
| <b>Trip.com Group (long CFD)</b>                                    |                  |                |                  |
| Travel services provider  | 27,690           | 1.5            | 1,157            |
| <b>China Lesso Group Holdings (long CFD)</b>                        |                  |                |                  |
| Manufacturer of building materials and interior decoration products | 27,278           | 1.5            | (6,666)          |
| <b>Chime Biologics Convertible Bond (unlisted)</b>                  |                  |                |                  |
| Contract Development and Manufacturing Organization (CDMO)          | 26,284           | 1.5            | 26,284           |
| <b>Venturous Holdings (unlisted)</b>                                |                  |                |                  |
| Investment company  | 25,986           | 1.4            | 25,986           |
| <b>Crystal International Group</b>                                  |                  |                |                  |
| Clothing manufacturer   | 25,851           | 1.4            | 25,851           |
| <b>Twenty largest long exposures</b>                                | <b>972,123</b>   | <b>54.2</b>    | <b>611,151</b>   |
| Other long exposures  | 1,433,369        | 80.0           | 1,152,631        |
| <b>Total long exposures before hedges (155 holdings)</b>            | <b>2,405,492</b> | <b>134.2</b>   | <b>1,763,782</b> |
| <b>Less: hedging exposure</b>                                       |                  |                |                  |
| Hang Seng Index (future)  | (104,350)        | (5.8)          | (620)            |
| Hang Seng China Enterprises Index (future)                          | (65,488)         | (3.7)          | (1,086)          |
| <b>Total hedging exposures</b>                                      | <b>(169,838)</b> | <b>(9.5)</b>   | <b>(1,706)</b>   |
| <b>Total long exposures after the netting of hedges</b>             | <b>2,235,654</b> | <b>124.7</b>   | <b>1,762,076</b> |



## Twenty Largest Holdings continued

|  | Asset Exposure   |                | Fair Value       |
|--|------------------|----------------|------------------|
|  | £'000            | % <sup>1</sup> | £'000            |
| <b>Add: short exposures</b>  |                  |                |                  |
| Short CFDs (6 holdings)  | 50,751           | 2.8            | 2,648            |
| Put options (3 holdings)   | 615              | –              | 94               |
| <b>Gross Asset Exposure<sup>2</sup></b>  | <b>2,287,020</b> | <b>127.5</b>   |                  |
| <b>Portfolio Fair Value<sup>3</sup></b>  |                  |                | <b>1,764,818</b> |
| Net current assets (excluding derivative instruments) less non-current liabilities |                  |                | 28,409           |
| <b>Net Assets</b>  |                  |                | <b>1,793,227</b> |

<sup>1</sup> Asset Exposure is expressed as a percentage of Net Assets.

<sup>2</sup> Gross Asset Exposure comprises market exposure to investments of £1,775,879,000 plus market exposure to derivative instruments of £511,141,000.

<sup>3</sup> Portfolio Fair Value comprises Investments of £1,775,879,000 plus derivative assets of £15,652,000 less derivative liabilities of £26,713,000 (per the Balance Sheet on page 22).

# Interim Management Report and Directors' Responsibility Statement

## Unlisted Companies

The Company is permitted to invest up to 15% of its Net Assets plus borrowings in unlisted companies. The unlisted space in China continues to expand quite markedly and offers excellent opportunities for patient and long-term investors.

Since the year end, the Company has invested in three unlisted companies which are Beijing Beisen, TuHu Car and Cutia Therapeutics. As at 30 September 2021, the Company had 11.3% of Net Assets plus borrowings in twelve unlisted investments (31 March 2021: 7.4% of Net Assets plus borrowings in nine unlisted investments).

## Gearing

The Company has a three-year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US\$100,000,000. The interest rate is fixed at 2.606% per annum until the facility terminates on 14 February 2023.

To achieve further gearing, the Company uses contracts for difference ("CFDs") on a number of holdings in its portfolio.

At 30 September 2021, the Company's Gross Gearing, defined as the Gross Asset Exposure in excess of Net Assets, was 27.5% (31 March 2021: 26.2%). The level of Gross Gearing is determined by the Manager within the limit set by the Board of 30%. Net Gearing, which nets off short positions, was 21.9% (31 March 2021: 18.4%).

## Discount Management

The Board believes that investors are best served when the Company's share price trades close to its net asset value. The Board recognises that the share price is affected by the interaction of supply and demand in the market based on investor sentiment towards China and the performance of the NAV per share. The Board has a discount control policy in place whereby it seeks to maintain the discount in single digits in normal market

conditions. Subject to market conditions, it will authorise the repurchase of shares with the objective of stabilising the share price discount within a single digit range.

The Company's discount widened from 1.1% at the start of the reporting period to 9.2% at the end of the reporting period. In September 2021, the Board authorised the repurchase of 440,000 ordinary shares into Treasury in an effort to control the discount. Prior to that, the Company had not carried out any share repurchases since September 2020. These share repurchases have benefited remaining shareholders as the NAV per share has been increased by purchasing shares at a discount. Since the end of the reporting period and as at the date of this report, the Company has repurchased a further 576,229 ordinary shares into Treasury. No shares have been repurchased for cancellation.

## Ongoing Charge

The Ongoing Charge (the costs of running the Company) for the six months ended 30 September 2021 was 0.92% (31 March 2021: 0.97%). The variable element of the management fee was a charge of 0.20% (31 March 2021: 0.12%). Therefore, the Ongoing Charge including the variable element for the reporting period was 1.12% (31 March 2021: 1.09%).

## Management Fees

With effect from 1 April 2021, the Board agreed a reduced management fee with the Manager, FIL Investment Services (UK) Limited. The revised fee structure is on a tiered basis of 0.90% on the first £1.5 billion of net assets, reducing to 0.70% on net assets over £1.5 billion. The variable element of +/- 0.20% from the previous fee structure remains unchanged. At the same time, the fixed annual fee of £100,000 for services other than portfolio management has been removed. The revised fee will provide savings on the overall percentage costs for shareholders assuming net assets remained constant.

# Interim Management Report and Directors' Responsibility Statement continued

## Board of Directors

Having served on the Board as a non-executive Director since 1 November 2011 and as a Senior Independent Director since 22 July 2016, Elisabeth Scott stepped down from the Board at the conclusion of the Annual General Meeting ("AGM") on 20 July 2021. She was succeeded as a non-executive Director by Alastair Bruce who was appointed to the Board on 1 July 2021 and as Senior Independent Director by Linda Yueh from 20 July 2021.

As part of the Board's succession plan, Nicholas Bull will retire as Chairman at the AGM in July 2022. Following a formal process, it was decided by the Board that Mike Balfour will succeed him as Chairman at the conclusion of the AGM. Mr Bruce will succeed Mr Balfour as Chairman of the Audit and Risk Committee at the conclusion of the same AGM.

## Principal and Emerging Risks

The Board, with the assistance of the Manager (FIL Investments Services (UK) Limited), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties faced by the Company.

The Board considers that the principal risks and uncertainties faced by the Company fall into the following categories: market, economic and geopolitical; investment performance; pandemic; gearing; discount control; key person; environmental, social and governance ("ESG"); and cybercrime risks. Other risks facing the Company include tax and regulatory and operational (third party service providers) risks. Information on each of these risks is given in the Strategic Report section of the Annual Report for the year ended 31 March 2021 which can be found on the Company's pages of the Manager's website at [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

These principal risks and uncertainties have not materially changed during the six months to 30 September 2021 and are equally applicable to the remaining six months of the Company's financial year.

Risks from emerging new variants of COVID-19 continue, including the availability of suitable vaccines to tackle the new variants. Investors should be prepared for market fluctuations and remember that holding shares in the Company should be considered to be a long-term investment. These risks are somewhat mitigated by the investment trust structure of the Company which means that no forced sales need to take place to deal with any redemptions. Therefore, investments in the Company's portfolio can be held over a longer time horizon.

The Manager carries on reviewing its business continuity plans and its operational resilience strategies on an ongoing basis. It continues to take all reasonable steps in meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. The Manager has appropriate business continuity plans in place and the provision of services continued to be supplied without interruption during the pandemic and continues to do so.

Investment team key activities, including those of portfolio managers, analysts and trading/support functions, have continued to perform well despite the operational challenges posed when working from home or when split team arrangements were in place.

The Company's other third party service providers have also implemented similar measures to ensure that business disruption is kept to a minimum.

### Transactions with the Manager and Related Parties

The Manager has delegated the Company's investment management to FIL Investment Management (Hong Kong) Limited and has delegated the role of company secretary to FIL Investments International. Transactions with the Manager and related party transactions with the Directors are disclosed in Note 15 to the Financial Statements on page 33.

### Going Concern Statement

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio and its expenditure and cash flow projections. They have considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable), the projected income and expenditure and the loan facility agreement. The Directors are satisfied that the Company is financially sound and has sufficient resources to meet all of its liabilities and ongoing expenses and can continue in operational existence for a period of at least twelve months from the date of this Half-Yearly Report. Accordingly, they continue to adopt the going concern basis in preparing these Financial Statements.

This conclusion also takes into account the Board's assessment of the ongoing risks from COVID-19 and evolving variants as set out on the previous page.

By order of the Board.

**FIL Investments International**

29 November 2021

### DIRECTORS' RESPONSIBILITY STATEMENT

The Disclosure and Transparency Rules ("DTR") of the UK Listing Authority require the Directors to confirm their responsibilities in relation to the preparation and publication of the Interim Management Report and Financial Statements.

The Directors confirm to the best of their knowledge that:

- a) the condensed set of Financial Statements contained within this Half-Yearly Report has been prepared in accordance with the International Accounting Standards 34: Interim Financial Reporting; and
- b) the Portfolio Manager's Half-Yearly Review on pages 4 to 9 and the Interim Management Report on pages 15 to 17, include a fair review of the information required by DTR 4.2.7R and 4.2.8R.

The Half-Yearly Report has not been audited or reviewed by the Company's Independent Auditor.

The Half-Yearly Report was approved by the Board on 29 November 2021 and the above responsibility statement was signed on its behalf by Nicholas Bull, Chairman.

# Income Statement

for the six months ended 30 September 2021

|  |       | Six months ended 30 September 2021<br>unaudited |                  |                  |
|--|-------|---|------------------|------------------|
|  | Notes | Revenue<br>£'000                                | Capital<br>£'000 | Total<br>£'000   |
| <b>Revenue</b>   |       |   |                  |                  |
| Investment income  | 4     | 26,069  | –                | 26,069           |
| Derivative income  | 4     | 10,815  | –                | 10,815           |
| Other income   | 4     | 15  | –                | 15               |
| <b>Total income</b>  |       | <b>36,899</b>                                   | <b>–</b>         | <b>36,899</b>    |
| (Losses)/gains on investments at fair value through profit or loss |       | –   | (323,838)        | (323,838)        |
| (Losses)/gains on derivative instruments                           |       | –   | (59,921)         | (59,921)         |
| Foreign exchange gains/(losses) on other net assets                |       | –   | 1,316            | 1,316            |
| Foreign exchange (losses)/gains on bank loans                      |       | –   | (1,771)          | (1,771)          |
| <b>Total income and (losses)/gains</b>                             |       | <b>36,899</b>                                   | <b>(384,214)</b> | <b>(347,315)</b> |
| <b>Expenses</b>  |       |   |                  |                  |
| Investment management fees   | 5     | (2,179)   | (8,600)          | (10,779)         |
| Other expenses   |       | (732)   | (12)             | (744)            |
| <b>Profit/(loss) before finance costs and taxation</b>             |       | <b>33,988</b>                                   | <b>(392,826)</b> | <b>(358,838)</b> |
| Finance costs  | 6     | (1,067)   | (3,202)          | (4,269)          |
| <b>Profit/(loss) before taxation</b>                               |       | <b>32,921</b>                                   | <b>(396,028)</b> | <b>(363,107)</b> |
| Taxation   | 7     | (1,579)   | 448              | (1,131)          |
| <b>Profit/(loss) after taxation for the period</b>                 |       | <b>31,342</b>                                   | <b>(395,580)</b> | <b>(364,238)</b> |
| <b>Earnings/(loss) per ordinary share</b>                          | 8     | <b>6.08p</b>                                    | <b>(76.74p)</b>  | <b>(70.66p)</b>  |

The Company does not have any income or expenses that are not included in the profit/(loss) after taxation for the period. Accordingly, the profit/(loss) after taxation for the period is also the total comprehensive income for the period and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. 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 the profit/(loss) and total comprehensive income is attributable to the equity shareholders of the Company. There are no minority interests.

No operations were acquired or discontinued in the period and all items in the above statement derive from continuing operations.

| Year ended 31 March 2021<br>audited |                  |                | Six months ended 30 September 2020<br>unaudited |                  |                |
|-------------------------------------|------------------|----------------|---|------------------|----------------|
| Revenue<br>£'000                    | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                                | Capital<br>£'000 | Total<br>£'000 |
| 21,012                              | -                | 21,012         | 17,614  | -                | 17,614         |
| 11,689                              | -                | 11,689         | 10,967  | -                | 10,967         |
| 80                                  | -                | 80             | 70  | -                | 70             |
| 32,781                              | -                | 32,781         | 28,651  | -                | 28,651         |
| -                                   | 725,388          | 725,388        | -   | 441,177          | 441,177        |
| -                                   | 266,752          | 266,752        | -   | 166,289          | 166,289        |
| -                                   | (12,401)         | (12,401)       | -   | (4,397)          | (4,397)        |
| -                                   | 7,825            | 7,825          | -   | 2,879            | 2,879          |
| 32,781                              | 987,564          | 1,020,345      | 28,651  | 605,948          | 634,599        |
| (4,119)                             | (14,472)         | (18,591)       | (1,776)   | (5,337)          | (7,113)        |
| (1,260)                             | (108)            | (1,368)        | (594)   | -                | (594)          |
| 27,402                              | 972,984          | 1,000,386      | 26,281  | 600,611          | 626,892        |
| (2,253)                             | (6,758)          | (9,011)        | (1,334)   | (4,001)          | (5,335)        |
| 25,149                              | 966,226          | 991,375        | 24,947  | 596,610          | 621,557        |
| (760)                               | -                | (760)          | (1,164)   | 459              | (705)          |
| 24,389                              | 966,226          | 990,615        | 23,783  | 597,069          | 620,852        |
| 4.70p                               | 186.11p          | 190.81p        | 4.55p   | 114.20p          | 118.75p        |

# Statement of Changes in Equity

for the six months ended 30 September 2021

|   | Notes | Share capital<br>£'000 |
|---|-------|------------------------|
| <b>Six months ended 30 September 2021 (unaudited)</b> |       |                        |
| <b>Total equity at 31 March 2021</b>                  |       | <b>5,710</b>           |
| Repurchase of ordinary shares                         | 13    | -                      |
| (Loss)/profit after taxation for the period           |       | -                      |
| Dividend paid to shareholders                         | 9     | -                      |
| <b>Total equity at 30 September 2021</b>              |       | <b>5,710</b>           |
| <b>Year ended 31 March 2021 (audited)</b>             |       |                        |
| <b>Total equity at 31 March 2020</b>                  |       | <b>5,713</b>           |
| Repurchase of ordinary shares                         | 13    | -                      |
| Cancellation of ordinary shares from Treasury         | 13    | (3)                    |
| Profit after taxation for the year                    |       | -                      |
| Dividend paid to shareholders                         | 9     | -                      |
| <b>Total equity at 31 March 2021</b>                  |       | <b>5,710</b>           |
| <b>Six months ended 30 September 2020 (unaudited)</b> |       |                        |
| <b>Total equity at 31 March 2020</b>                  |       | <b>5,713</b>           |
| Repurchase of ordinary shares                         | 13    | -                      |
| Profit after taxation for the period                  |       | -                      |
| Dividend paid to shareholders                         | 9     | -                      |
| <b>Total equity at 30 September 2020</b>              |       | <b>5,713</b>           |



| Share premium account<br>£'000 | Capital redemption reserve<br>£'000 | Other reserve<br>£'000 | Capital reserve<br>£'000 | Revenue reserve<br>£'000 | Total equity<br>£'000 |
|--------------------------------|-------------------------------------|------------------------|--------------------------|--------------------------|-----------------------|
| 211,569                        | 917                                 | 248,491                | 1,676,791                | 39,499                   | 2,182,977             |
| -                              | -                                   | (1,388)                | -                        | -                        | (1,388)               |
| -                              | -                                   | -                      | (395,580)                | 31,342                   | (364,238)             |
| -                              | -                                   | -                      | -                        | (24,124)                 | (24,124)              |
| 211,569                        | 917                                 | 247,103                | 1,281,211                | 46,717                   | 1,793,227             |

|         |     |          |           |          |           |
|---------|-----|----------|-----------|----------|-----------|
| 211,569 | 914 | 307,049  | 710,565   | 37,237   | 1,273,047 |
| -       | -   | (58,558) | -         | -        | (58,558)  |
| -       | 3   | -        | -         | -        | -         |
| -       | -   | -        | 966,226   | 24,389   | 990,615   |
| -       | -   | -        | -         | (22,127) | (22,127)  |
| 211,569 | 917 | 248,491  | 1,676,791 | 39,499   | 2,182,977 |

|         |     |          |           |          |           |
|---------|-----|----------|-----------|----------|-----------|
| 211,569 | 914 | 307,049  | 710,565   | 37,237   | 1,273,047 |
| -       | -   | (58,558) | -         | -        | (58,558)  |
| -       | -   | -        | 597,069   | 23,783   | 620,852   |
| -       | -   | -        | -         | (22,160) | (22,160)  |
| 211,569 | 914 | 248,491  | 1,307,634 | 38,860   | 1,813,181 |

# Balance Sheet

as at 30 September 2021

Company number 7133583

|   | Notes | 30.09.21<br>unaudited<br>£'000 | 31.03.21<br>audited<br>£'000 | 30.09.20<br>unaudited<br>£'000 |
|---|-------|--------------------------------|------------------------------|--------------------------------|
| <b>Non-current assets</b>                           |       |                                |                              |                                |
| Investments at fair value through profit or loss    | 10    | 1,775,879                      | 2,167,275                    | 1,721,038                      |
| <b>Current assets</b>                               |       |                                |                              |                                |
| Derivative instruments                              | 10    | 15,652                         | 33,296                       | 177,028                        |
| Amounts held at futures clearing houses and brokers |       | 27,431                         | 19,872                       | 37,736                         |
| Other receivables                                   | 11    | 32,428                         | 22,749                       | 5,787                          |
| Cash at bank  |       | 53,778                         | 66,404                       | 6,320                          |
|   |       | 129,289                        | 142,321                      | 226,871                        |
| <b>Current liabilities</b>                          |       |                                |                              |                                |
| Derivative instruments                              | 10    | (26,713)                       | (22,208)                     | (50,724)                       |
| Other payables                                      | 12    | (10,983)                       | (31,937)                     | (6,584)                        |
|   |       | (37,696)                       | (54,145)                     | (57,308)                       |
| <b>Net current assets</b>                           |       |                                |                              |                                |
|   |       | 91,593                         | 88,176                       | 169,563                        |
| <b>Total assets less current liabilities</b>        |       |                                |                              |                                |
|   |       | 1,867,472                      | 2,255,451                    | 1,890,601                      |
| <b>Non-current liabilities</b>                      |       |                                |                              |                                |
| Bank loan   |       | (74,245)                       | (72,474)                     | (77,420)                       |
| <b>Net assets</b>                                   |       |                                |                              |                                |
|   |       | 1,793,227                      | 2,182,977                    | 1,813,181                      |
| <b>Equity attributable to equity shareholders</b>   |       |                                |                              |                                |
| Share capital                                       | 13    | 5,710                          | 5,710                        | 5,713                          |
| Share premium account                               |       | 211,569                        | 211,569                      | 211,569                        |
| Capital redemption reserve                          |       | 917                            | 917                          | 914                            |
| Other reserve                                       |       | 247,103                        | 248,491                      | 248,491                        |
| Capital reserve                                     |       | 1,281,211                      | 1,676,791                    | 1,307,634                      |
| Revenue reserve                                     |       | 46,717                         | 39,499                       | 38,860                         |
| <b>Total equity</b>                                 |       |                                |                              |                                |
|   |       | 1,793,227                      | 2,182,977                    | 1,813,181                      |
| <b>Net asset value per ordinary share</b>           |       |                                |                              |                                |
|   | 14    | 348.18p                        | 423.50p                      | 351.76p                        |

# Cash Flow Statement

for the six months ended 30 September 2021

|  | Six months<br>ended<br>30 September<br>2021<br>unaudited<br>£'000 | Year ended<br>31 March<br>2021<br>audited<br>£'000 | Six months<br>ended<br>30 September<br>2020<br>unaudited<br>£'000 |
|--|---|--|---|
| <b>Operating activities</b>  |   |  |   |
| Cash inflow from investment income   | 22,289  | 20,241   | 14,444  |
| Cash inflow from derivative income   | 9,511   | 11,794   | 11,079  |
| Cash inflow from other income  | 15  | 80   | 70  |
| Cash outflow from Directors' fees  | (91)  | (201)  | (120)   |
| Cash outflow from other payments   | (11,729)  | (18,580)   | (6,855)   |
| Cash outflow from the purchase of investments                                  | (443,154)   | (1,159,050)  | (529,431)   |
| Cash outflow from the purchase of derivatives                                  | (710)   | (23,789)   | -   |
| Cash outflow from the settlement of derivatives                                | (282,358)   | (258,808)  | (27,290)  |
| Cash inflow from the sale of investments                                       | 509,023   | 998,888  | 532,218   |
| Cash inflow from the settlement of derivatives                                 | 219,747   | 539,536  | 62,383  |
| Cash (outflow)/inflow from amounts held at futures clearing houses and brokers | (7,559)   | 19,623   | 1,759   |
| <b>Net cash inflow from operating activities before servicing of finance</b>   | <b>14,984</b>   | <b>129,734</b>                                     | <b>58,257</b>   |
| <b>Financing activities</b>  |   |  |   |
| Cash outflow from collateral, overdraft and loan interest paid                 | (979)   | (2,140)  | (1,122)   |
| Cash outflow from CFD interest paid  | (1,320)   | (5,924)  | (3,758)   |
| Cash outflow from short CFD dividends paid                                     | (1,716)   | (703)  | (465)   |
| Cash outflow from the repurchase of ordinary shares                            | (787)   | (58,558)   | (58,558)  |
| Cash outflow from dividends paid to shareholders                               | (24,124)  | (22,127)   | (22,160)  |
| <b>Cash outflow from financing activities</b>                                  | <b>(28,926)</b>   | <b>(89,452)</b>                                    | <b>(86,063)</b>   |
| <b>(Decrease)/increase in cash at bank</b>                                     | <b>(13,942)</b>   | <b>40,282</b>                                      | <b>(27,806)</b>   |
| Cash at bank at the start of the period  | 66,404  | 38,523   | 38,523  |
| Effect of foreign exchange movements   | 1,316   | (12,401)   | (4,397)   |
| <b>Cash at bank at the end of the period</b>                                   | <b>53,778</b>   | <b>66,404</b>                                      | <b>6,320</b>  |

# Notes to the Financial Statements

## 1 Principal Activity

Fidelity China Special Situations PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 7133583, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

## 2 Publication of Non-statutory Accounts

The Financial Statements in this Half-Yearly Report have not been audited or reviewed by the Company's Independent Auditor and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006 (the "Act"). The financial information for the year ended 31 March 2021 is extracted from the latest published Financial Statements of the Company. Those Financial Statements were delivered to the Registrar of Companies and included the Independent Auditor's Report which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Act.

## 3 Accounting Policies

### (i) Basis of Preparation

On 31 December 2020, International Financial Reporting Standards as adopted by the European Union at that date were brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. There was no impact or changes to the accounting policies from the transition.

These Half-Yearly Financial Statements have been prepared in accordance with UK-adopted International Accounting Standard 34: Interim Financial Reporting and use the same accounting policies as set out in the Company's Annual Report and Financial Statements for the year ended 31 March 2021. Those Financial Statements were prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006, IFRS interpretations and, as far as it is consistent with IAS, the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC") in October 2019.

The AIC updated the SORP in April 2021. The Directors have sought to prepare these financial statements in accordance with this SORP where the recommendations are consistent with IAS.

### (ii) Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing these Financial Statements. This conclusion also takes into account the Board's assessment of the continuing risks arising from COVID-19 and evolving variants.

#### 4 Income

|  | Six months<br>ended<br>30.09.21<br>unaudited<br>£'000 | Year ended<br>31.03.21<br>audited<br>£'000 | Six months<br>ended<br>30.09.20<br>unaudited<br>£'000 |
|--|---|--|---|
| <b>Investment income</b>                     |   |  |   |
| Overseas dividends                           | 25,063  | 20,257                                     | 16,964  |
| Overseas scrip dividends                     | 1,006   | 755  | 650   |
|  | 26,069  | 21,012                                     | 17,614  |
| <b>Derivative income</b>                     |   |  |   |
| Dividends received on long CFDs              | 10,764  | 11,444                                     | 10,776  |
| Interest received on CFDs                    | 51  | 245  | 191   |
|  | 10,815  | 11,689                                     | 10,967  |
| <b>Other income</b>                          |   |  |   |
| Interest received on collateral and deposits | 15  | 80   | 70  |
| <b>Total income</b>                          | <b>36,899</b>   | <b>32,781</b>                              | <b>28,651</b>   |

Special dividends of £nil (year ended 31 March 2021: £29,083,000 and six months ended 30 September 2020: £nil) have been recognised in capital.

# Notes to the Financial Statements continued

## 5 Investment Management Fees

|   | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|----------------|
| <b>Six months ended 30 September 2021<br/>(unaudited)</b> |                  |                  |                |
| Investment management fee – base                          | 2,179            | 6,537            | 8,716          |
| Investment management fee – variable*                     | –                | 2,063            | 2,063          |
|   | 2,179            | 8,600            | 10,779         |
| <b>Year ended 31 March 2021 (audited)</b>                 |                  |                  |                |
| Investment management fee – base                          | 4,119            | 12,356           | 16,475         |
| Investment management fee – variable*                     | –                | 2,116            | 2,116          |
|   | 4,119            | 14,472           | 18,591         |
| <b>Six months ended 30 September 2020<br/>(unaudited)</b> |                  |                  |                |
| Investment management fee – base                          | 1,776            | 5,328            | 7,104          |
| Investment management fee – variable*                     | –                | 9                | 9              |
|   | 1,776            | 5,337            | 7,113          |

\* For the calculation of the variable management fee element, the Company's NAV return was compared to the Benchmark Index return on a daily basis. The period used to assess the performance was from 1 July 2018 until a three year history was established. From 1 July 2021 the performance period is now on a rolling three year basis.

FIL Investment Services (UK) Limited (a Fidelity group company) is the Company's Alternative Investment Fund Manager ("the Manager") and has delegated portfolio management to FIL Investment Management (Hong Kong) Limited ("the Investment Manager").

From 1 April 2021, the base investment management fee is charged at an annual rate of 0.90% on the first £1.5 billion of net assets, reducing to 0.70% of net assets over £1.5 billion. Prior to this date, the investment management fee was charged at an annual rate of 0.90% of net assets. In addition, there is a +/-0.20% variation fee based on the Company's NAV per share performance relative to the Company's Benchmark Index. Fees are payable monthly in arrears and are calculated on a daily basis.

## 6 Finance Costs

|   | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|----------------|
| <b>Six months ended 30 September 2021<br/>(unaudited)</b> |                  |                  |                |
| Interest on bank loan, collateral and overdrafts          | 246              | 739              | 985            |
| Interest paid on CFDs                                     | 392              | 1,176            | 1,568          |
| Dividends paid on short CFDs                              | 429              | 1,287            | 1,716          |
|   | 1,067            | 3,202            | 4,269          |
| <b>Year ended 31 March 2021 (audited)</b>                 |                  |                  |                |
| Interest on bank loan, collateral and overdrafts          | 529              | 1,585            | 2,114          |
| Interest paid on CFDs                                     | 1,548            | 4,646            | 6,194          |
| Dividends paid on short CFDs                              | 176              | 527              | 703            |
|   | 2,253            | 6,758            | 9,011          |
| <b>Six months ended 30 September 2020<br/>(unaudited)</b> |                  |                  |                |
| Interest on bank loan, collateral and overdrafts          | 278              | 834              | 1,112          |
| Interest paid on CFDs                                     | 940              | 2,818            | 3,758          |
| Dividends paid on short CFDs                              | 116              | 349              | 465            |
|   | 1,334            | 4,001            | 5,335          |



## Notes to the Financial Statements continued

## 7 Taxation

|   | Revenue<br>£'000 | Capital<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|----------------|
| <b>Six months ended 30 September 2021<br/>(unaudited)</b> |                  |                  |                |
| UK corporation tax  | 448              | (448)            | –              |
| Overseas taxation charge                                  | 1,131            | –                | 1,131          |
| Taxation charge for the period                            | 1,579            | (448)            | 1,131          |

**Year ended 31 March 2021 (audited)**

|                              |     |   |     |
|------------------------------|-----|---|-----|
| UK corporation tax           | –   | – | –   |
| Overseas taxation charge     | 760 | – | 760 |
| Taxation charge for the year | 760 | – | 760 |

**Six months ended 30 September 2020  
(unaudited)**

|                                |       |       |     |
|--------------------------------|-------|-------|-----|
| UK corporation tax             | 459   | (459) | –   |
| Overseas taxation charge       | 705   | –     | 705 |
| Taxation charge for the period | 1,164 | (459) | 705 |

## 8 Earnings/(Loss) per Ordinary Share

|   | Six months<br>ended<br>30.09.21<br>unaudited | Year ended<br>31.03.21<br>audited | Six months<br>ended<br>30.09.20<br>unaudited |
|---|--|-----------------------------------|--|
| Revenue earnings per ordinary share             | 6.08p  | 4.70p                             | 4.55p  |
| Capital (loss)/earnings per ordinary share      | (76.74p)                                     | 186.11p                           | 114.20p                                      |
| <b>Total (loss)/earnings per ordinary share</b> | <b>(70.66p)</b>                              | 190.81p                           | 118.75p                                      |

The earnings/(loss) per ordinary share is based on the profit/(loss) after taxation for the period divided by the weighted average number of ordinary shares held outside Treasury during the period, as show below:

|  | £'000            | £'000       | £'000       |
|--|------------------|-------------|-------------|
| Revenue profit after taxation for the period                     | 31,342           | 24,389      | 23,783      |
| Capital (loss)/profit after taxation for the period              | (395,580)        | 966,226     | 597,069     |
| <b>Total (loss)/profit after the taxation for the period</b>     | <b>(364,238)</b> | 990,615     | 620,852     |
|  | Number           | Number      | Number      |
| Weighted average number of ordinary shares held outside Treasury | 515,457,308      | 519,159,905 | 522,836,127 |

## 9 Dividend Paid to Shareholders

|   | Six months ended<br>30.09.21<br>unaudited<br>£'000 | Year ended<br>31.03.21<br>audited<br>£'000 | Six months ended<br>30.09.20<br>unaudited<br>£'000 |
|---|--|--|--|
| Dividend of 4.68 pence per ordinary share paid for the year ended 31 March 2021 | 24,124   | -  | -  |
| Dividend of 4.25 pence per ordinary share paid for the year ended 31 March 2020 | -  | 22,127                                     | 22,160   |
|   | 24,124   | 22,127                                     | 22,160   |

No dividend has been declared for the six months ended 30 September 2021 (six months ended 30 September 2020: £nil).

## 10 Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

| Classification | Input   |
|----------------|---|
| Level 1        | Valued using quoted prices in active markets for identical assets   |
| Level 2        | Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly |
| Level 3        | Valued by reference to valuation techniques using inputs that are not based on observable market data   |

# Notes to the Financial Statements continued

## 10 Fair Value Hierarchy continued

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 as disclosed in the Company's Annual Report for the year ended 31 March 2021 (Accounting Policies Notes 2(l) and (m) on pages 70 and 71). The table below sets out the Company's fair value hierarchy:

|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>30 September 2021 (unaudited)</b>                              |                  |                  |                  |                |
| <b>Financial assets at fair value through profit or loss</b>      |                  |                  |                  |                |
| Investments   | 1,492,804        | 69,754           | 213,321          | 1,775,879      |
| Derivative instrument assets                                      | 87               | 15,565           | –                | 15,652         |
|   | 1,492,891        | 85,319           | 213,321          | 1,791,531      |
| <b>Financial liabilities at fair value through profit or loss</b> |                  |                  |                  |                |
| Derivative instrument liabilities                                 | (1,706)          | (25,007)         | –                | (26,713)       |
| <b>Financial liabilities at fair value</b>                        |                  |                  |                  |                |
| Bank loan   | –                | (75,582)         | –                | (75,582)       |

|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>31 March 2021 (audited)</b>                                    |                  |                  |                  |                |
| <b>Financial assets at fair value through profit or loss</b>      |                  |                  |                  |                |
| Investments   | 1,954,626        | 46,185           | 166,464          | 2,167,275      |
| Derivative instrument assets                                      | 1,098            | 32,198           | –                | 33,296         |
|   | 1,955,724        | 78,383           | 166,464          | 2,200,571      |
| <b>Financial liabilities at fair value through profit or loss</b> |                  |                  |                  |                |
| Derivative instrument liabilities                                 | (4,205)          | (18,003)         | –                | (22,208)       |
| <b>Financial liabilities at fair value</b>                        |                  |                  |                  |                |
| Bank loan   | –                | (74,224)         | –                | (74,224)       |

**10 Fair Value Hierarchy** continued

|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>30 September 2020 (unaudited)</b>                              |                  |                  |                  |                |
| <b>Financial assets at fair value through profit or loss</b>      |                  |                  |                  |                |
| Investments   | 1,628,744        | 3,518            | 88,776           | 1,721,038      |
| Derivative instrument assets                                      | 2,482            | 174,546          | -                | 177,028        |
|   | 1,631,226        | 178,064          | 88,776           | 1,898,066      |
| <b>Financial liabilities at fair value through profit or loss</b> |                  |                  |                  |                |
| Derivative instrument liabilities                                 | (1,115)          | (49,609)         | -                | (50,724)       |
| <b>Financial liabilities at fair value</b>                        |                  |                  |                  |                |
| Bank loan   | -                | (79,999)         | -                | (79,999)       |

**11 Other Receivables**

|   | <b>30.09.21<br/>unaudited<br/>£'000</b> | 31.03.21<br>audited<br>£'000 | 30.09.20<br>unaudited<br>£'000 |
|---|---|------------------------------|--------------------------------|
| Amounts receivable on settlement of derivatives | <b>21,835</b>                           | 11,627                       | -                              |
| Securities sold for future settlement           | <b>7,331</b>                            | 10,805                       | 2,991                          |
| Accrued income                                  | <b>2,932</b>                            | 188                          | 2,740                          |
| Overseas taxation recoverable                   | <b>203</b>                              | -                            | -                              |
| Other receivables                               | <b>127</b>                              | 129                          | 56                             |
|   | <b>32,428</b>                           | 22,749                       | 5,787                          |

**12 Other Payables**

|  | <b>30.09.21<br/>unaudited<br/>£'000</b> | 31.03.21<br>audited<br>£'000 | 30.09.20<br>unaudited<br>£'000 |
|--|---|------------------------------|--------------------------------|
| Amounts payable on settlement of derivatives               | <b>4,770</b>                            | 20,111                       | -                              |
| Securities purchased for future settlement                 | <b>2,697</b>                            | 8,866                        | 4,397                          |
| Investment management, secretarial and administration fees | <b>1,617</b>                            | 2,103                        | 1,628                          |
| Accrued expenses   | <b>780</b>                              | 587                          | 559                            |
| Amounts payable for repurchase of shares                   | <b>601</b>                              | -                            | -                              |
| Finance costs payable                                      | <b>518</b>                              | 270                          | -                              |
|  | <b>10,983</b>                           | 31,937                       | 6,584                          |

# Notes to the Financial Statements continued

## 13 Share Capital

|  | 30 September 2021<br>unaudited |              | 31 March 2021<br>audited |       | 30 September 2020<br>unaudited |       |
|--|--------------------------------|--------------|--------------------------|-------|--------------------------------|-------|
|  | Number of<br>shares            | £'000        | Number of<br>shares      | £'000 | Number of<br>shares            | £'000 |
| <b>Issued, allotted and fully paid</b>                       |                                |              |                          |       |                                |       |
| <b>Ordinary shares of 1 pence each held outside Treasury</b> |                                |              |                          |       |                                |       |
| <b>Beginning of the period</b>                               | <b>515,463,483</b>             | <b>5,155</b> | 538,809,043              | 5,388 | 538,809,043                    | 5,388 |
| Ordinary shares repurchased into Treasury                    | (440,000)                      | (4)          | (23,345,560)             | (233) | (23,345,560)                   | (233) |
| <b>End of the period</b>                                     | <b>515,023,483</b>             | <b>5,151</b> | 515,463,483              | 5,155 | 515,463,483                    | 5,155 |
| <b>Ordinary shares of 1 pence each held in Treasury*</b>     |                                |              |                          |       |                                |       |
| <b>Beginning of the period</b>                               | <b>55,590,997</b>              | <b>555</b>   | 32,545,437               | 325   | 32,545,437                     | 325   |
| Ordinary shares repurchased into Treasury                    | 440,000                        | 4            | 23,345,560               | 233   | 23,345,560                     | 233   |
| Ordinary shares cancelled from Treasury                      | –                              | –            | (300,000)                | (3)   | –                              | –     |
| <b>End of the period</b>                                     | <b>56,030,997</b>              | <b>559</b>   | 55,590,997               | 555   | 55,890,997                     | 558   |
| <b>Total share capital</b>                                   |                                | <b>5,710</b> |                          | 5,710 |                                | 5,713 |

\* The ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

During the period, the Company repurchased 440,000 (year ended 31 March 2021 and six months ended 30 September 2020: 23,345,560) ordinary shares and held them in Treasury. The cost of repurchasing these shares of £1,388,000 (year ended 31 March 2021 and six months ended 30 September 2019: £58,558,000) was charged to the Other Reserve.

## 14 Net Asset Value per Ordinary Share

The calculation of the net asset value per ordinary share is based on the following:

|                                       | 30.09.21<br>unaudited | 31.03.21<br>audited | 30.09.20<br>unaudited |
|---------------------------------------|-----------------------|---------------------|-----------------------|
| Net assets                            | <b>£1,793,227,000</b> | £2,182,977,000      | £1,813,181,000        |
| Ordinary shares held outside Treasury | <b>515,023,483</b>    | 515,463,483         | 515,463,483           |
| Net asset value per ordinary share    | <b>348.18p</b>        | 423.50p             | 351.76p               |

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

## 15 Transactions with the Managers and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investment Management (Hong Kong) Limited. Both companies are Fidelity group companies.

Details of the current fee arrangements are given in Note 5 above. During the period, management fees of £10,779,000 (year ended 31 March 2021: £18,591,000 and six months ended 30 September 2020: £7,113,000), and accounting, administration and secretarial fees of £nil (year ended 31 March 2021: £100,000 and six months ended 30 September 2020: £50,000) were payable to Fidelity. Fidelity also provides the Company with marketing services. The total amount payable for these services was £117,000 (year ended 31 March 2021: £195,000 and six months ended 30 September 2020: £109,000). Amounts payable at the Balance Sheet date are included in other payables and are disclosed in Note 12 above.

At the date of this report, the Board consisted of five non-executive Directors (as shown on page 42) all of whom are considered to be independent by the Board. None of the Directors has a service contract with the Company.

The Chairman receives an annual fee of £45,000, the Audit and Risk Committee Chairman receives an annual fee of £38,000, the Senior Independent Director receives an annual fee of £36,000 and each other Director receives an annual fee of £30,000. The following members of the Board hold ordinary shares in the Company at the date of this report: Mike Balfour 65,000 shares, Alastair Bruce 7,300 shares, Nicholas Bull 110,804 shares, Vanessa Donegan 10,000 shares and Linda Yueh 2,318 shares.

# Glossary to the Half-Yearly Report

## ADR (American Depositary Receipt)

A negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock that is traded on a US Exchange.

## AIC

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

## AIF

Alternative Investment Fund ("AIF"). The Company is an AIF.

## AIFM

Alternative Investment Fund Manager ("AIFM"). The Board has appointed FIL Investment Services (UK) Limited to act as the Company's AIFM.

## AIFMD

The Alternative Investment Fund Managers Directive ("AIFMD") is a European Union Directive implemented on 22 July 2014.

## Alternative Performance Measures

The Company uses the following [Alternative Performance Measures](#) which are all defined in this Glossary:

- Discount/Premium;
- Gearing;
- Net Asset Value (NAV) per Ordinary Share;
- Ongoing Charges;
- Return (Revenue, Capital and Total Returns); and
- Total Return Performance (Net Asset Value Total Return or Share Price Total Return).

## Asset Exposure

The value of an underlying security or instrument to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the [derivatives](#)).

## Auditor

The Company's independent Auditor is Ernst & Young LLP.

## Benchmark Index

MSCI China Index total return (in sterling terms) and is a composite of China A, B, Red Chips and P Chips share classes and foreign listings (e.g. [ADRs](#)).

## Broker

The Company's Broker is Peel Hunt LLP.

## China A Shares

Shares traded on the Chinese Stock Exchanges in [Chinese renminbi](#).

## China B Shares

Shares traded on the Shenzhen Stock Exchange and Shanghai Stock Exchange in Hong Kong dollars and US dollars, respectively.

## China H Shares

Shares in companies incorporated in the [PRC](#) and listed on the Hong Kong Stock Exchange. They are available to non-Chinese investors and are traded in Hong Kong dollars on the Hong Kong Stock Exchange.

## Chinese Renminbi

Currency of the [PRC](#).

## Chinese Stock Exchanges

The Shanghai Stock Exchange, the Shenzhen Stock Exchange and any other stock exchange located within the [PRC](#) from time to time.



### ChiNext

A NASDAQ-style board of the Shenzhen Stock Exchange for innovative and fast-growing companies especially high-tech companies that started trading in October 2009. The MSCI added stocks trading on Shenzhen's ChiNext board to its indices for the first time in May 2019, allowing foreign investors to tap the tech-focused board by investing in the indices.

### Collateral

Assets provided as security.

### Contract For Difference (CFD)

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

### Custodian

J.P. Morgan Chase Bank act as the Company's [Custodian](#). It holds (as intermediary) the Company's assets, arranges the settlement of transactions and administers income, proxy voting and corporate actions.

### Debt

Bank borrowings and long [contracts for difference](#).

### Depository

J.P. Morgan Europe Limited act as the Company's [Depository](#). It oversees the custody, cash arrangements and other AIFM responsibilities of the Company.

### Derivatives

Financial instruments whose value is derived from the value of an underlying asset or other financial instruments. The main categories of [derivatives](#) are [contracts for difference](#), [warrants](#), [futures](#) and [options](#).

### Discount

If the share price of the Company is lower than the [net asset value per ordinary share](#), the Company's shares are said to be trading at a [discount](#). It is shown as a percentage of the [net asset value per ordinary share](#).

### Duff & Phelps

[Duff & Phelps](#) provides an objective and independent assessment of investment valuations using sophisticated valuation methodologies. It constantly monitors changing regulations and consistently provides input to Accounting Standards Boards as they develop implementation guidance and new financial reporting rules with valuation implications.

### Equity Linked Notes (ELNs)

Debt instruments whose return on investment is linked to specific equities or equity markets. The return on [equity linked notes](#) may be determined by an equity index, a basket of equities, or a single equity.

### Fair Value

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

# Glossary to the Half-Yearly Report continued

## Forward Currency Contract

An agreement to buy or sell a currency, commodity or other asset at a specified future date and at a predetermined price.

## 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.

## Gross Asset Exposure

The value of the portfolio to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the [derivatives](#)).

## Gross Gearing

[Gross Asset Exposure](#) in excess of [Net Assets](#).

## Hedging

A strategy aimed at minimising or eliminating the risk or loss through adverse movements normally involving taking a position in a [derivative](#) such as a [future](#) or an [option](#).

## Index Linked Securities

Debt instruments whose return on investment is linked to changes in interest rates, stock exchanges, or other price indices.

## Initial Public Offering (IPO)

An [initial public offering](#) ("IPO") is the first sale of stock by a private company to the public. [IPOs](#) are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded.

## Investment Manager

FIL Investment Management (Hong Kong) Limited.

## Manager

FIL Investment Services (UK) Limited is the appointed [Manager](#) under the Alternative Investment Fund Managers Directive ("AIFMD") and has delegated the investment management of the Company to the [Investment Manager](#).

## MSCI China Index

The [Benchmark Index](#) of the investment performance of the Company, in UK sterling terms.

## NASDAQ

A global electronic marketplace for buying and selling securities, as well as the benchmark index for US technology stocks.

## Net Assets

The total value of the Company's assets less the total value of its liabilities.

## Net Assets Plus Borrowings

[Net Assets](#) plus bank loans. It can also be described as total assets less current liabilities.

## Net Asset Value (NAV)

[Net asset value](#) is sometimes described as "[Shareholders' Funds](#)" and is the total value of the Company's assets less the total value of its liabilities. For valuation purposes, it is common to express the [net asset value](#) on a per ordinary share basis.

## Net Asset Value (NAV) per Ordinary Share

The [NAV per ordinary share](#) is calculated as [Shareholders' Funds](#) divided by the number of ordinary shares in issue.

## Net Gearing

[Net Gearing](#) is the total of all long exposures, less short exposures and less exposures [hedging](#) the portfolio in excess of [Net Assets](#).

## Net Market Exposure

**Net Market Exposure** is the total of all long exposures, less short exposures and less exposures **hedging** the portfolio.

## Ongoing Charges (excluding Variable Management Fee element)

Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of the average daily **net asset values** for the reporting period.

## Options

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

## P Chips

Companies controlled by mainland China individuals, with the establishment and origin of the company in mainland China. **P Chips** are incorporated outside of the **PRC** and traded on the Stock Exchange of Hong Kong with a majority of revenues or assets derived from mainland China.

## Portfolio

The Company's **portfolio** which may be made up of equities, **index linked securities**, **equity linked notes** and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions and other interests including **derivatives** (such as **futures**, **options** and **contracts for difference**).

## Portfolio Manager

Dale Nicholls is the appointed **Portfolio Manager** of the Company and is responsible for managing the Company's assets.

## PRC

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

## Premium

If the share price of the Company is higher than the **net asset value per ordinary share**, the Company's shares are said to be trading at a **premium**. The **premium** is shown as a percentage of the **net asset value per ordinary share**.

## Profit

The **profit** generated in a given period from investments:

- **Revenue Profit** – reflects the dividends and interest from investments and other income, net of expenses, finance costs and taxation;
- **Capital Profit** – reflects the profit on capital, excluding any revenue profit; and
- **Total Profit** – reflects the aggregate of revenue and capital profit.

## QFII

The **Investment Manager** is a **QFII** (a Qualified Foreign Institutional Investor) and as such has been granted a **QFII** licence by the China Securities Regulatory Commission ("CSRC") which permits the Company to invest in **China A Shares** through the **Investment Manager** and has received an allocation of quota for onshore investment from the State Administration of Foreign Exchange of the **PRC** ("SAFE").

# Glossary to the Half-Yearly Report continued

## Red Chips

Companies incorporated outside China but which are based in mainland China. **Red Chips** are listed on, and are required to observe the filing and reporting requirements of the Hong Kong Stock Exchange. **Red Chips** typically have a significant portion of their business interests located in mainland China and many are owned, either directly or indirectly, by organisations or enterprises controlled by the Chinese state, provinces or municipalities.

## Registrar

The Company's **Registrar** is Link Group and it manages the Company's shareholder register.

## Reserves

- **Share premium account** represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend and it cannot be used to fund share repurchases
- **Capital redemption reserve** represents the nominal value of ordinary shares repurchased and cancelled. It cannot be used to fund share repurchases and is not distributable by way of dividend.
- **Other reserve** is a distributable premium reserve created on 21 April 2010 when High Court approval was given for the share premium account to be cancelled. As a result, £452,232,000 was transferred from the share premium account to the other reserve. It can be used to fund share repurchases.
- **Capital reserve** represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and

costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend.

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

## Secretary

FIL Investments International.

## Shareholders' Funds

**Shareholders' Funds** represent the total value of the Company's assets less the total value of its liabilities as shown in the balance sheet. It is also described as **net asset value**.

## Short Stock Exposure

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

## Total Return Performance

The return on the share price or **net asset value per ordinary share** taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for share price total return) or the Company's assets (for **net asset value** total return).

## Total Shareholder Return (TSR)

**Total shareholder return (TSR)** is the total return of shares to shareholders, or the capital gains, plus dividends paid.

### Treasury Shares

Ordinary shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not receive dividends, have no voting rights and are excluded from the [net asset value](#) calculation.

### Unlisted Companies

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

### Variable Interest Entity ("VIE")

A [variable interest entity](#) ("VIE") structure is designed to facilitate foreign investment in sectors of the Chinese domestic economy which prohibit foreign ownership. The essential purpose of the [VIE](#) structure is to convey the economic benefits and operational control of ownership without direct equity ownership itself. As the controlling interest is not based on having the majority of voting rights, there may be a risk to an investor of being unable to enforce their ownership rights in certain circumstances.

### Variable Management Fee (VMF)

The Company has a [Variable Management Fee \(VMF\)](#) structure. The base fee is on a tiered basis of 0.90% on the first £1.5 billion of [Net Assets](#), reducing to 0.70% of [Net Assets](#) over £1.5 billion. In addition, there is a +/- 0.20% variation fee based on performance relative to the Company's [Benchmark Index](#) (the [MSCI China Index](#)).

### Warrants

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

# Shareholder Information

## Investing in Fidelity China Special Situations PLC

Fidelity China Special Situations PLC is a company listed on the London Stock Exchange and you can buy its shares through a platform, stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in a way that is best for you. Details of how to invest and the latest Key Information Document can be found on the Company's pages of the Manager's website at [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

## CONTACT INFORMATION

Shareholders and Fidelity's Platform Investors should contact the appropriate administrator using the contact details given below and on the next page. Links to the websites of major platforms can be found online at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com).

### Shareholders on the main share register

Contact Link Group, Registrar to Fidelity China Special Situations PLC, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

Telephone: **0371 664 0300** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Details of individual shareholdings and other information can also be obtained online from the Registrar's Share Portal at [www.signalshares.com](http://www.signalshares.com). Shareholders are able to manage their shareholding online by registering for the Share Portal, a free and secure online access service. Facilities include:

**Account Enquiry** – Shareholders can access their personal shareholding, including share transaction history, dividend payment history and obtain an up-to-date shareholding valuation.

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

Should you have any queries in respect of the Link Share Portal, contact the helpline on **0371 664 0391** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

### Fidelity Platform Investors

Contact Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity, PO Box 391, Tadworth, Surrey KT20 9FU.

Website: [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

**Private investors:** call free on **0800 41 41 10**, 9:00 – 18:00, Monday to Saturday.

**Financial advisers:** call free on **0800 41 41 81**, 8:00 – 18:00, Monday to Friday.

### General Enquiries

General enquiries should be made to the Secretary, at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Telephone: **01737 837846**

Email: **investmenttrusts@fil.com**

Website: **www.fidelityinvestmenttrusts.com**

If you hold Fidelity China Special Situations PLC shares in an account provided by Fidelity International, you will receive a report every six months detailing all of your transactions and the value of your shares.

### ShareGift

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

### Financial Calendar 2021/2022

|                          |  |
|--------------------------|--|
| <b>30 September 2021</b> | <b>Half-Yearly period end</b>              |
| <b>November 2021</b>     | <b>Announcement of Half-Yearly results</b> |
| <b>December 2021</b>     | <b>Publication of Half-Yearly Report</b>   |
| <b>31 March 2022</b>     | <b>Financial year end</b>                  |
| <b>June 2022</b>         | <b>Publication of Annual Report</b>        |
| <b>July 2022</b>         | <b>Annual General Meeting</b>              |
| <b>July 2022</b>         | <b>Payment of the Annual Dividend</b>      |

# Directory

## Board of Directors

Nicholas Bull (Chairman)  
Mike Balfour (Chairman of the Audit and Risk Committee)  
Alastair Bruce  
Vanessa Donegan  
Linda Yueh (Senior Independent Director)

## Alternative Investment Fund Manager (AIFM/the Manager)

FIL Investment Services (UK) Limited  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey  
KT20 6RP

## Investment Manager

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

## Secretary and Registered Office

FIL Investments International  
Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey  
KT20 6RP  
Email: [investmenttrusts@fil.com](mailto:investmenttrusts@fil.com)

## Banker and Custodian

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

## Depository

J.P. Morgan Europe Limited  
25 Bank Street  
London  
E14 5JP

## Financial Adviser and Stockbrokers

Peel Hunt LLP  
Moor House  
120 London Wall  
London  
EC2Y 5ET

## Independent Auditor

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

## Lawyer

Charles Russell Speechlys LLP  
5 Fleet Place  
London  
EC4M 7RD

## Registrar

Link Group  
10th Floor, Central Square  
29 Wellington Street  
Leeds  
LS1 4DL



## General Data Protection Regulation ("GDPR")

### What personal data is collected and how it is used

The Company is an investment trust which is a public limited company and has certain regulatory obligations such as the requirement to send documents to its shareholders, for example, the Annual Report and other documents that relate to meetings of the Company. The Company will therefore collect shareholders' personal data such as names, addresses and identification numbers and investor codes and will use this personal data to fulfil its statutory obligations.

Any personal data collected will be kept securely on computer systems and in some circumstances on paper. Personal information is kept secure in line with Fidelity's Information Security policies and standards. If you are unhappy with how we have used your personal data, you can complain by contacting the UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

### Sharing personal data

In order to assist the Company in meeting its statutory requirements, the Company delegates certain duties around the processing of this data to its third party service providers, such as the Company's Registrar and Printers. The Company has appointed Fidelity to undertake marketing activities for the Company and their privacy statement can be found on the Company's website at <https://investment-trusts.fidelity.co.uk/privacy-policy/>

The Company's agreements with the third party service providers have been updated to be compliant with GDPR requirements. The Company confirms to its shareholders that their data will not be shared with any third party for any other purpose, such as for marketing purposes. In some circumstances, it may be necessary to transfer shareholders' personal data across national borders to Fidelity Group entities operating in the European Economic Area ("EEA"). Where this does occur, the European standard of protections will be applied to the personal data that is processed. Where personal data is transferred within the Fidelity group, but outside of the EEA, that data will subsequently receive the same degree of protection as it would in the EEA.

### How long will personal data be kept for?

We will keep the personal data for as long as is necessary for these purposes and no longer than we are legally permitted to do so.

### Requesting access, making changes to your personal data and other important information

Shareholders can access the information that the Company holds about them or ask for it to be corrected or deleted by contacting Fidelity's UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

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To find out more about Fidelity China Special Situations PLC, visit our new website [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china) where you can read articles and watch videos on the Company.



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