

# Fidelity China Special Situations PLC

Interim Financial Report

For the 6 months ended 30 September 2013



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# The Investment Objective and Performance

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

## Investment Performance

	Six months ended 30 September 2013
Net Asset Value ("NAV") per Share total return	+10.9
Share Price total return	+6.3
MSCI China Index total return (net) – in UK sterling	-1.9

## Standardised Performance Total Return\* %

	01/10/2012 to 30/09/2013	01/10/2011 to 30/09/2012	01/10/2010 to 30/09/2011	19/04/2010** to 30/09/2010	Since launch
NAV Performance	+36.8	+7.5	-30.5	+7.7	+10.1
Share Price Performance	+35.0	-3.1	-33.1	+13.2	-1.0
Benchmark Index Performance	+12.4	+13.4	-23.1	+1.4	-0.6

\* Includes reinvested dividends

\*\* Date of launch

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Summary of Results

	30 September 2013	31 March 2013
<b>Assets</b>		
Gross Asset Exposure	£762.0m	£774.2m
Net Assets	£635.0m	£634.2m
Gearing	20.0%	22.1%
Net Asset Value per Ordinary Share	106.59p	97.09p
Number of Ordinary Shares in issue	595,739,480	653,229,480

## Stock market data

Share Price at period/year end	96.70p	92.00p
Share Price period/year high	98.00p	99.00p
Share Price period/year low	81.00p	70.00p
(Discount) at period/year end	(9.3%)	(5.2%)
(Discount) period/year high	(11.4%)	(9.1%)
(Discount) period low/premium year high	(4.9%)	3.8%

<b>Earnings/(losses) for the six months ended 30 September</b>	<b>2013</b>	<b>2012</b>
Revenue return per Ordinary Share <sup>1</sup>	1.43p	1.49p
Capital return/(loss) per Ordinary Share <sup>1</sup>	8.10p	(6.78p)
Total return/(loss) per Ordinary Share <sup>1</sup>	9.53p	(5.29p)

<sup>1</sup> Based on the weighted average number of Ordinary Shares in issue during the period

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

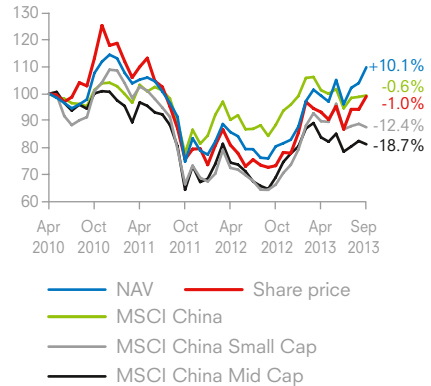


## MANAGER'S REPORT

I am pleased that the better performance I highlighted in the annual report has continued into the first half of the current year. This has been despite a fall in the

overall level of the Chinese market. Over this six month period, the Net Asset Value rose 10.9%, the share price appreciated by 6.3% and the MSCI China Index (net) total return – in UK sterling fell 1.9%. This performance means that the Company's NAV has outperformed the Benchmark Index since launch. The results have been helped in particular by the good performance of Chinese internet companies and US-listed Chinese companies. In the interim report a year ago I mentioned that I had materially increased the portfolio's exposure to these names and I am delighted that this has paid off. Another trend that has helped the portfolio has been the increase in the breadth of the market's performance, with many medium and smaller companies' shares outperforming. It is good to see the factors that hindered performance in the past, the exposure to smaller private companies and the portfolio's borrowings, are now working to shareholders' advantage. I am strongly of the view that simply buying exposure to the Index in China will not be as rewarding as buying an actively managed fund with an emphasis on the generally smaller privately run companies that I believe will lead China's growth over the next few years. The Index itself is weighed down by many large state owned enterprises where policy support is likely to be less favourable than in the past. I expect a number of them will face headwinds as cheap finance is cut off, as the government opens up selected industries to competition and as some businesses suffer from the ongoing anti-corruption campaign. In the next column is a chart showing the NAV and share price against the Benchmark Index as well as the MSCI China Small Cap and MSCI China Mid Cap Indices.

## Performance since launch



Prices rebased to 100 at 19 April 2010  
Sources: Fidelity and Datastream

On the economic front, the news during the last few months has been better. A recovery in inventories, some upturn in investment and the credit expansion which started in the second half of last year have all helped stabilize GDP growth. I am still of the view that the rate of growth of the economy has to slow in the medium term because the very high levels of growth in the past were due to unsustainably high levels of investment and an export led economic model which is under pressure from rising wages and a strengthening currency. The shift to a consumption based economy will take time and result in a lower but higher quality level of growth. That said, the current level of growth could continue well into next year.

I believe there are two common mistakes investment commentators make when they consider the outlook for China: firstly, many paint an overly black or white picture about its future and, secondly, they make predictions for China based solely on their Western experience. China is a diverse, large and complex country and the likelihood that the economy will collapse in a Western style banking crisis any time soon,

# Interim Financial Report

something that several international commentators predict, is extremely remote in my view. The country does have challenges but I would characterise the outlook, influenced as it is by the interplay of a wide range of factors, as more grey than outright black or white. Also, as a large financially insulated and centrally run dictatorship, where most of the largest companies, including the banks, are still owned by different parts of government, it operates quite differently from most Western economies. One thing I have learned about China is that there is always something for investors to worry about. I have discussed a number of these worries in previous reports over the last 3½ years. They have included amongst other things inflation, Local Government Financing Vehicles, credit expansion, wealth management products, corruption, pollution and an export squeeze. I repeat my belief, expressed here before, that most of the financial challenges are containable if not for ever then at least for a number of years. To my mind, the real challenges are medium-term social and political ones. A particular worry focused on this year by the China 'bears' is the rising level of debt in China relative to GDP. There are various definitions of total debt but this is generally thought to represent over 200% of GDP and the figure has risen significantly in the last five years. We need to watch closely how this progresses from here, but in a system where debt is financed internally not from overseas borrowings, it is very difficult to estimate at what level debt could become a problem. This could be at much higher levels than we see today.

By the time this report is published the Third Plenum meetings in Beijing will have taken place. This is the most important forum in China for laying out the policies of the new administration. President Xi and Premier Li have already started reform in several areas such as corruption, pollution and financial reform, amongst others. Some of the policies that have been announced so

far on the political front, such as a return to communist values and controls on rumour mongering on the internet, may appear to be a step backwards. However, during a recent visit to China an experienced political observer drew an interesting analogy when he said that reform in China is a bit like watching a conjurer: you are persuaded to look at his left hand while the interesting developments are going on in his right hand. He suggested we didn't look simply at what Chinese politicians say (the left hand) but what they do (the right hand), noting when the two may at times be in conflict with each other. A recent trip to see officials and their advisers in Beijing suggests that there is a big reform agenda in the pipeline, although not all the initiatives will be announced at the Plenary meetings.

One initiative that was announced at the end of September, and which is a significant development for China, is the Shanghai Free Trade Zone. Even though we only have an outline of the plans at this stage, the intention is to create an important centre in Shanghai where financial and trade reforms can take place. For example a number of activities will now be able to commence in the zone without most of the government clearances that were previously required. China has a history of trying reform in one or two geographical areas and then, if it works, rolling it out across the country. Shanghai could be the crucible for major financial liberalisation across China.

At the portfolio level, I continue to focus on the domestic consumption and services sectors as I have done since the Company's inception. The three biggest exposures are to IT, consumer discretionary and healthcare stocks.

One reason that Chinese internet companies have done so well this year is due to the upcoming IPO of China's leading e-commerce company, Alibaba. A market capitalisation of over US\$100bn is being

forecast by brokers. Originally an IPO in Hong Kong looked the most likely but, although this is still not impossible, an IPO in the US in 2014 is the more probable outcome. We purchased a holding in Alibaba convertible shares in 2012 at a market capitalisation equivalent of \$48bn and, although a partial revaluation has taken place to a capitalisation of \$64bn, hopefully this still leaves good upside. Alibaba is one of the most exciting companies I've come across in my career with its dominant position in e-commerce in China. It is very profitable and has a cash generative platform model. Alibaba's upcoming IPO has shone a light on all Chinese internet companies; the Company's holdings in companies such as Soufun, Sina, Bitauto, 21 Vianet and Kingsoft have benefited. Although valuations have risen a lot, they still in many cases look attractive relative to similar companies listed on other markets, while the growth offered in China's underpenetrated internet market is, in my opinion, better than elsewhere.

A specific holding I should mention is Wing Hang bank, a medium-sized Hong Kong bank which this year, together with HSBC, has been one of the two biggest bank holdings in the portfolio. The portfolio's exposure to banks in general is low as I have very small holdings in mainland banks which I believe have a number of challenges ahead of them. I have generally preferred the Hong Kong based institutions. One of the reasons that I purchased the holding in Wing Hang was that I believed it was attractive in its own right and had in effect a free option on future takeover activity. It was my thesis that over time most of the smaller banks in Hong Kong would be bought out, either by mainland banks or by other larger banks in the region. In mid-September it was announced that the two largest shareholders, the Fung family and BNY Mellon, who between them hold 45% of the shares, had been approached with an offer to buy their stake. The shares rose nearly 40% on this news to a level at which they sell on about

1.7 times book value. The control in a smaller Hong Kong bank, Chong Hing, has recently been purchased at over twice the value of its assets and in a take-out I think Wing Hang could be worth more. There is of course no guarantee that there will be a successful bid for the company.

Regarding the stock market outlook, valuations have risen a little above their ten-year lows but they are still well below their long-term average. Although sentiment has recovered somewhat, investors, particularly on the mainland, remain cautious. Internationally, emerging markets and China in particular remain out of favour. Indeed the Chinese market has been one of the worst performing world markets over the last three years or so. Also, over time I expect mainland investors to be allowed to invest more freely into Hong Kong listed shares. Mainland investors are keen buyers of smaller company shares and the opportunity to buy into this area in Hong Kong will be a serious consideration for these investors. Hong Kong listed Chinese medium and smaller-sized companies sell on much lower valuations than their mainland listed peers and I would expect this valuation difference to close with the Hong Kong shares being re-rated.

Putting all these factors together, I remain optimistic. I am still finding many attractive investment opportunities in Chinese shares and continue to think there is still good upside ahead. I am delighted that investors' patience has now started to be rewarded and I hope that this trend will continue during the last five months before I hand over the portfolio to Dale Nicholls and beyond.

**Anthony Bolton**  
Portfolio Manager  
11 November 2013

# Interim Financial Report

## DISCOUNT AND PREMIUM

The Board believes it is in the best interests of shareholders if the share price of the Company tracks closely the underlying Net Asset Value ("NAV"), which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy back shares for cancellation at a discount to NAV. During the reporting period, in furtherance of this policy, the Board authorised the repurchase and cancellation at a discount of 57,490,000 Ordinary Shares. Since the period end, the Company has repurchased and cancelled a further 6,075,000 Ordinary Shares.

## GEARING

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

The Company achieves further gearing by the use of Contracts For Difference on a number of holdings in its portfolio and the use of other derivative instruments. At 30 September 2013, the Company's gearing was 20.0% (31 March 2013: 22.1%; 30 September 2012: 17.4%).

## PERFORMANCE FEE

A performance fee is payable of 15% of any change in NAV attributable to performance which is more than 2% above the return of the MSCI China Index total return (net) – in UK sterling, including making good any cumulative underperformance carried forward from previous years (including the 2% hurdle each year). The performance fee is payable subject to a maximum in any year of 1.5% of the arithmetic mean of the value of assets calculated at the end of each month during the year. The cumulative brought forward underperformance at the start of this financial year together with the Benchmark plus 2% hurdle for the year has been exceeded.

A performance fee would only be payable if outperformance is achieved for the full financial year. A provision has been made on a time apportioned basis of £1,148,000 for the six months ended 30 September 2013. The impact on the NAV of this provision is 0.2%. The fee arrangements with the Managers are due to be reviewed by the Board before the start of the next financial year.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal controls process, identifies the key risks faced by the Company. The Board believes that the principal risks and uncertainties faced by the Company continue to fall into the following categories: market risk, corporate governance risks, share price risk, gearing risk, currency risk, tax and regulatory risks and operational risks – service providers. Information on each of these risks is detailed in the Company's Annual Report for the year ended 31 March 2013 together with a risk matrix listing the specific top risks identified by the Board. The Annual Report is available for inspection on the Company's pages of its website [www.fidelity.co.uk/china](http://www.fidelity.co.uk/china).

## GOING CONCERN

The Board receives regular reports from the Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements as outlined in the Annual Report for the year ended 31 March 2013.

## By order of the Board

FIL Investments International  
11 November 2013



# Directors' Responsibility Statement

The Directors confirm to the best of their knowledge that:

- a) the condensed set of financial statements contained within the Interim Financial Report has been prepared in accordance with the International Accounting Standards 34: "Interim Financial Reporting";
- b) the Interim Financial Report on pages 3 to 6 (constituting the interim management report) include a fair review of the information required by Rule 4.2.7R of the FCA's Disclosure and Transparency Rules and their impact on the condensed set of financial statements and a description of the principal risks and

uncertainties for the remaining six months of the financial year; and

- c) in accordance with Disclosure and Transparency Rule 4.2.8R there have been no related party transactions during the six month period to 30 September 2013 and therefore nothing to report on any material effect by such a transaction on the financial position or the performance of the Company during that period; and there have been no changes in this position since the last Annual Report that could have a material effect on the financial position or performance of the Company in the first six months of the current financial year.

The Interim Financial Report has not been audited by the Company's Independent Auditor.

The Interim Financial Report was approved by the Board on 11 November 2013 and the above responsibility statement was signed on its behalf by John Owen, Chairman.

## Twenty Largest Holdings at 30 September 2013

Twenty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% <sup>1</sup>
<b>Wing Hang Bank Limited</b> Provider of commercial banking and related financial services	33,610	33,610	4.4
<b>CITIC Securities Company Limited</b> Broker and asset manager	28,959	28,959	3.8
<b>Tencent Holdings Limited*</b> Provides internet, mobile and telecommunications value-added services	20,562	25,523	3.3
<b>SouFun Holdings Limited</b> Real estate internet website operator	23,484	23,484	3.1
<b>21Vianet Group</b> Largest carrier-neutral internet data centre services provider in China	23,237	23,237	3.0
<b>Sina China</b> Owns Weibo social network	22,662	22,662	3.0
<b>AIA Group*</b> Insurance company based in Hong Kong	17,226	22,314	2.9
<b>Alibaba Group<sup>2</sup></b> China's major e-commerce group	20,598	20,598	2.7
<b>SAIC Motor Corporation Limited</b> Automobile manufacture and distribution company	18,227	18,227	2.4
<b>AsiaInfo-Linkage</b> Telecommunications software solutions provider in China	18,077	18,077	2.4
<b>WuXi Pharma Tech</b> Pharmaceutical, biotechnology and medical device research company	16,609	16,609	2.2
<b>Haitong Securities</b> Chinese broker	16,471	16,471	2.2
<b>Hutchison China MediTech Limited<sup>3</sup></b> Pharmaceutical and healthcare group operating primarily in China	15,506	15,506	2.0
<b>China Longyuan Power Group</b> The largest wind power producer in China	14,702	14,702	1.9

## Twenty Largest Holdings at 30 September 2013

Twenty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% <sup>1</sup>
HSBC Holdings plc (Hong Kong listed)* Global banking and financial services company	10,597	13,838	1.8
Bitauto Holdings Limited China's leading auto internet company	13,277	13,277	1.8
Air China Limited* Largest Chinese airline	10,966	12,994	1.7
Kingsoft Chinese software company	12,796	12,796	1.7
Ports Design* Designs, manufactures and retails fashion garments	9,356	12,408	1.6
Lee's Pharmaceutical Holdings Limited Pharmaceutical company	12,165	12,165	1.6
Twenty Largest Holdings (2012: 50.7%)	359,087	377,457	49.5
Other Investments including derivatives	359,096	384,498	50.5
Total Investments including derivatives	718,183	761,955	100.0

\* Includes investment via CFDs

<sup>1</sup> % of total gross asset exposure

<sup>2</sup> Unlisted investment

<sup>3</sup> Quoted on AIM

# Income Statement

		Six months ended 30 September 2013 unaudited		
	Notes	revenue £'000	capital £'000	total £'000
<b>Revenue</b>				
Investment income	2	12,420	-	12,420
Other income	2	3	-	3
Net derivative income	2	41	-	41
<b>Total income</b>		12,464	-	12,464
Gains/(losses) on investments designated at fair value through profit or loss		-	46,531	46,531
Net gains/(losses) on derivative instruments held at fair value through profit or loss		-	2,384	2,384
Foreign exchange (losses)/gains on other net assets		(44)	(148)	(192)
Foreign exchange gains/(losses) on bank loans		-	6,023	6,023
<b>Total revenue and gains/(losses)</b>		12,420	54,790	67,210
<b>Expenses</b>				
Investment management fee		(1,844)	(1,844)	(3,688)
Performance fee		-	(1,148)	(1,148)
Other expenses		(832)	-	(832)
<b>Profit/(loss) before finance costs and taxation</b>		9,744	51,798	61,542
<b>Finance costs</b>				
Interest on bank loans		(403)	(403)	(806)
<b>Profit/(loss) before taxation</b>		9,341	51,395	60,736
Taxation		(357)	(598)	(955)
<b>Net profit/(loss) after taxation for the period</b>		8,984	50,797	59,781
<b>Earnings/(loss) per Ordinary Share</b>	3	1.43p	8.10p	9.53p

The Company does not have any income or expenses that are not included in the net profit/(loss) for the period. Accordingly the "Net 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 and is prepared in accordance with IFRS. The revenue return and capital return columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies. All of the profit/(loss) and total comprehensive income/(loss) is attributable to the equity shareholders of the Company. There are no minority interests.

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

Year ended 31 March 2013 audited			Six months ended 30 September 2012 unaudited		
revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
14,278	-	14,278	12,468	-	12,468
5	-	5	2	-	2
856	-	856	835	-	835
15,139	-	15,139	13,305	-	13,305
-	87,198	87,198	-	(39,845)	(39,845)
-	(115)	(115)	-	(2,850)	(2,850)
(19)	890	871	(29)	(74)	(103)
-	(4,898)	(4,898)	-	861	861
15,120	83,075	98,195	13,276	(41,908)	(28,632)
(4,187)	(4,187)	(8,374)	(1,942)	(1,942)	(3,884)
-	-	-	-	-	-
(1,573)	-	(1,573)	(770)	-	(770)
9,360	78,888	88,248	10,564	(43,850)	(33,286)
(871)	(871)	(1,742)	(448)	(448)	(896)
8,489	78,017	86,506	10,116	(44,298)	(34,182)
(289)	(809)	(1,098)	(282)	(303)	(585)
8,200	77,208	85,408	9,834	(44,601)	(34,767)
1.25p	11.76p	13.01p	1.49p	(6.78p)	(5.29p)

## Statement of Changes in Equity

	Notes	share capital £'000
<b>Equity shareholders' funds at 31 March 2012</b>		6,598
Repurchase of Ordinary Shares	5	(41)
Net profit/(loss) after taxation for the period		-
Dividend paid	4	-
<b>Equity shareholders' funds at 30 September 2012</b>		<u>6,557</u>
<b>Equity shareholders' funds at 31 March 2012</b>		6,598
Repurchase of Ordinary Shares	5	(66)
Net profit after taxation for the year		-
Dividend paid	4	-
<b>Equity shareholders' funds at 31 March 2013</b>		<u>6,532</u>
Repurchase of Ordinary Shares	5	(575)
Net profit after taxation for the period		-
Dividend paid	4	-
<b>Equity shareholders' funds at 30 September 2013</b>		<u>5,957</u>

share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
211,569	29	449,909	(116,378)	7,248	558,975
-	41	(2,989)	-	-	(2,989)
-	-	-	(44,601)	9,834	(34,767)
-	-	-	-	(4,934)	(4,934)
<u>211,569</u>	<u>70</u>	<u>446,920</u>	<u>(160,979)</u>	<u>12,148</u>	<u>516,285</u>
211,569	29	449,909	(116,378)	7,248	558,975
-	66	(5,216)	-	-	(5,216)
-	-	-	77,208	8,200	85,408
-	-	-	-	(4,934)	(4,934)
<u>211,569</u>	<u>95</u>	<u>444,693</u>	<u>(39,170)</u>	<u>10,514</u>	<u>634,233</u>
-	575	(52,812)	-	-	(52,812)
-	-	-	50,797	8,984	59,781
-	-	-	-	(6,233)	(6,233)
<u>211,569</u>	<u>670</u>	<u>391,881</u>	<u>11,627</u>	<u>13,265</u>	<u>634,969</u>

# Balance Sheet

Company number 7133583

	Notes	30.09.13 unaudited £'000	31.03.13 audited £'000	30.09.12 unaudited £'000
<b>Non current assets</b>				
Investments designated at fair value through profit or loss		<u>715,355</u>	<u>712,898</u>	<u>596,661</u>
<b>Current assets</b>				
Derivative assets held at fair value through profit or loss		7,649	8,592	6,908
Amounts held at futures clearing houses and brokers		-	4,056	8,022
Other receivables		13,938	3,131	10,464
Cash and cash equivalents		<u>6,482</u>	<u>18,511</u>	<u>7,208</u>
		<u>28,069</u>	<u>34,290</u>	<u>32,602</u>
<b>Current liabilities</b>				
Derivative liabilities held at fair value through profit or loss		(4,821)	(3,110)	(5,224)
Bank loans		(92,716)	(98,739)	(92,980)
Other payables		<u>(10,918)</u>	<u>(11,106)</u>	<u>(14,774)</u>
		<u>(108,455)</u>	<u>(112,955)</u>	<u>(112,978)</u>
<b>Net current liabilities</b>		<u>(80,386)</u>	<u>(78,665)</u>	<u>(80,376)</u>
<b>Net assets</b>		<u>634,969</u>	<u>634,233</u>	<u>516,285</u>
<b>Equity attributable to equity shareholders</b>				
Share capital	5	5,957	6,532	6,557
Share premium account		211,569	211,569	211,569
Capital redemption reserve		670	95	70
Other reserve		391,881	444,693	446,920
Capital reserve		11,627	(39,170)	(160,979)
Revenue reserve		<u>13,265</u>	<u>10,514</u>	<u>12,148</u>
<b>Total equity shareholders' funds</b>		<u>634,969</u>	<u>634,233</u>	<u>516,285</u>
<b>Net asset value per Ordinary Share</b>	6	<u>106.59p</u>	<u>97.09p</u>	<u>78.73p</u>



# Cash Flow Statement

	Six months ended 30.09.13 unaudited £'000	Year ended 31.03.13 audited £'000	Six months ended 30.09.12 unaudited £'000
<b>Operating activities</b>			
Cash inflow from investment income	9,980	13,394	11,199
Cash inflow from derivative income	101	867	892
Cash inflow from other income	3	5	2
Cash outflow from Directors' fees	(78)	(156)	(75)
Cash outflow from other payments	(3,037)	(9,618)	(5,361)
Cash outflow from purchase of investments	(203,308)	(443,379)	(236,058)
Cash outflow from the cost of derivatives	(4,852)	(17,861)	(13,561)
Cash inflow from sale of investments	235,952	445,595	226,718
Cash inflow from the proceeds of derivatives	11,003	20,054	16,817
Cash inflow/(outflow) from amounts held at futures clearing houses and brokers	4,056	(384)	(4,100)
<b>Net cash inflow/(outflow) from operating activities before servicing of finance</b>	<b>49,820</b>	<b>8,517</b>	<b>(3,527)</b>
<b>Servicing of finance</b>			
Cash outflow from interest on bank loans	(811)	(1,736)	(875)
<b>Net cash inflow/(outflow) from operating activities and servicing of finance</b>	<b>49,009</b>	<b>6,781</b>	<b>(4,402)</b>
<b>Financing activities</b>			
Cash outflow from the repurchase of Ordinary Shares	(54,657)	(4,349)	(3,505)
Cash outflow from dividends paid to shareholders	(6,233)	(4,934)	(4,934)
<b>Net cash outflow from financing activities</b>	<b>(60,890)</b>	<b>(9,283)</b>	<b>(8,439)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(11,881)</b>	<b>(2,502)</b>	<b>(12,841)</b>
Cash and cash equivalents at the beginning of the period	18,511	20,123	20,123
Effect of foreign exchange movements	(148)	890	(74)
<b>Cash and cash equivalents at the end of the period</b>	<b>6,482</b>	<b>18,511</b>	<b>7,208</b>

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34: "Interim Financial Reporting". The accounting policies adopted in the preparation of the Interim Financial Statements are the same as those applied in the Company's Annual Report for the year ended 31 March 2013.

## 2 INCOME

### Income from investments designated at fair value through profit or loss

	Six months ended 30.09.13 unaudited £'000	Year ended 31.03.13 audited £'000	Six months ended 30.09.12 unaudited £'000
Overseas dividends	11,747	13,195	11,924
Overseas scrip dividends	457	526	373
UK dividends	216	284	69
UK scrip dividends	–	273	102
	<u>12,420</u>	<u>14,278</u>	<u>12,468</u>

### Other income

Deposit interest	<u>3</u>	<u>5</u>	<u>2</u>
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### Net derivative income from investments held at fair value through profit or loss

Dividends received on long CFDs	587	1,234	1,010
Interest paid on long CFDs	(198)	(328)	(160)
Interest received on short CFDs	–	8	–
Dividends paid on short CFDs	(348)	(58)	(15)
	<u>41</u>	<u>856</u>	<u>835</u>

### Total income

	<u>12,464</u>	<u>15,139</u>	<u>13,305</u>
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# Notes to the Financial Statements

	Six months ended 30.09.13 unaudited	Year ended 31.03.13 audited	Six months ended 30.09.12 unaudited
<b>3 EARNINGS/(LOSS) PER ORDINARY SHARE</b>			
Revenue earnings per Ordinary Share	1.43p	1.25p	1.49p
Capital earnings/(loss) per Ordinary Share	8.10p	11.76p	(6.78p)
<b>Total earnings/(loss) per Ordinary Share</b>	<b>9.53p</b>	<b>13.01p</b>	<b>(5.29p)</b>

The revenue, capital and total earnings/(loss) per Ordinary Share are based on the net profit/(loss) after taxation in the period divided by the weighted average number of Ordinary Shares in issue during the period, as shown below:

	Six months ended 30.09.13 unaudited £'000	Year ended 31.03.13 audited £'000	Six months ended 30.09.12 unaudited £'000
Revenue net profit after taxation	8,984	8,200	9,834
Capital net profit/(loss) after taxation	50,797	77,208	(44,601)
Total net profit/(loss) after taxation	59,781	85,408	(34,767)
Weighted average number of Ordinary Shares in issue	627,470,518	656,533,795	657,844,644

	Six months ended 30.09.13 unaudited £'000	Year ended 31.03.13 audited £'000	Six months ended 30.09.12 unaudited £'000
<b>4 DIVIDENDS</b>			
<b>Dividend paid</b>			
Final dividend paid of 1.00 pence per Ordinary Share for the year ended 31 March 2013	6,233	-	-
Final dividend paid of 0.75 pence per Ordinary Share for the year ended 31 March 2012	-	4,934	4,934
	<b>6,233</b>	<b>4,934</b>	<b>4,934</b>

No dividend has been declared for the six month period to 30 September 2013.

# Notes to the Financial Statements

	Six months ended 30.09.13 unaudited Shares	£'000	Year ended 31.03.13 audited Shares	£'000	Six months ended 30.09.12 unaudited Shares	£'000
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## 5 SHARE CAPITAL

**Issued, allotted and fully paid Ordinary Shares of 1 penny each:**

<b>Beginning of the period</b>	653,229,480	6,532	659,754,480	6,598	659,754,480	6,598
Repurchase of Ordinary Shares of 1 penny each	(57,490,000)	(575)	(6,525,000)	(66)	(4,025,000)	(41)
<b>End of the period</b>	595,739,480	5,957	653,229,480	6,532	655,729,480	6,557

## 6 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on net assets of £634,969,000 (31 March 2013: £634,233,000 and 30 September 2012: £516,285,000) and on 595,739,480 (31 March 2013: 653,229,480 and 30 September 2012: 655,729,480) Ordinary Shares, being the number of Ordinary Shares in issue at the period end.

## 7 UNAUDITED FINANCIAL STATEMENTS

The results for the six month periods to 30 September 2013 and 30 September 2012, which are unaudited, constitute non-statutory accounts within the meaning of Section 435 of the Companies Act 2006. The figures and financial information for the year to 31 March 2013 are extracted from the latest published Financial Statements, on which the Independent Auditor gave an unqualified report, and they have been delivered to the Registrar of Companies.

# Glossary of Terms

## BENCHMARK INDEX

The [Benchmark Index](#) is MSCI China Index total return (net) – in UK sterling and is a composite of China “B”, “H”, “Red Chip” and “P Chip” share classes.

## CHINA “B” SHARES

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

## CHINA “H” SHARES

Shares in companies incorporated in the People’s Republic of China (PRC) which are 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.

## 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.

## DEBT

Bank borrowings and long [Contracts For Difference](#).

## DERIVATIVES

Financial instruments whose value is derived from the value of an underlying asset or other financial instruments such as stocks, bonds, currency exchange rates, real estate and commodities, or market benchmarks such as interest rates. The main categories of [derivatives](#) are [Contracts For Difference](#), [futures](#), 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](#).

# Glossary of Terms

## EQUITY LINKED NOTES OR ELN

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

## FAIR VALUE

The carrying value in the Balance Sheet and it is also the difference between settlement price and the underlying value of the security.

## FORWARD CURRENCY CONTRACT

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

## FUTURE OR FUTURE CONTRACT

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

## GEARING

[Gross asset exposure](#) in excess of net assets.

## GROSS ASSETS

Net Assets plus borrowings.

## GROSS ASSET EXPOSURE

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

## HEDGING

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

## INDEX LINKED SECURITIES

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

## MANAGEMENT FEE

The annual management fee is calculated as 1.2% of the net asset value of the Company.

# Glossary of Terms

## NET ASSET VALUE OR NAV PER ORDINARY SHARE

The **NAV per ordinary share** is calculated as **shareholders' funds** divided by the number of ordinary shares in issue.

## OPTIONS

**Options** provide the right to acquire or sell instruments at an agreed price at an agreed date. **Options** may be call or put and are used to gain or reduce exposure to the underlying asset on a conditional basis.

## P CHIPS

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

## PERFORMANCE FEE

The Investment Managers are entitled to an annual **performance fee** of 15% of any change in NAV attributable to performance which is more than 2% above the returns on the MSCI China Index total return (net) – in UK sterling (after making good any cumulative underperformance, including the 2% hurdle, carried forward from previous years), subject to a maximum **performance fee** payable in any year equal to 1.5% of the arithmetic mean of the value of assets with the valuation calculated at the end of each month during the year.

## 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**.

## RED CHIPS

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

## SHAREHOLDERS' FUNDS

Also described as net asset value, **shareholders' funds** represent the total value of the Company's assets less the total value of its liabilities as shown in the balance sheet.

## UNLISTED SECURITIES

Securities which are not listed on a regulated stock exchange. These 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.

# Directory

## BOARD OF DIRECTORS

John Owen CMG MBE DL (Chairman)  
Nicholas Bull FCA (Senior Independent Director)  
David Causer FCA  
(Chairman of the Audit Committee)  
The Hon. Peter Pleydell-Bouverie DL  
(Chairman of the Investment Committee)  
Elisabeth Scott  
Andrew Wells

## INVESTMENT MANAGER

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

## UNLISTED INVESTMENT MANAGER, SECRETARY AND REGISTERED OFFICE

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

## FINANCIAL ADVISERS AND STOCKBROKERS

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

## INDEPENDENT AUDITOR

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

## BANKERS AND CUSTODIAN

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

## REGISTRARS

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

## LAWYERS

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY



# Information for Investors

## CONTACT INFORMATION

### Private investors:

call free on 0800 41 41 10, 9am to 6pm,  
Monday to Saturday.

### Financial advisers:

call free on 0800 41 41 81, 8am to 6pm,  
Monday to Friday. [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)

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

### Holders of ordinary shares

Capita Asset Services, Registrars to Fidelity China Special Situations PLC, The Registry,  
34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: 0871 664 0300 (calls cost  
10p per minute plus network extras.  
Lines are open 8.30am to 5.30pm, Monday to  
Friday) Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com).

Details of individual shareholdings and other  
information can also be obtained from the  
Registrars' website: [www.capitaregistrars.com](http://www.capitaregistrars.com)

### Fidelity Share Plan investors

Fidelity Investment Trust Share Plan, PO Box 24035,  
12 Blenheim Place, Edinburgh EH7 9DD.

Telephone: 0845 358 1107 (calls to this number are  
charged at 3.95p per minute from a BT landline.  
Other telephone service providers' costs may vary).

### Fidelity ISA investors

Fidelity, using the freephone numbers given above,  
or by writing to:

UK Customer Service, Fidelity Investments,  
Oakhill House, 130 Tonbridge Road,  
Hildenborough, Tonbridge, Kent TN11 9DZ.

General enquiries should be made to FIL  
Investments International, the Secretary, at the  
Company's registered office:

FIL Investments International, Investment Trusts,  
Beech Gate, Millfield Lane, Lower Kingswood,  
Tadworth, Surrey KT20 6RP.

Telephone: 01732 36 11 44

Fax: 01737 83 68 92

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

## FINANCIAL CALENDAR

**30 September 2013** – Interim period end

**November 2013** – announcement of Interim  
results

**Beginning of  
December** – publication of Interim  
Financial Report

**31 March 2014** – financial year end

**June 2014** – publication of Annual  
Report

**July 2014** – Annual General Meeting

## FURTHER INFORMATION

The Fidelity Individual Savings Account ("ISA") is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by FIL Investments International. Both companies are authorised and regulated by the Financial Conduct Authority. The Fidelity Investment Trust Share Plan is administered by The Bank of New York Mellon and shares will be held in the name of The Bank of New York Nominees Limited.

The value of savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by FIL Investments International. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than other more developed markets.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may already have been acted upon by Fidelity.

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# Warning to Shareholders

## SHARE FRAUD WARNING

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

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

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

## PROTECT YOURSELF

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

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at [www.fca.org.uk/register](http://www.fca.org.uk/register) to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA's website list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

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

## REPORT A SCAM

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

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

**0300 123 2040**



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