

# FIDELITY CHINA SPECIAL SITUATIONS PLC

Half-Yearly Report for the  
6 months ended 30 September 2019

## Investment Objective and Overview

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 and Chinese companies listed elsewhere. The Company may also invest in listed companies with significant interests in China.

China is increasingly recognised as being a major driver of growth and influence on asset prices, not just in Asia, but the global economy. Its sheer economic size and year-on-year growth means that investors should consider an exposure to China when building a balanced portfolio.

As the UK's largest China investment trust, Fidelity China Special Situations PLC, capitalises on Fidelity's extensive, locally-based analyst team to find attractive opportunities in a market too big to ignore. It is able to use its large Asia-based investment team to identify companies which are most likely to benefit from China's growth and changing economy. In this way, the Portfolio Manager, Dale Nicholls, has built a portfolio of over 100 investments providing exposure to China's true potential.

**CITYWIRE**  
**WINNER**  
**INVESTMENT TRUST  
AWARDS 2018**

EMERGING MARKETS SINGLE COUNTRY

**FIDELITY CHINA SPECIAL  
SITUATIONS PLC**



**INVESTMENT  
WEEK**  
**INVESTMENT COMPANY  
OF THE YEAR AWARDS 2018**  
**WINNER**  
SINGLE COUNTRY

**ELITE RATED**  
by FundCalibre.com

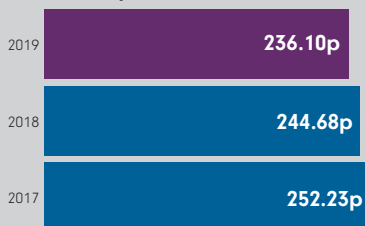
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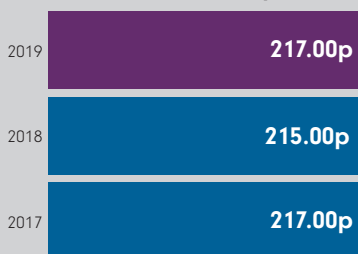
## Portfolio Manager's Review

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



## Share Price as at 30 September



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# At a Glance

Six months ended 30 September 2019

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

**-5.9%**

(30 September 2018: -9.1%)

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

**-6.0%**

(30 September 2018: -8.8%)

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

**-3.3%**

(30 September 2018: -4.0%)

1 Includes reinvested income.

2 Net Asset Value per Ordinary Share total return and Share Price total return are Alternative Performance Measures (see Glossary to the Half-Yearly Report on page 30).

3 The Company's Benchmark Index.

## As at 30 September 2019

### Equity Shareholders' Funds

£1,296.4m

### Market Capitalisation

£1,191.5m

### Capital Structure

Ordinary Shares of 1 penny held outside Treasury

549,094,480

## 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 of companies included 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 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

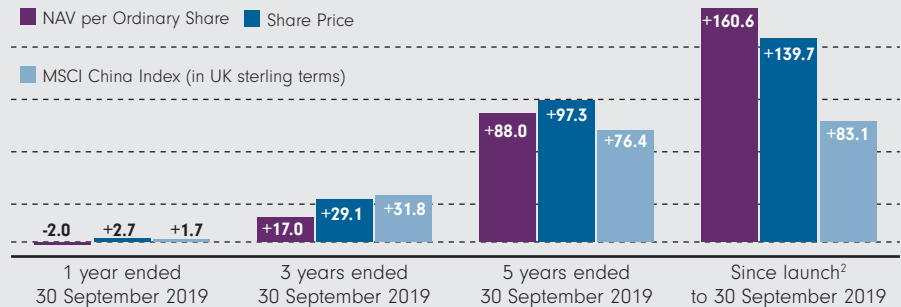
	30 September 2019	31 March 2019
<b>Assets</b>		
Gross Asset Exposure	<b>£1,628.8m</b>	£1,767.1m
Net Assets	<b>£1,296.4m</b>	£1,401.6m
Gross Gearing <sup>1</sup>	<b>25.6%</b>	26.1%
Net Gearing <sup>1</sup>	<b>22.2%</b>	20.9%
Net Asset Value ("NAV") per Ordinary Share	<b>236.10p</b>	255.03p
Number of Ordinary Shares held outside Treasury	<b>549,094,480</b>	549,574,480
<b>Share Price and Discount data</b>		
Share Price at period/year end	<b>217.00p</b>	235.00p
Share Price: period/year high	<b>250.00p</b>	268.00p
Share Price: period/year low	<b>206.00p</b>	182.40p
Discount at period/year end	<b>8.1%</b>	7.9%
Discount: period/year high	<b>10.8%</b>	14.2%
Discount: period/year low	<b>5.8%</b>	7.3%
<b>Earnings for the six months ended 30 September – see pages 14 and 15</b>		
	<b>2019</b>	<b>2018</b>
Revenue Earnings per Ordinary Share <sup>2</sup>	<b>4.24p</b>	4.00p
Capital Loss per Ordinary Share <sup>2</sup>	<b>(19.36p)</b>	(28.39p)
Total Loss per Ordinary Share <sup>2</sup>	<b>(15.12p)</b>	(24.39p)
Ongoing Charges for the six months ended 30 September <sup>3</sup>	<b>0.98%</b>	1.02%
Variable Management Fee	<b>-0.20%</b>	0.00%
Ongoing Charges including Variable Management Fee for the six months ended 30 September	<b>0.78%</b>	1.02%

1 Defined in the Glossary to the Half-Yearly Report on pages 31 and 32.

2 Based on the weighted average number of Ordinary Shares held outside Treasury during the period.

3 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).

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



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

<sup>2</sup> Launch date: 19 April 2010.

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

# Portfolio Manager's Half-Yearly Review

## Portfolio performance over the six month interim period

Over the period from 1 April 2019 to 30 September 2019, the portfolio's NAV declined by -5.9%. During this period, the MSCI China Index returned -3.3%, while the Company's share price returned -6.0%. The underperformance against the Benchmark was due largely to gearing and a heavier than Benchmark weighting in small and medium sized companies.

## Company specific influences on portfolio performance

As at 30 September 2019, the five largest positions held in the Company were Tencent Holdings, Alibaba Group, China MeiDong Auto, China Pacific Insurance Group and China Life Insurance, comprising 36.9% of the gross asset exposure.

Bellwether stocks Tencent and Alibaba were caught in the market volatility witnessed during the review period. Tencent's quarterly earnings reported during this time did not meet expectations and disappointed investors. A closer look at these results revealed that its mobile games segment performed well, driven by contribution from its new games, while its fintech business was also strong. We expect Tencent to retain its leadership position in the mobile games segment. However, pressure was felt from slower growth in advertising revenues. Nonetheless, Tencent remains closely linked to Chinese consumption trends with over one billion active users of its WeChat messaging service. The potential to increase monetisation of this customer base remains significant.

Alibaba continued to deliver impressive growth across most of its business lines despite the broader macroeconomic headwinds. The e-commerce leader maintained the momentum of improved penetration in its core

e-commerce business as it continued to target less developed areas. It was encouraging to observe its increased emphasis on disciplined cost control. The company maintains its dominant position in cloud and financial services via Ant Financial.

Strong performance was seen over the reporting period from selected consumption-led positions. These included the conviction holding in China MeiDong Auto, a prominent automobile dealership network, and exposure to sportswear apparel company, Li Ning. China MeiDong Auto focuses on the premium car segment in China, which exceeded expectations and bucked the downward trend seen in overall car sales in China over the review period. China MeiDong Auto therefore surpassed earnings growth estimates amid strong volume growth in Porsche, BMW and Lexus sales. Li Ning's business turnaround became quite evident in the six months to September, and the apparel company's multi-year margin growth prospects have become clearer. Meanwhile, a holding in China Biologic Products added value as its recent quarterly results enthused investors and the company subsequently received a bid at a premium valuation from a consortium of investors.

The position in Hutchison China MediTech detracted from returns after its largest shareholder reduced its stake to realise some value from its long-term holding. In doing so, the parent company accepted a discounted valuation, which hurt sentiment towards this biotechnology company. Hutchison China MediTech continues to see solid cash flows from its traditional Chinese medicine business and continues to report encouraging developments in its oncology drug development.

Chinese wealth management specialist Noah Holdings experienced fraud-related losses in one of its supply chain financing products. The management engaged pro-actively and extensively in the subsequent evaluation and reviewed all its products comprehensively. I expect some impact to investment flows short-term but am confident the company can recover and that its long-term positioning in a market with significant growth potential remains unchanged. I have added to the position.

Not owning Ping An Insurance also hurt relative returns as an ongoing buyback programme, as well as speculation about a spin-off of its subsidiary Lufax, supported its shares. The portfolio's preferred insurance holdings, China Pacific Insurance and China Life Insurance, offer a more attractive risk-reward given more attractive valuations and greater potential earnings growth. Investors overlooked Aurora Mobile's (Jiguang) noteworthy rise in quarterly revenues, preferring to focus on the mobile big-data solutions platform's loss, which exceeded estimates.

### Unlisted positions

The Company continues to be active in the unlisted domain. At the end of the period under review, the following unlisted names were held: ByteDance, SenseTime, DJI International, Xiaoju Kuazhi ('Didi Chuxing') and Shanghai Yiguo ('Yiguo'). This aggregated to a 5.8% exposure to unlisted investments at the end of the period under review. In the prevailing market environment, the valuations of some of the unlisted investments have been prudently reduced as some IPO timelines stretch out and business conditions change, while in other cases valuations have increased as companies make share issues at higher values than our cost price. There is still significant activity in the pre-IPO space in China and we continue to actively evaluate opportunities, maintaining

a consistent, disciplined approach towards valuations.

### Portfolio activity

The activity in the portfolio during the recent volatile market environment has been focused on areas where an indiscriminate sell-off creates opportunities. Against the current market backdrop, there has been a low tolerance for stock specific disappointments and as a result, investors have in many cases overlooked the underlying strength of market positions and business models. Therefore, I have been selectively adding to long positions with increasingly compelling risk-reward.

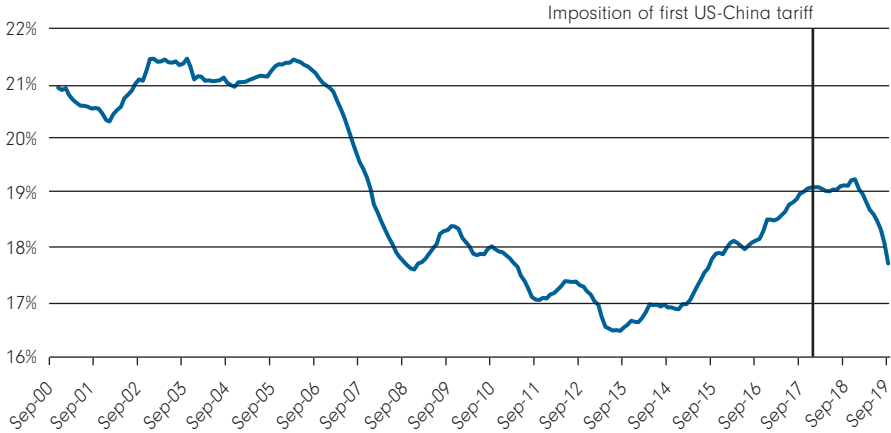
I have also realised gains and taken some profits in some consumption-led holdings where the investment thesis is gaining wider recognition and increased valuation premiums mean a less attractive risk-reward profile. Some exposure was also reduced in areas such as hospitality and logistics services.

### US-China Trade conflict

The trade conflict between the US and China which has resulted in higher tariffs has clearly dominated market sentiment since early 2018, and we are still awaiting the phase 1 trade agreement. It is quite evident that the China-US dynamics have meaningfully shifted away from the status quo that had prevailed up until the trade issue assumed centre stage. Chinese companies directly impacted by tariffs have already begun to factor in the impact of the tariffs both in their earnings as well as their capital expenditure plans. Having said that, Chinese exports to the US as a percentage of their total exports globally has been trending downwards as China has expanded its global reach and trading partners. The greater concern is how the uncertainty impacts business and consumer sentiment and thus capital expenditure and consumption decisions.

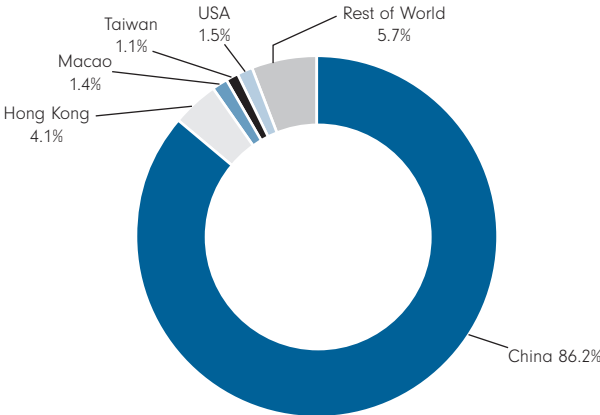
# Portfolio Manager’s Half-Yearly Review continued

## Chinese exports to the US as a proportion of total Chinese exports



Pricing power is a core area of focus in Fidelity’s company analysis; it is clearly important when we are analysing tariffs and a company’s ability to pass on higher costs. The portfolio continues to focus on businesses which derive their revenues from the domestic China market and can benefit from the structural expansion of China’s middle class. When we analyse revenues for the companies in the

portfolio, the chart below shows that only 1.5% of total revenues are from the US and over 90% of revenues come from Greater China, as at 30 September 2019. Given these factors, the sell-off we have seen in a number of names in the portfolio looks overdone and has provided opportunities to add to positions.





## China's economic outlook

We have seen a clear slowdown in Chinese economic activity. While trade war uncertainty has clearly weighed on business sentiment, tighter credit conditions, especially around some of the so-called "shadow banking" sectors has played a part in my view. The government is now more clearly on the front foot with increased actions to improve liquidity and support domestic demand. It is also key to reiterate that, even at this slower pace, the relative rate of growth we see in China remains significant when compared to the West. China is also maintaining the momentum in its plans of opening up its capital markets and the recent removal of the Qualified Foreign Institutional Investor quotas (QFII quotas) in September reflects this intention. There also remains considerable policy headroom in the economy to stimulate growth, and we have seen several approaches taken to lower borrowing costs in the economy.

While the pace of growth is tapering, structural changes continue to unfold in China. Thus, even at a milder pace of activity, there remains room for expansion with the shifts in demand patterns. China continues to provide a diverse opportunity set where the growth rate is not homogenous across the board and where Fidelity's research resources on the ground can help identify winners that are yet overlooked by the broader market. This is evidenced by the relative strength of the premium sector within broader weakness in the automobile market, which has benefited holdings in the portfolio such as auto dealer China MeiDong Auto. In the recently completed 11 November Singles Day, gross merchandise value grew 26% to US\$38bn, eclipsing predictions of Thanksgiving, Black Friday and Cyber Monday combined.

## The role of ESG in the portfolio

Sustainable investing is becoming more

important for both investors and corporates. Companies with strong sustainable characteristics have reduced downside risk and increasingly benefit from a lower cost of capital. Our approach to sustainable investing encompasses engagement, integration and collaboration. We favour engagement over exclusion as positive influences on corporate behaviour add real value for companies, our investors and society.

The priority themes that have formed part of the Company's recent ESG engagements include supply chain sustainability and corporate sustainability reporting. As part of the supply chain sustainability evaluation, a detailed engagement was conducted with Li Ning as we recognised that Chinese apparel producers could be exposed to significant operational and reputational risks due to inefficient supply chain management. Our analysis showed that Li Ning was a high performer – employee rights and protections form part of their quality assessment of suppliers and the company conducts regular on-site audits. Li Ning also has an environmental management system in place for material suppliers and not only does the company enhance environmental awareness with their suppliers, they also encourage the focus suppliers have on social risk awareness.

## Outlook

It is widely known that China is a volatile market, where sentiment can swing sharply. Given the unenthusiastic news surrounding China in recent months, the fact that worst case scenarios (such as the potential for full tariffs on all China exports to the US) are widely discussed gives comfort as an investor that potential downside is significantly factored in to market valuations. Whilst I remain optimistic on prospects for a trade deal to be reached, as highlighted in this and previous reports, the portfolio's holdings are predominantly

# Portfolio Manager's Half-Yearly Review continued

domestic focused. Chinese growth prospects remain attractive relative to its global peers in the West, and the policy impetus continues to favour domestic consumption drivers. The ongoing A-share inclusion in global equity indices is also supportive of investor interest towards Chinese stock markets.

As shown in the charts below, we continue to highlight the significant valuation gap between large and small cap segments of the China market. Any closing of this gap is likely to benefit our NAV and relative performance.

Looking across valuations within the portfolio overall, we are back to levels last seen

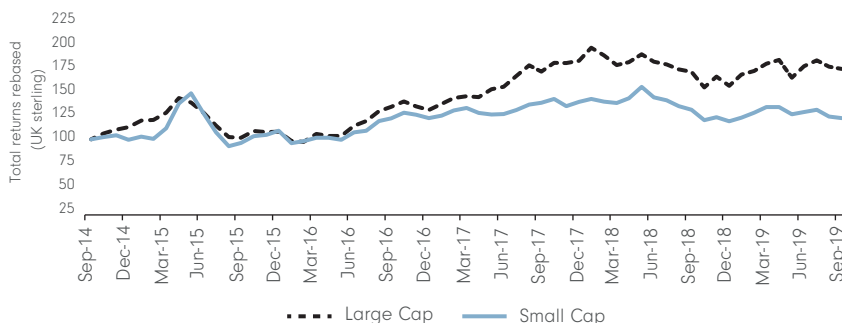
after the sharp A-share driven correction in 2015, which was an opportune entry point for investors. I continue to see significant opportunities in well-managed companies growing strongly on the back of the structural shifts discussed above, unfairly penalised by macro and trade concerns that will have little impact on the ability of these companies to continue growing earnings over the mid-term.

**Dale Nicholls**

Portfolio Manager

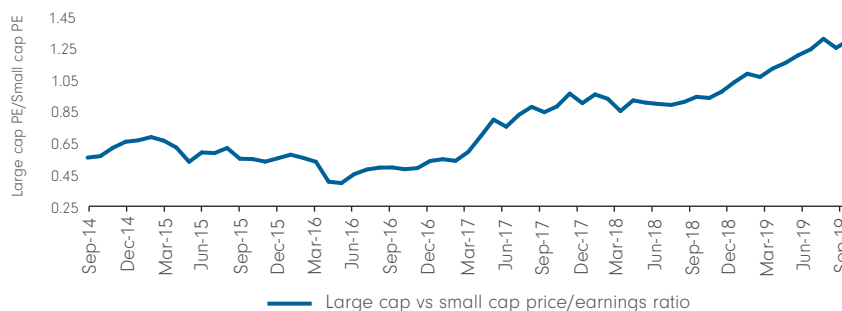
26 November 2019

## Large Cap outperforms Small Cap



Source: DataStream, MSCI China Large Cap and Small Cap indices, total returns in UK sterling, 30 September 2019.

## Small Cap valuations are increasingly attractive



Source: DataStream, MSCI China Large Cap and Small Cap indices, total returns in UK sterling, 30 September 2019.

# Interim Management Report and Directors' Responsibility Statement

## Gearing

The Company has a three-year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US\$150,000,000. The interest rate is fixed at 3.01% per annum until the facility terminates on 14 February 2020. It is anticipated that the Company will have new gearing facilities in place when the existing facility expires.

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

At 30 September 2019, the Company's gross gearing, defined as Gross Asset Exposure in excess of Net Assets, was 25.6% (31 March 2019: 26.1%; 30 September 2018: 26.0%). Net gearing which nets off short positions was 22.2% (31 March 2019: 20.9%; 30 September 2018: 18.4%). The level of gearing is determined by the Manager within the limit set by the Company's Prospectus of 30% for gross gearing.

## Discount Management

The Board recognises that the Company's share price is affected by the interaction of supply and demand in the market and investor sentiment towards China and the performance of the NAV per share. As reported in the Annual Report for the year ended 31 March 2019, the Board has adopted a formal discount control policy whereby it seeks to maintain the discount in single digits in normal market conditions and will, subject to market conditions, repurchase shares with the objective of stabilising the share price discount within a single digit range.

The Company's discount widened slightly from 7.9% at the start of the reporting period to 8.1% at the end of the reporting period. The Board authorised the repurchase of 480,000 ordinary shares into Treasury during the period.

These share repurchases will have benefited 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 110,000 ordinary shares into Treasury.

## Ongoing Charges

The Ongoing Charge (the costs of running the Company) for the six months ended 30 September 2019 was 0.98% compared to 1.02% for the comparable period last year. The main factor for this reduction is because the Company has benefited from the revised management fee structure which came into operation on 1 July 2018.

## Board of Directors

Following nine years as a Director, David Causer stepped down from the Board at the conclusion of the Annual General Meeting ("AGM") on 24 July 2019. This is in line with the Board's succession plan. Mike Balfour succeeded David as Audit and Risk Committee Chairman following the AGM.

Linda Yueh was appointed to the Board on 1 June 2019 and was elected as a Director by shareholders at the AGM on 24 July 2019.

## Principal Risks and Uncertainties

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

The Board considers that the principal risks and uncertainties faced by the Company continue to fall into the following categories: market, economic and geopolitical, investment

# Interim Management Report and Directors' Responsibility Statement continued

performance, key person, discount control, gearing, currency 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 2019 which can be found on the Company's pages of the Manager's website at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com).

These principal risks and uncertainties have not materially changed in the six months to 30 September 2019 and are equally applicable to the remaining six months of the Company's financial year.

## Transactions with the Managers and Related Parties

The Manager has delegated the investment management (other than investment management of unlisted securities) to FIL Investment Management (Hong Kong) Limited. It has delegated the investment management of the unlisted securities and the company secretariat function to FIL Investments International. Transactions with the Managers and related party transactions with the Directors are disclosed in Note 15 on page 29.

## Going Concern

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 (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing these Financial Statements.

By order of the Board.

**FIL Investments International**

26 November 2019

## Directors' Responsibility

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 Interim Management Report, including the Portfolio Manager's Half-Yearly Review on pages 4 to 8, includes 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 26 November 2019 and the above responsibility statement was signed on its behalf by Nicholas Bull, Chairman.

# Twenty Largest Holdings

as at 30 September 2019

The Gross Asset Exposures shown below measure the exposure of the Company's portfolio to market price movements in the shares 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 share has moved.

	Gross Asset Exposure		Fair Value
	£'000	% <sup>1</sup>	£'000
<b>Long Exposures – shares unless otherwise stated</b>			
<b>Tencent Holdings (shares and long CFD)</b>			
Internet, mobile and telecommunications service provider	180,024	13.9	128,351
<b>Alibaba Group Holding (shares and long CFD)</b>			
e-commerce group	131,223	10.1	124,733
<b>China MeiDong Auto Holdings</b>			
Automobile dealership and maintenance group	69,101	5.3	69,101
<b>China Pacific Insurance Group (shares and long CFDs)</b>			
Insurance company	57,708	4.5	(1,541)
<b>China Life Insurance Company (shares and long CFD)</b>			
Insurance company	39,467	3.1	(4,658)
<b>SKSHU Paint Company</b>			
Paint manufacturing company	28,978	2.2	28,978
<b>China Biologic Products Holdings</b>			
Blood plasma-based biopharmaceutical company	28,901	2.2	28,901
<b>21Vianet Group</b>			
Internet and data centre service provider	27,171	2.1	27,171
<b>Kingdee International Software Group (long CFD)</b>			
Enterprise management and e-commerce software company	26,343	2.0	4,697
<b>Kingsoft (shares and long CFD)</b>			
Software and internet services company	26,171	2.0	4,779
<b>Noah Holdings</b>			
Asset managers	25,873	2.0	25,873
<b>Hutchison China MediTech</b>			
Pharmaceutical and healthcare group	25,067	2.0	25,067



## Twenty Largest Holdings continued

	Gross Asset Exposure		Fair Value
	£'000	% <sup>1</sup>	£'000
<b>WuXi AppTec</b>			
Pharmaceutical, biopharmaceutical and medical device outsourcing provider	24,195	1.9	24,195
<b>New Oriental Education &amp; Technology Group</b>			
Private educational service provider	23,528	1.8	23,528
<b>Xiaoju Kuaizhi ('Didi Chuxing') (unlisted)</b>			
Mobile taxi booking applications developer	23,394	1.8	23,394
<b>Li Ning</b>			
Sporting goods manufacturer	22,006	1.7	22,006
<b>DJI International (unlisted)</b>			
Manufacturer of drones	20,947	1.6	20,947
<b>Kweichow Moutai</b>			
Moutai liquor producer and distributor	20,797	1.6	20,797
<b>Zhejiang Dahua Technology</b>			
Provider of video surveillance products and services	20,715	1.6	20,715
<b>China Taiping Insurance Holdings (shares and long CFD)</b>			
Insurance company	20,672	1.6	(3,044)
<b>Twenty largest long exposures</b>	<b>842,281</b>	<b>65.0</b>	<b>613,990</b>
Other long exposures	849,137	65.5	695,667
<b>Total long exposures before hedges (150 holdings)</b>	<b>1,691,418</b>	<b>130.5</b>	<b>1,309,657</b>
<b>Less: Hedging Exposure</b>			
iShares FTSE A50 China Index ETF (short CFDs)	(28,088)	(2.2)	1,998
Hang Seng China Enterprises Index (future)	(40,479)	(3.1)	193
Hang Seng Index (put option)	(16,236)	(1.3)	1,030
<b>Total hedging exposures</b>	<b>(84,803)</b>	<b>(6.6)</b>	<b>3,221</b>
<b>Total long exposures after the netting of hedges</b>	<b>1,606,615</b>	<b>123.9</b>	<b>1,312,878</b>

	Gross Asset Exposure		Fair Value
	£'000	% <sup>1</sup>	£'000
<b>Add: short exposures</b>			
Short CFDs (3 holdings)	11,752	0.9	(240)
Options (2 holdings)	10,392	0.8	759
	<b>22,144</b>	<b>1.7</b>	
<b>Gross Asset Exposure<sup>2</sup></b>	<b>1,628,759</b>	<b>125.6</b>	
<b>Portfolio Fair Value<sup>3, 4</sup></b>			<b>1,313,397</b>
Net current liabilities excluding derivative instruments			(17,006)
<b>Net Assets</b>			<b>1,296,391</b>

1 Gross Asset Exposure is expressed as a percentage of net assets.

2 Gross Asset Exposure comprises market exposure to investments of £1,387,576,000 plus market exposure to derivative instruments of £241,183,000.

3 Portfolio Fair Value comprises Investments of £1,387,576,000 plus derivative assets of £11,924,000 less derivative liabilities of £86,103,000 (per the Balance Sheet on page 18).

4 At 30 September 2019, the Company held 5 unlisted instruments with a fair value of £74,866,000 representing 5.8% of Gross Asset Exposure (31 March 2019: 5 unlisted instruments with a fair value of £66,686,000 representing 4.8% of Gross Asset Exposure).

# Income Statement

for the six months ended 30 September 2019

		six months ended 30 September 2019		
		unaudited		
	Notes	revenue £'000	capital £'000	total £'000
<b>Revenue</b>				
Investment income	4	18,837	–	18,837
Derivative income	4	8,435	–	8,435
Other income	4	941	–	941
<b>Total income</b>		<b>28,213</b>	<b>–</b>	<b>28,213</b>
Losses on investments at fair value through profit or loss		–	(55,384)	(55,384)
Losses on derivative instruments		–	(41,507)	(41,507)
Foreign exchange gains on other net assets		–	6,195	6,195
Foreign exchange losses on bank loans		–	(6,606)	(6,606)
<b>Total income and losses</b>		<b>28,213</b>	<b>(97,302)</b>	<b>(69,089)</b>
<b>Expenses</b>				
Investment management fees	5	(1,511)	(3,199)	(4,710)
Other expenses		(598)	–	(598)
<b>Profit/(loss) before finance costs and taxation</b>		<b>26,104</b>	<b>(100,501)</b>	<b>(74,397)</b>
Finance costs	6	(2,038)	(6,114)	(8,152)
<b>Profit/(loss) before taxation</b>		<b>24,066</b>	<b>(106,615)</b>	<b>(82,549)</b>
Taxation	7	(748)	259	(489)
<b>Profit/(loss) after taxation for the period</b>		<b>23,318</b>	<b>(106,356)</b>	<b>(83,038)</b>
<b>Earnings/(loss) per ordinary share</b>	8	<b>4.24p</b>	<b>(19.36p)</b>	<b>(15.12p)</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 and is prepared in accordance with IFRS. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

All 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 2019 audited			six months ended 30 September 2018 unaudited		
revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
19,359	-	19,359	17,125	-	17,125
10,287	-	10,287	9,748	-	9,748
1,264	-	1,264	140	-	140
30,910	-	30,910	27,013	-	27,013
-	(25,386)	(25,386)	-	(84,752)	(84,752)
-	(51,505)	(51,505)	-	(58,811)	(58,811)
-	3,878	3,878	-	4,940	4,940
-	(8,357)	(8,357)	-	(7,950)	(7,950)
30,910	(81,370)	(50,460)	27,013	(146,573)	(119,560)
(3,195)	(8,348)	(11,543)	(1,788)	(5,363)	(7,151)
(1,214)	-	(1,214)	(614)	-	(614)
26,501	(89,718)	(63,217)	24,611	(151,936)	(127,325)
(3,490)	(10,470)	(13,960)	(1,601)	(4,805)	(6,406)
23,011	(100,188)	(77,177)	23,010	(156,741)	(133,731)
(688)	-	(688)	(972)	321	(651)
22,323	(100,188)	(77,865)	22,038	(156,420)	(134,382)
4.06p	(18.21p)	(14.15p)	4.00p	(28.39p)	(24.39p)

# Statement of Changes in Equity

for the six months ended 30 September 2019

	Notes	share capital £'000
<b>Six months ended 30 September 2019 (unaudited)</b>		
<b>Total equity at 31 March 2019</b>		<b>5,713</b>
Repurchase of ordinary shares	13	–
(Loss)/profit after taxation for the period		–
Dividend paid	9	–
<b>Total equity at 30 September 2019</b>		<b>5,713</b>
<b>Year ended 31 March 2019 (audited)</b>		
<b>Total equity at 31 March 2018</b>		<b>5,713</b>
Repurchase of ordinary shares	13	–
(Loss)/profit after taxation for the year		–
Dividend paid	9	–
<b>Total equity at 31 March 2019</b>		<b>5,713</b>
<b>Six months ended 30 September 2018 (unaudited)</b>		
<b>Total equity at 31 March 2018</b>		<b>5,713</b>
Repurchase of ordinary shares	13	–
(Loss)/profit after taxation for the period		–
Dividend paid	9	–
<b>Total equity at 30 September 2018</b>		<b>5,713</b>



share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
211,569	914	331,362	818,370	33,660	1,401,588
-	-	(1,006)	-	-	(1,006)
-	-	-	(106,356)	23,318	(83,038)
-	-	-	-	(21,153)	(21,153)
211,569	914	330,356	712,014	35,825	1,296,391
211,569	914	335,493	918,558	30,619	1,502,866
-	-	(4,131)	-	-	(4,131)
-	-	-	(100,188)	22,323	(77,865)
-	-	-	-	(19,282)	(19,282)
211,569	914	331,362	818,370	33,660	1,401,588
211,569	914	335,493	918,558	30,619	1,502,866
-	-	(2,666)	-	-	(2,666)
-	-	-	(156,420)	22,038	(134,382)
-	-	-	-	(19,282)	(19,282)
211,569	914	332,827	762,138	33,375	1,346,536

# Balance Sheet

as at 30 September 2019

Company number 7133583

	Notes	30.09.19 unaudited £'000	31.03.19 audited £'000	30.09.18 unaudited £'000
<b>Non current assets</b>				
Investments at fair value through profit or loss	10	1,387,576	1,423,161	1,412,941
<b>Current assets</b>				
Derivative instruments	10	11,924	19,235	22,217
Amounts held at futures clearing houses and brokers		77,356	81,451	84,977
Other receivables	11	2,403	737	5,651
Cash and cash equivalents		29,224	86,963	42,764
		120,907	188,386	155,609
<b>Current liabilities</b>				
Derivative instruments	10	(86,103)	(90,161)	(101,579)
Bank loans		(121,912)	(115,331)	-
Other payables	12	(4,077)	(4,467)	(5,510)
		(212,092)	(209,959)	(107,089)
<b>Net current (liabilities)/assets</b>		<b>(91,185)</b>	<b>(21,573)</b>	<b>48,520</b>
<b>Total assets less current liabilities</b>		<b>1,296,391</b>	<b>1,401,588</b>	<b>1,461,461</b>
<b>Non-current liabilities</b>				
Bank loans		-	-	(114,925)
<b>Net assets</b>		<b>1,296,391</b>	<b>1,401,588</b>	<b>1,346,536</b>
<b>Equity attributable to equity shareholders</b>				
Share capital	13	5,713	5,713	5,713
Share premium account		211,569	211,569	211,569
Capital redemption reserve		914	914	914
Other reserve		330,356	331,362	332,827
Capital reserve		712,014	818,370	762,138
Revenue reserve		35,825	33,660	33,375
<b>Total equity</b>		<b>1,296,391</b>	<b>1,401,588</b>	<b>1,346,536</b>
<b>Net asset value per ordinary share</b>	14	<b>236.10p</b>	255.03p	244.68p

# Cash Flow Statement

for the six months ended 30 September 2019

	six months ended 30 September 2019 unaudited £'000	year ended 31 March 2019 audited £'000	six months ended 30 September 2018 unaudited £'000
<b>Operating activities</b>			
Cash inflow from investment income	17,372	19,592	16,054
Cash inflow from derivative income	8,118	10,271	8,957
Cash inflow from other income	941	1,264	140
Cash outflow from Directors' fees	(83)	(207)	(109)
Cash outflow from other payments	(5,250)	(13,180)	(7,250)
Cash outflow from the purchase of investments	(176,779)	(452,059)	(259,285)
Cash outflow from the purchase of derivatives	(1,897)	(8,770)	(8,486)
Cash inflow from the sale of investments	157,387	502,367	258,885
Cash (outflow)/inflow from the settlement of derivatives	(36,447)	30,959	31,792
Cash inflow/(outflow) from amounts held at futures clearing houses and brokers	4,095	(51,204)	(54,976)
<b>Net cash (outflow)/inflow from operating activities before servicing of finance</b>	<b>(32,543)</b>	<b>39,033</b>	<b>(14,278)</b>
<b>Financing activities</b>			
Cash outflow from loan interest paid	(1,860)	(3,538)	(1,736)
Cash outflow from CFD interest paid	(6,445)	(7,380)	(2,909)
Cash outflow from short CFD dividends paid	(927)	(2,056)	(1,744)
Cash outflow from the repurchase of ordinary shares	(1,006)	(4,131)	(2,666)
Cash outflow from dividends paid to shareholders	(21,153)	(19,282)	(19,282)
<b>Cash outflow from financing activities</b>	<b>(31,391)</b>	<b>(36,387)</b>	<b>(28,337)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(63,934)</b>	<b>2,646</b>	<b>(42,615)</b>
Cash and cash equivalents at the start of the period	86,963	80,439	80,439
Effect of foreign exchange movements	6,195	3,878	4,940
<b>Cash and cash equivalents at the end of the period</b>	<b>29,224</b>	<b>86,963</b>	<b>42,764</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 Financial 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 2019 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 Basis of Preparation

These Half-Yearly Financial Statements have been prepared in accordance with 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 2019. Those Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union, the Companies Acts that apply to companies reporting under IFRS, IFRIC interpretations and, as far as it is consistent with IFRS, 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 November 2014, and updated in February 2018 with consequential amendments.

**4 Income**

	<b>six months ended 30.09.19 unaudited £'000</b>	<b>year ended 31.03.19 audited £'000</b>	<b>six months ended 30.09.18 unaudited £'000</b>
<b>Investment income</b>			
Overseas dividends	<b>18,837</b>	19,359	17,125
<b>Derivative income</b>			
Dividends on long CFDs	<b>7,920</b>	9,797	9,638
Interest on short CFDs	<b>515</b>	490	110
	<b>8,435</b>	10,287	9,748
<b>Other income</b>			
Interest received on collateral and deposits	<b>941</b>	1,264	140
<b>Total income</b>	<b>28,213</b>	30,910	27,013

No special dividends have been recognised in capital (year ended 31 March 2019: £1,393,000 and six months ended 30 September 2018: £1,393,000).



# Notes to the Financial Statements continued

## 5 Investment Management Fees

	revenue £'000	capital £'000	total £'000
<b>Six months ended 30 September 2019 (unaudited)</b>			
Investment management fees – base	1,511	4,532	6,043
Investment management fees – variable	–	(1,333)	(1,333)
	1,511	3,199	4,710
<b>Year ended 31 March 2019 (audited)</b>			
Investment management fees – base	3,195	9,585	12,780
Investment management fees – variable	–	(1,237)	(1,237)
	3,195	8,348	11,543
<b>Six months ended 30 September 2018 (unaudited)</b>			
Investment management fees – base	1,788	5,363	7,151

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 and FIL Investments International ("the Investment Managers").

From 1 July 2018 the Company adopted a new fee arrangement which reduced the base management fee from 1.00% of the net assets to 0.90% of net assets per annum and removed the performance fee of up to 1.00%. In addition, with effect from 1 October 2018, there has been 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 £'000	capital £'000	total £'000
<b>Six months ended 30 September 2019 (unaudited)</b>			
Interest on bank loans and overdrafts	470	1,410	1,880
Interest paid on CFDs	1,336	4,009	5,345
Dividends paid on short CFDs	232	695	927
	<b>2,038</b>	<b>6,114</b>	<b>8,152</b>
<b>Year ended 31 March 2019 (audited)</b>			
Interest on bank loans and overdrafts	892	2,676	3,568
Interest paid on CFDs	2,084	6,252	8,336
Dividends paid on short CFDs	514	1,542	2,056
	<b>3,490</b>	<b>10,470</b>	<b>13,960</b>
<b>Six months ended 30 September 2018 (unaudited)</b>			
Interest on bank loans and overdrafts	446	1,339	1,785
Interest paid on CFDs	719	2,158	2,877
Dividends paid on short CFDs	436	1,308	1,744
	<b>1,601</b>	<b>4,805</b>	<b>6,406</b>

## Notes to the Financial Statements continued

**7 Taxation**

	revenue £'000	capital £'000	total £'000
<b>Six months ended 30 September 2019 (unaudited)</b>			
UK Corporation tax	259	(259)	–
Overseas taxation	489	–	489
Taxation charge for the period	748	(259)	489

**Year ended 31 March 2019 (audited)**

Overseas taxation	688	–	688
Taxation charge for the year	688	–	688

**Six months ended 30 September 2018  
(unaudited)**

UK Corporation tax	321	(321)	–
Overseas taxation	651	–	651
Taxation charge for the period	972	(321)	651

**8 Earnings/(Loss) per Ordinary Share**

	six months ended 30.09.19 unaudited	year ended 31.03.19 audited	six months ended 30.09.18 unaudited
Revenue earnings per ordinary share	4.24p	4.06p	4.00p
Capital loss per ordinary share	(19.36p)	(18.21p)	(28.39p)
<b>Total loss per ordinary share</b>	<b>(15.12p)</b>	<b>(14.15p)</b>	<b>(24.39p)</b>

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	23,318	22,323	22,038
Capital loss after taxation for the period	(106,356)	(100,188)	(156,420)
<b>Total loss after taxation for the period</b>	<b>(83,038)</b>	<b>(77,865)</b>	<b>(134,382)</b>
	<b>number</b>	number	number
Weighted average number of ordinary shares held outside Treasury	549,391,529	550,331,713	550,973,770

## 9 Dividends Paid to Shareholders

	six months ended 30.09.19 unaudited £'000	year ended 31.03.19 audited £'000	six months ended 30.09.18 unaudited £'000
Dividend paid of 3.85 pence per ordinary share for the year ended 31 March 2019	21,153	-	-
Dividend paid of 3.50 pence per ordinary share for the year ended 31 March 2018	-	19,282	19,282
	21,153	19,282	19,282

No dividend has been declared for the six months ended 30 September 2019 (six months ended 30 September 2018: 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 valuation techniques using observable inputs other than quoted prices included within level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

# 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 2019 (Accounting Policies Notes 2(l) and (m) on pages 54 and 55). The table below sets out the Company's fair value hierarchy:

30 September 2019 (unaudited)	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	1,308,222	–	79,354	1,387,576
Derivative instrument assets	2,331	9,593	–	11,924
	1,310,553	9,593	79,354	1,399,500
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instrument liabilities	(349)	(83,278)	(2,476)	(86,103)
<b>Financial liabilities at fair value</b>				
Bank loan	–	(122,247)	–	(122,247)

31 March 2019 (audited)	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	1,356,458	–	66,703	1,423,161
Derivative instrument assets	–	19,235	–	19,235
	1,356,458	19,235	66,703	1,442,396
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instrument liabilities	(737)	(89,424)	–	(90,161)
<b>Financial liabilities at fair value</b>				
Bank loan	–	(114,111)	–	(114,111)



**10 Fair Value Hierarchy** continued

	level 1	level 2	level 3	total
<b>30 September 2018 (unaudited)</b>	£'000	£'000	£'000	£'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	1,320,582	–	92,359	1,412,941
Derivative instrument assets	1,650	20,567	–	22,217
	1,322,232	20,567	92,359	1,435,158
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instrument liabilities	–	(101,579)	–	(101,579)
<b>Financial liabilities at fair value</b>				
Bank loan	–	(113,546)	–	(113,546)

**11 Other Receivables**

	<b>30.09.19 unaudited £'000</b>	31.03.19 audited £'000	30.09.18 unaudited £'000
Securities sold for future settlement	<b>407</b>	36	2,685
Accrued income	<b>1,939</b>	646	2,887
Other receivables	<b>57</b>	55	79
	<b>2,403</b>	737	5,651

**12 Other Payables**

	<b>30.09.19 unaudited £'000</b>	31.03.19 audited £'000	30.09.18 unaudited £'000
Securities purchased for future settlement	<b>2,545</b>	1,858	2,608
Investment management, secretarial and administration fees	<b>782</b>	820	2,047
Finance costs payable	–	1,100	–
Accrued expenses	<b>750</b>	689	855
	<b>4,077</b>	4,467	5,510

# Notes to the Financial Statements continued

## 13 Share Capital

	30 September 2019 unaudited		31 March 2019 audited		30 September 2018 unaudited	
	number of shares	£'000	number of shares	£'000	number of shares	£'000
<b>Issued, allotted and fully paid</b>						
<b>Ordinary shares of 1 penny each – Held outside Treasury</b>						
<b>Beginning of the period</b>	<b>549,574,480</b>	<b>5,496</b>	551,414,480	5,514	551,414,480	5,514
Ordinary shares repurchased into Treasury	(480,000)	(5)	(1,840,000)	(18)	(1,100,000)	(11)
<b>End of the period</b>	<b>549,094,480</b>	<b>5,491</b>	549,574,480	5,496	550,314,480	5,503
<b>Ordinary shares of 1 penny each – Held in Treasury*</b>						
<b>Beginning of the period</b>	<b>21,780,000</b>	<b>217</b>	19,940,000	199	19,940,000	199
Ordinary Shares repurchased into Treasury	480,000	5	1,840,000	18	1,100,000	11
<b>End of the period</b>	<b>22,260,000</b>	<b>222</b>	21,780,000	217	21,040,000	210
<b>Total share capital</b>		<b>5,713</b>		5,713		5,713

\* The 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 480,000 (year ended 31 March 2019: 1,840,000 and six months ended 30 September 2018: 1,100,000) ordinary shares and held them in Treasury. The cost of repurchasing these shares of £1,006,000 (year ended 31 March 2019: £4,131,000 and six months ended 30 September 2018: £2,666,000) was charged to the Other Reserve.

## 14 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £1,296,391,000 (31 March 2019: £1,401,588,000 and 30 September 2018: £1,346,536,000) and on 549,094,480 (31 March 2019: 549,574,480 and 30 September 2018: 550,314,480) ordinary shares, being the number of ordinary shares held outside Treasury at the period end. 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, the 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 and FIL Investments International. They are all Fidelity group companies.

Details of the current fee arrangements are given in Note 5 above. During the period management fees of £4,710,000 (year ended 31 March 2019: £11,543,000 and six months ended 30 September 2018: £7,151,000), and accounting, administration and secretarial fees of £50,000 (year ended 31 March 2019: £100,000 and six months ended 30 September 2018: £50,000) were payable to the Managers. Fidelity also provides the Company with marketing services. The total amount payable for these services during the period was £128,000 (year ended 31 March 2019: £238,000 and six months ended 30 September 2018: £117,000). Amounts payable to the Managers 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 35) 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 £42,000, the Audit and Risk Committee Chairman receives an annual fee of £32,000, the Chairman of the Investment Committee receives an annual fee of £31,500, the Senior Independent Director receives an annual fee of £31,500 and each other Director receives an annual fee of £26,500. The following members of the Board hold ordinary shares in the Company at the date of this report: Mike Balfour 45,000 shares, Nicholas Bull 110,804 shares, Peter Pleydell-Bouverie 93,758 shares, Elisabeth Scott 19,819 shares and Linda Yueh 2,318 shares.

## 16 Post Balance Sheet Event

Additional financial information relating to Shanghai Yiguo was received during November 2019, resulting in the valuation of the holding being written down. If this decrease in value had been applied at 30 September 2019, the net assets of the Company would have decreased by 0.47%.

# Glossary to the Half-Yearly Report

## 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;
- Net Asset Value (NAV) per Share;
- Ongoing Charges;
- Return (Revenue, Capital and Total Returns); and
- Total Return Performance.

## Benchmark Index

MSCI China Index total return (in UK sterling terms) and is a composite of China "B", "H", "Red Chip" and "P Chip" share classes.

## China "A" Shares

Shares traded on the Chinese Stock Exchanges in Chinese renminbi. Foreign investors were unable to participate in the China "A" Shares market until the introduction of the QFII program in 2002 which provided a legal

framework for licensed QFIs to invest in China "A" Shares on the Chinese Stock exchanges and certain other securities previously not eligible for investment by foreign investors.

## China "B" Shares

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

## 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.

## 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. 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](#).

### 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.

### 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 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](#)).

### Gross Gearing

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

### Hedging

A hedge position demonstrates 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. Short positions are added to long positions in arriving at the [Gross Asset Exposure](#).

### Index Linked Securities

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

# Glossary to the Half-Yearly Report continued

## Investment Manager

FIL Investment Management (Hong Kong) Limited.

## Investment Managers

Together, represents the [Investment Manager](#) and the [Unlisted Investment Manager](#).

## 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 Managers](#).

## MSCI China Index

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

## Net Assets

The value of the Company's assets minus its 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

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 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 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 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**.

## 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").

## 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.

## Return

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

- **Revenue Return** – reflects the dividends and interest from investments and other income, net of expenses, finance costs and taxation;

- **Capital Return** – reflects the return on capital, excluding any revenue return; and
- **Total Return** – reflects the aggregate of revenue and capital returns.

## 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.

## 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 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.

# Glossary to the Half-Yearly Report continued

## Unlisted Investment Manager

FIL Investment Services (UK) Limited which has delegated this function to FIL Investments International.

## 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. FIL Investment Services (UK) Limited is the Company's [Unlisted Investment Manager](#).

## Variable Management Fee (VMF)

The Company has a [Variable Management Fee \(VMF\)](#) structure. The base fee is 0.90% of net assets per annum plus a +/- 0.20% variation fee based on performance relative to the Company's [Benchmark Index](#) (the [MSCI China Index](#)). The maximum fee that the Company will pay is 1.10% of [Net Assets](#), but if the Company underperforms against the [Benchmark Index](#), then the overall fee could be as low as 0.70% of [Net Assets](#).

## 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.



# Directory

## Board of Directors

Nicholas Bull FCA (Chairman)  
Mike Balfour CA (Chairman of the Audit and Risk Committee)  
The Hon. Peter Pleydell-Bouverie DL (Chairman of the Investment Committee)  
Elisabeth Scott (Senior Independent Director)  
Linda Yueh

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

FIL Investment Services (UK) Limited  
Oakhill House  
130 Tonbridge Road  
Hildenborough  
Tonbridge  
Kent  
TN11 9DZ

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

# 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 the way that is best for you. Details of how to invest and the latest Key Information Document can be found on Fidelity's website at **[www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)**

## CONTACT INFORMATION

Shareholders and Fidelity Platform Investors should contact the appropriate administrator using the contact details given below and on page 37. 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 Asset Services, Registrar to Fidelity China Special Situations PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: **0871 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).

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

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).

## Link Share Dealing Service

Link Asset Services offer a low cost share dealing service to buy or sell shares. Further information is available at **[www.linksharedeal.com](http://www.linksharedeal.com)**, or by telephoning **0371 664 0445** (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 8:00 – 16:30, Monday to Friday excluding public holidays in England and Wales). The Link Share Dealing Service allows you to deal in the shares of other companies for which Link Asset Services acts as Registrar, provided you are already a shareholder in the relevant company, and that company offers the Share Deal facility to its shareholders.

### Fidelity Platform Investors

Contact Fidelity, using the free phone numbers given below, or by writing to: UK Customer Service, Fidelity International, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

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: **01732 361144**

Email: **[investmenttrusts@fil.com](mailto:investmenttrusts@fil.com)**

Website: **[www.fidelityinvestmenttrusts.com](http://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.

### Financial Calendar 2019/2020

<b>30 September 2019</b>	<b>Half-Yearly period end</b>
<b>November 2019</b>	<b>Announcement of Half-Yearly results</b>
<b>November 2019</b>	<b>Publication of Half-Yearly Report</b>
<b>31 March 2020</b>	<b>Financial year end</b>
<b>June 2020</b>	<b>Publication of Annual Report</b>
<b>July 2020</b>	<b>Annual General Meeting</b>







## **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, 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, Surrey KT20 6RP.



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