

Fidelity China Special Situations PLC

Half-Yearly Report

For the 6 months ended 30 September 2014



Contents

The Investment Objective and Performance	1
Summary of Results	2
Manager's Half-Yearly Review	3
Interim Management Report	6
Directors' Responsibility Statement	7
Twenty Largest Holdings	8
Financial Statements	10
Glossary of Terms	19
Directory	23
Information for Investors	24
Warning to Shareholders	26

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 2014
Net Asset Value ("NAV") per Share total return	16.8%
Share Price total return	14.3%
MSCI China Index total return (net) – in UK sterling	10.1%

Standardised Performance Total Return* %

	01/10/2013 to 30/09/2014	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	+25.9	+36.8	+7.5	-30.5	+7.7	+38.6
Share Price Performance	+22.7	+35.0	-3.1	-33.1	+13.2	+21.5
Benchmark Index Performance	+4.4	+12.4	+13.4	-23.1	+1.4	+3.8

* Includes reinvested dividends

** Date of launch

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

The Company's Net Asset Value increased by 16.8% in the six months to 30 September 2014 (since launch the Net Asset Value has increased by 38.6%). The Company's shares delivered a total return of 14.3% during the period, compared to an index return of 10.1%. The outperformance was generated by investment in companies reflecting 'new' China, such as Alibaba and BitAuto, which benefit from the shift to e-commerce and the reforms that are being introduced in China. We believe that the effects of these positive changes will encourage investors to see China in a new light and to invest in the world's second largest economy measured by GDP.

John Owen

Chairman

Summary of Results

	30 September 2014	31 March 2014
Assets		
Gross Asset Exposure	£915.3m	£806.6m
Net Assets	£759.1m	£656.2m
Gearing	20.6%	22.9%
Net Asset Value per Ordinary Share	132.86p	114.84p
Number of Ordinary Shares in issue	571,354,480	571,354,480

Stock market data

Share Price at the period/year end	117.30p	103.80p
Share Price period/year high	122.90p	108.80p
Share Price period/year low	97.20p	81.00p
Discount at the period/year end	(11.7%)	(9.6%)
Discount period/year high	(13.9%)	(13.0%)
Discount period/year low	(5.0%)	(4.9%)

Earnings for the six months ended 30 September

	2014	2013
Revenue return per Ordinary Share ¹	1.52p	1.43p
Capital return per Ordinary Share ¹	17.65p	8.10p
Total return per Ordinary Share ¹	19.17p	9.53p

¹ 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 Half-Yearly Review



In the six months to the end of September 2014, the Company's Net Asset Value produced a total return of 16.8% and share price total return of 14.3%. This compares to a total return of 10.1% from the

MSCI China Index (in Sterling), the Company's benchmark index.

Market Background

The six months under review have been an interesting time for the Chinese market, with reforms taking place across all sections of the market and society in China. For example, the Government has pledged to change the *hukou* system, which will effectively give 100 million migrant workers equal social and health care benefits as the residents of the cities they work in. This means there is potential to release pent-up consumption demand for 100 million people as these migrant workers, who currently lack the social safety net and support of their locally-born neighbours, have less need to save. Another example is the announcement of the Hong Kong-Shanghai Stock Connect programme, which will enable international investors to access the domestic Chinese stock market without the need to obtain a QFII quota from the Government, and give Chinese investors the opportunity to access international equity markets. This is a further step in opening up the Chinese financial markets and is also positive for facilitators like Citic Securities (one of our investments). Steps are also being taken by the Government to introduce market-orientated price mechanisms across a range of industry sectors. This is encouraging management teams of state-owned enterprises to work on behalf of shareholders by the introduction of corporate practices that we take for granted in the West, for example management incentive schemes. These

Performance since launch



Prices rebased to 100 at 19 April 2010

Sources: Datastream

are but a few examples of the ongoing reforms being pushed through by the Government.

Whilst there are many positive factors to highlight there are also factors contributing to the weakness in the Chinese market relative to many other markets around the world. There are concerns over macroeconomic factors and fear of how they will be resolved over time. Significant focus has been on China's ability to meet the Government's short-term target of 'around' 7.5%, and investors are generally doubtful. It is well documented that the Government wants to drive a structural change in its economic model from one that is reliant on investment and exports to one driven by consumption. Due to this structural shift we should expect economic growth to fall further from the heady days of annual double digit growth. This should be welcomed as consumer-driven growth is less volatile and more sustainable.

Credit growth has supported much of the rise in investment. This is clearly not sustainable and could lead to issues for the financial system in the future. Chinese economic growth rates in a global context are still high and a good environment for individual companies to grow. This is particularly

Manager's Half-Yearly Review

true for companies in areas of the economy that the Government wants to grow at a faster rate than the general economy, such as consumption.

Debt levels in China have rapidly expanded in the last five years, taking it from around 120% of GDP to current estimates of around 250%. History teaches us that such expansions usually end in significant non-performing assets, particularly in areas where the poor investment has been most severe. I expect the same in China and this is the main reason why the portfolio does not hold shares in Chinese banks. We are already seeing some well publicised defaults and I believe the sooner authorities start dealing with the problem the better. Significant contraction in liquidity and credit flow are the key factors in defining financial crises. However, China has significant deposits supporting the system and, importantly, the Government is the bank's majority shareholder which can create liquidity if needed.

Finally, the property market is an area the bears particularly like to focus on. We are clearly in the down cycle with volumes and pricing corrections. There is significant oversupply in some regions but I believe the adjustment is underway, and having visited many regions I find stories of 'ghost cities' to be exaggerated. There have been a number of mini-stimulus measures to try and clear this supply, such as a relaxation of mortgage measures – although it is important to highlight that the required levels of deposit are still very high – and rules around purchasing second homes. I do believe that we will see underlying demand respond and that we are unlikely to see the 30-40% fall in property prices that some are calling for. From an investment perspective the portfolio is overweight in the real estate sector due to a combination of very low valuations and the fact that these stocks tend to perform well in an easing cycle which I believe can continue for some time.

Portfolio Review

I assumed responsibility for managing the portfolio from Anthony Bolton on 1 April 2014. Many of the investments in the portfolio were already familiar to me as I have been managing investments in China for over 12 years. The portfolio I inherited was one I was very comfortable with and any changes made since the handover have been part of my investment management process. In fact, the first three months saw portfolio turnover of 26.6%, which is in line with the portfolio's historic three month average turnover of 26.4%.

The IPO of Alibaba in September was a highlight of this six month period and it was a very profitable event for shareholders of Fidelity China Special Situations PLC. The portfolio opened an unlisted position two years ago that valued Alibaba at \$48 billion. On the day of the IPO Alibaba traded with a market-cap of over \$220 billion. I used this price strength to reduce the holding, but Alibaba remains the largest overweight position as its talented management team has built a dominant position in a market that represents one of the biggest commercial opportunities most of us will see in our lifetimes – e-commerce in China. The shift from offline to online in commerce is a global trend, but is occurring even faster in China partly because, in the lower tier cities, the traditional bricks and mortar infrastructure has not been built to levels common in the West. Alibaba is at the heart of this change – gross merchandise value is expected to surpass \$300 billion this financial year, more than Amazon and Ebay combined, yet continues to grow at rates above 30%. Alibaba is clearly on track to be a globally recognised name, and will be a company investors cannot ignore. So long as valuations remain reasonable relative to growth and returns of the business, I believe this is likely to remain a long-term holding in the portfolio.

Manager's Half-Yearly Review

Outperformance of the portfolio was driven by a number of holdings in the IT sector, with Alibaba leading the way followed by BitAuto, an online platform for car sales, however, over the last few months I have found valuations of IT stocks to be less compelling following significant re-rating from the market. Therefore, I decided to use market strength as an opportunity to take profits by trimming positions such as BitAuto, while long-standing positions in Soufun and Kingsoft were sold. Some of the positions in the financial sector, and more specifically in securities companies such as Citic Securities, also proved positive contributors.

E-commerce and securities companies fall within a broader theme underlying the portfolio, which is 'new' China. This theme encompasses companies that are expected to be major beneficiaries of reform. I think that reform will be the primary fundamental driver that underpins the Chinese market for many years ahead. From speaking to companies, industry experts and spending time in China, I think investors cannot underestimate its importance.

I have been adding exposure to real estate and insurance companies. This is relatively contrarian, but I believe that both sectors trade at attractive valuations as the market tends to ignore the whole sector amid macro-driven concerns. I see significant opportunity in insurance as the market is still very underpenetrated in China, the product offerings are improving, the sales teams selling these products are getting better and we expect to see more and more regulatory tailwinds as China looks to open up its financial markets. Within real estate, I think the market is too negative on potential price adjustments and ongoing regulatory easing in the market should support the stocks that are trading at very low valuations.

Outlook

My view on the macroeconomic outlook is that growth will be subdued. The market sometimes gets so engrossed in headline grabbing numbers such as GDP and property prices that they are possibly missing the real long-term opportunities; reform and the shift to a consumer-driven economic model. These risks need to be monitored but I think they are manageable. I believe that growth will be slower than in the past, but it will still be at an enviable rate in a global context, providing a good environment for individual companies to grow. This is particularly true for companies that lie within areas of the economy that the Government wants to see grow at a faster rate than the general economy, for example consumption. I would be disappointed if I could not find companies with solid growth stories in this environment. One of the big stories to focus on for 2015 will be the implementation of reform. These reforms will provide a solid foundation for China's next phase of development, and include the opening up of financial and capital markets, the introduction of market-orientated price mechanisms across a range of sectors, improvements in efficiency and profitability of State Owned Enterprises and the release of pent-up consumer demand via changes in social welfare, such as the *hukou* system. This, coupled with attractive valuations makes China an attractive opportunity for investors.

The China market is trading at 9.5x price-to-earnings ratio compared to the S&P 500 trading at 18x yet its companies have enjoyed strong earnings growth over the last few years. I am expecting companies in the portfolio to increase earnings by over 20% in the coming year, and at some point this is expected to be reflected in stock performance.

Dale Nicholls

Portfolio Manager

19 November 2014

Interim Management 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 NAV, which is published each business day. The Board has the ability to issue shares at a premium to NAV and to buy back shares at a discount to NAV where it is in the best interests of shareholders to do so. There have been no share repurchases during the period.

GEARING

The Company has 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 2014, the Company's gearing was 20.6% (31 March 2014: 22.9%; 30 September 2013: 20.0%).

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 1.0% of the arithmetic mean of the value of assets calculated at the end of each month during the year. Any out-performance above this cap is not carried forward. If the Company under-performs, the under-performance must be made good before any further performance fee becomes payable. A provision has been made on a time apportioned basis of £2,558,000 for the six months ended 30 September

2014. The provision has reduced the NAV at 30 September 2014 by 0.3%.

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, performance, discount control, gearing, currency, tax, regulatory and operational – service providers. Information on each of these risks is detailed in the Company's Annual Report for the year ended 31 March 2014 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 the Manager's website 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 2014.

By order of the Board

FIL Investments International
19 November 2014

Directors' Responsibility Statement

The Directors confirm to the best of their knowledge that:

- a) the condensed set of financial statements contained within the Half-Yearly Financial Report has been prepared in accordance with the International Accounting Standards 34: "Interim Financial Reporting";
- b) the Interim Management Report (which incorporates the Manager's Half-Yearly Review on pages 3 to 5) includes 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
- 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 2014 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 Half-Yearly Financial Report has not been audited by the Company's Independent Auditor.

The Interim Management Report was approved by the Board on 19 November 2014 and the above responsibility statement was signed on its behalf by John Owen, Chairman.

Twenty Largest Holdings at 30 September 2014

Twenty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% ¹
Tencent Holdings Limited² Provider of internet, mobile and telecommunications value-added services	40,436	61,907	6.8
CITIC Securities Company Limited² Broker and asset manager	39,261	42,041	4.6
Alibaba Group Holding Ltd Major e-commerce group	39,937	39,937	4.4
Ping An Insurance (Group) Company of China² Insurance company	16,788	25,863	2.8
Hutchison China MediTech Limited⁵ Pharmaceutical and healthcare group	22,506	22,506	2.5
BitAuto Holdings Limited Auto internet company	20,791	20,791	2.3
Haitong Securities² Financial services group	17,151	20,300	2.2
Lee's Pharmaceutical Holdings Limited Operator in the pharmaceutical preparations sector	19,373	19,373	2.1
NASDAQ 100 Index (put option) Put option on the NASDAQ 100 Index	333	17,122	1.9
China Pacific Insurance (Group) Co² Insurance company	14,391	16,577	1.8
Green Dragon Gas⁵ Coal bed methane projects developer	16,056	16,056	1.8
China Lodging Group Operates a chain of economy hotels	15,015	15,015	1.6
SAIC Motor Corporation Limited Automobile manufacture and distribution company	14,781	14,781	1.6
NetEase, Inc Internet company	14,654	14,654	1.6
China Longyuan Power Group² Wind power producer	8,559	13,609	1.5
New Oriental Education & Technology Group Provider of private educational services	11,689	11,689	1.3

Twenty Largest Holdings at 30 September 2014

Twenty Largest Holdings, including derivatives	Balance Sheet Value £'000	Gross Asset Exposure £'000	% ¹
DJI Holdings³ Developer, promoter and distributor of authorised lottery products	11,388	11,388	1.2
WuXi Pharma Tech Pharmaceutical, biotechnology and medical device research company	11,248	11,248	1.2
China Animal Healthcare² Leading animal drug manufacturer	10,039	11,045	1.2
Li-Ning Company Leading Chinese sports brand company	10,563	10,563	1.1
Twenty Largest Holdings (2013: 49.5%)	354,959	416,465	45.5
Other Investments including derivatives	468,781	498,800	54.5
Total Investments including derivatives	823,740	915,265	100.0

¹ % of total gross asset exposure

² Includes investment via CFDs

³ Quoted on AIM

Income Statement

		Six months ended 30 September 2014 unaudited		
	Notes	revenue £'000	capital £'000	total £'000
Revenue				
Investment income	2	11,801	-	11,801
Other income	2	9	-	9
Net derivative income/(expense)	2	342	-	342
Total income		<u>12,152</u>	-	<u>12,152</u>
Gains on investments designated at fair value through profit or loss		-	106,028	106,028
Net gains on derivative instruments held at fair value through profit or loss		-	1,901	1,901
Foreign exchange (losses)/gains on other net assets		(5)	377	372
Foreign exchange (losses)/gains on bank loans		-	(2,518)	(2,518)
Total revenue and gains		<u>12,147</u>	<u>105,788</u>	<u>117,935</u>
Expenses				
Investment management fee		(1,785)	(1,785)	(3,570)
Performance fee		-	(2,558)	(2,558)
Other expenses		(865)	-	(865)
Profit before finance costs and taxation		<u>9,497</u>	<u>101,445</u>	<u>110,942</u>
Finance costs				
Interest on bank loans		(328)	(328)	(656)
Profit before taxation		<u>9,169</u>	<u>101,117</u>	<u>110,286</u>
Taxation		(492)	(245)	(737)
Net profit after taxation for the period		<u>8,677</u>	<u>100,872</u>	<u>109,549</u>
Earnings per Ordinary Share	3	<u>1.52p</u>	<u>17.65p</u>	<u>19.17p</u>

The Company does not have any income or expenses that are not included in the net profit for the period. Accordingly the "Net profit after taxation for the period" is also the "Total comprehensive income for the period" and 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 and total comprehensive income is attributable to the equity shareholders of the Company. There are no minority interests.

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

Year ended 31 March 2014 audited			Six months ended 30 September 2013 unaudited		
revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
13,938	-	13,938	12,420	-	12,420
5	-	5	3	-	3
(25)	-	(25)	41	-	41
<u>13,918</u>	<u>-</u>	<u>13,918</u>	<u>12,464</u>	<u>-</u>	<u>12,464</u>
-	99,249	99,249	-	46,531	46,531
-	2,619	2,619	-	2,384	2,384
(111)	(696)	(807)	(44)	(148)	(192)
-	8,776	8,776	-	6,023	6,023
<u>13,807</u>	<u>109,948</u>	<u>123,755</u>	<u>12,420</u>	<u>54,790</u>	<u>67,210</u>
(3,846)	(3,846)	(7,692)	(1,844)	(1,844)	(3,688)
-	(6,416)	(6,416)	-	(1,148)	(1,148)
(1,635)	-	(1,635)	(832)	-	(832)
<u>8,326</u>	<u>99,686</u>	<u>108,012</u>	<u>9,744</u>	<u>51,798</u>	<u>61,542</u>
(794)	(794)	(1,588)	(403)	(403)	(806)
<u>7,532</u>	<u>98,892</u>	<u>106,424</u>	<u>9,341</u>	<u>51,395</u>	<u>60,736</u>
(358)	409	51	(357)	(598)	(955)
<u>7,174</u>	<u>99,301</u>	<u>106,475</u>	<u>8,984</u>	<u>50,797</u>	<u>59,781</u>
<u>1.18p</u>	<u>16.39p</u>	<u>17.57p</u>	<u>1.43p</u>	<u>8.10p</u>	<u>9.53p</u>

Statement of Changes in Equity

	Notes	share capital £'000
Equity shareholders' funds at 31 March 2013		6,532
Repurchase of Ordinary Shares	6	(575)
Net profit after taxation for the period		-
Dividend paid	4	-
Equity shareholders' funds at 30 September 2013		<u>5,957</u>
Equity shareholders' funds at 31 March 2013		6,532
Repurchase of Ordinary Shares	6	(819)
Net profit after taxation for the year		-
Dividend paid	4	-
Equity shareholders' funds at 31 March 2014		<u>5,713</u>
Net profit after taxation for the period		-
Dividend paid	4	-
Equity shareholders' funds at 30 September 2014		<u>5,713</u>

share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
211,569	95	444,693	(39,170)	10,514	634,233
-	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>
211,569	95	444,693	(39,170)	10,514	634,233
-	819	(78,323)	-	-	(78,323)
-	-	-	99,301	7,174	106,475
-	-	-	-	(6,233)	(6,233)
<u>211,569</u>	<u>914</u>	<u>366,370</u>	<u>60,131</u>	<u>11,455</u>	<u>656,152</u>
-	-	-	100,872	8,677	109,549
-	-	-	-	(6,571)	(6,571)
<u>211,569</u>	<u>914</u>	<u>366,370</u>	<u>161,003</u>	<u>13,561</u>	<u>759,130</u>

Balance Sheet

Company number 7133583

	Notes	30.09.14 unaudited £'000	31.03.14 audited £'000	30.09.13 unaudited £'000
Non current assets				
Investments designated at fair value through profit or loss		814,479	735,319	715,355
Current assets				
Derivative assets held at fair value through profit or loss		14,645	11,810	7,649
Amounts held at futures clearing houses and brokers		1,070	-	-
Other receivables		1,547	183	13,938
Cash and cash equivalents		37,537	16,662	6,482
		<u>54,799</u>	<u>28,655</u>	<u>28,069</u>
Current liabilities				
Derivative liabilities held at fair value through profit or loss		(5,384)	(7,064)	(4,821)
Bank loans		(92,481)	(89,963)	(92,716)
Overseas capital gains tax payable		(882)	(637)	(1,644)
Other payables	5	(11,401)	(10,158)	(9,274)
		<u>(110,148)</u>	<u>(107,822)</u>	<u>(108,455)</u>
Net current liabilities		<u>(55,349)</u>	<u>(79,167)</u>	<u>(80,386)</u>
Net assets		<u>759,130</u>	<u>656,152</u>	<u>634,969</u>
Equity attributable to equity shareholders				
Share capital	6	5,713	5,713	5,957
Share premium account		211,569	211,569	211,569
Capital redemption reserve		914	914	670
Other reserve		366,370	366,370	391,881
Capital reserve		161,003	60,131	11,627
Revenue reserve		13,561	11,455	13,265
Total equity shareholders' funds		<u>759,130</u>	<u>656,152</u>	<u>634,969</u>
Net asset value per Ordinary Share	7	<u>132.86p</u>	<u>114.84p</u>	<u>106.59p</u>

Cash Flow Statement

	Six months ended 30.09.14 unaudited £'000	Year ended 31.03.14 audited £'000	Six months ended 30.09.13 unaudited £'000
Operating activities			
Cash inflow from investment income	10,431	12,902	9,980
Cash inflow from derivative income	291	74	101
Cash inflow from other income	9	5	3
Cash outflow from Directors' fees	(78)	(158)	(78)
Cash outflow from other payments	(10,856)	(9,552)	(3,037)
Cash outflow from purchase of investments	(245,402)	(390,418)	(203,308)
Cash outflow from the cost of derivatives	(1,993)	(8,226)	(4,852)
Cash inflow from sale of investments	277,988	465,349	235,952
Cash (outflow)/inflow from derivative positions closed	(621)	11,581	11,003
Cash (outflow)/inflow from amounts held at futures clearing houses and brokers	(1,070)	4,306	4,056
Net cash inflow from operating activities before servicing of finance	28,699	85,863	49,820
Servicing of finance			
Cash outflow from interest on bank loans	(645)	(1,600)	(811)
Net cash inflow from operating activities and servicing of finance	28,054	84,263	49,009
Financing activities			
Cash outflow from the repurchase of Ordinary Shares	(985)	(79,183)	(54,657)
Dividends paid to shareholders	(6,571)	(6,233)	(6,233)
Net cash outflow from financing activities	(7,556)	(85,416)	(60,890)
Increase/(decrease) in cash and cash equivalents	20,498	(1,153)	(11,881)
Cash and cash equivalents at the beginning of the period	16,662	18,511	18,511
Effect of foreign exchange movements	377	(696)	(148)
Cash and cash equivalents at the end of the period	37,537	16,662	6,482

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 2014.

Six months ended 30.09.14 unaudited £'000	Year ended 31.03.14 audited £'000	Six months ended 30.09.13 unaudited £'000
--	---	--

2 INCOME

Income from investments designated at fair value through profit or loss

Overseas dividends	11,801	12,946	11,747
Overseas scrip dividends	-	686	457
UK dividends	-	127	216
UK scrip dividends	-	179	-
	<u>11,801</u>	<u>13,938</u>	<u>12,420</u>

Other income

Deposit interest	<u>9</u>	<u>5</u>	<u>3</u>
------------------	----------	----------	----------

Net derivative income/(expense)

Dividends received on long CFDs	720	745	587
Interest paid on long CFDs	(206)	(328)	(198)
Dividends paid on short CFDs	(172)	(442)	(348)
	<u>342</u>	<u>(25)</u>	<u>41</u>

Total income

	<u>12,152</u>	<u>13,918</u>	<u>12,464</u>
--	---------------	---------------	---------------

Notes to the Financial Statements

	Six months ended 30.09.14 unaudited	Year ended 31.03.14 audited	Six months ended 30.09.13 unaudited
3 EARNINGS PER ORDINARY SHARE			
Revenue earnings per Ordinary Share	1.52p	1.18p	1.43p
Capital earnings per Ordinary Share	17.65p	16.39p	8.10p
Total earnings per Ordinary Share	19.17p	17.57p	9.53p

The revenue, capital and total earnings per Ordinary Share are based on the net profit 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 30.09.14 unaudited £'000	Year ended 31.03.14 audited £'000	Six months ended 30.09.13 unaudited £'000
Revenue net profit after taxation	8,677	7,174	8,984
Capital net profit after taxation	100,872	99,301	50,797
Total net profit after taxation	109,549	106,475	59,781
Weighted average number of Ordinary Shares in issue	571,354,480	605,705,576	627,470,518

	Six months ended 30.09.14 unaudited £'000	Year ended 31.03.14 audited £'000	Six months ended 30.09.13 unaudited £'000
--	--	---	--

4 DIVIDEND

Dividend paid

Dividend paid of 1.15 pence per Ordinary Share for the year ended 31 March 2014	6,571	-	-
Dividend paid of 1.00 pence per Ordinary Share for the year ended 31 March 2013	-	6,233	6,233
	6,571	6,233	6,233

No dividend has been declared for the six month period to 30 September 2014.

Notes to the Financial Statements

	30.09.14 unaudited £'000	31.03.14 audited £'000	30.09.13 unaudited £'000
5 OTHER PAYABLES			
Securities purchased for future settlement	6,266	125	2,614
Amount payable on share repurchases	-	985	-
Performance fee	2,558	6,416	1,148
Other payables	2,577	2,632	5,512
	<u>11,401</u>	<u>10,158</u>	<u>9,274</u>

	Six months ended 30.09.14 unaudited Shares £'000	Year ended 31.03.14 audited Shares £'000	Six months ended 30.09.13 unaudited Shares £'000
6 SHARE CAPITAL			
Issued, allotted and fully paid Ordinary Shares of 1 penny each			
Beginning of the period	571,354,480 5,713	653,229,480 6,532	653,229,480 6,532
Repurchase of Ordinary Shares of 1 penny each	<u>- -</u>	<u>(81,875,000) (819)</u>	<u>(57,490,000) (575)</u>
End of the period	<u>571,354,480 5,713</u>	<u>571,354,480 5,713</u>	<u>595,739,480 5,957</u>

7 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on net assets of £759,130,000 (31 March 2014: £656,152,000 and 30 September 2013: £634,969,000) and on 571,354,480 (31 March 2014: 571,354,480 and 30 September 2013: 595,739,480) Ordinary Shares, being the number of Ordinary Shares in issue at the period end.

8 UNAUDITED FINANCIAL STATEMENTS

The results for the six month periods to 30 September 2014 and 30 September 2013, 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 2014 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

AIF

Alternative Investment Fund. The Company is an AIF.

AIFM

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

AIFMD

The Alternative Investment Fund Managers Directive is a European Union Directive and came into force on 22 July 2013. The implementation date was 22 July 2014.

BENCHMARK INDEX

The [Benchmark Index](#) is MSCI China Index total return - in UK sterling 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 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.

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,

Glossary of Terms

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](#).

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.

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](#)).

Glossary of Terms

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 1.0% of the [Net Asset Value](#) of the Company. Prior to 1 April 2014 it was 1.2%.

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 – in UK sterling (after making good any cumulative under-performance, including the 2% hurdle, carried forward from previous years), subject to a maximum [performance fee](#) payable in any year equal to 1.0% 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](#).

Glossary of Terms

PUT OPTION

An option contract giving the owner the right, but not the obligation, to sell a specified amount of underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares.

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.

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

ALTERNATIVE INVESTMENT FUND MANAGER (AIFM)

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

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

DEPOSITARY

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

REGISTRARS

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

LAWYERS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Speechly Bircham LLP
6 New Street Square
London
EC4A 3LX

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

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: shareholderenquiries@capita.co.uk

Details of individual shareholdings and other information can also be obtained from the Registrars' website: www.capitaregistrars.com

Fidelity Share Plan investors

Fidelity Investment Trust Share Plan, PO Box 12062, Mellon House, Ingrave Road, Brentwood, Essex CM14 9LX. 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

Private Investors call free on 0800 41 41 10 and Financial Advisers call free on 0800 41 41 81, or by writing to: UK Customer Service, Fidelity Worldwide Investment, 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

FINANCIAL CALENDAR

November 2014 – announcement of Interim results

Beginning of December – Posting of Half-Yearly Report

31 March 2015 – financial year end

June 2015 – publication of Annual Report

July 2015 – Annual General Meeting
– payment of dividend

30 September 2015 – Interim period end

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.

Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and  symbol are trademarks of FIL Limited.

The content of websites referred to in this document do not form part of this Half-Yearly Report.

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 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, 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



Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and **F** symbol are trademarks of FIL Limited

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Cocoon 50 Silk; a paper containing 50% recycled fibre from genuine waste paper and 50% virgin fibre sourced from well managed, responsible, FSC® certified forests.

This is a certified CarbonNeutral® publication. Emissions generated during the manufacture and delivery of this product have been measured and reduced to net zero through a verified carbon offsetting project via The CarbonNeutral Company. This is in accordance with The CarbonNeutral Protocol, the global leading standard for carbon neutrality.

