

12 FEBRUARY 2010

UNITED KINGDOM

Fidelity China Special Situations PLC

Fidelity China Special Situations PLC

Fidelity ("FIL") is launching a new investment trust (the 'fund' or 'FCSS') to invest in a diversified portfolio of Chinese companies. It is to be managed by Anthony Bolton, widely regarded as one of the most successful fund managers of the last 30 years, backed up by Fidelity's Hong Kong-based investment team. The target capital raise is £650m and the fund is expected to be listed on the London Stock Exchange. The fund will exploit the closed-end structure to invest in an all-cap approach including a limited number of unquoted pre-IPO situations and will include the ability to use conventional gearing as well as long and short derivative positions. FCSS will also have at its disposal a range of discount/premium and liquidity management tools.

This document is intended only for "investment professionals" as defined under section 19 of the FSMA (Financial Promotion) Order 2005 or other persons properly classified as eligible counterparties or professional clients under FSA rules. No one else should place any reliance on it.

Under the Markets in Financial Instruments Directive and the Financial Services Authorities Conduct of Business rules this document is a Marketing Communication.

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Summary of Terms

The Summary of Terms is subject to amendment and potential investors should only rely on the prospectus itself.

Fidelity China Special Situations PLC

Issuer	Fidelity China Special Situations PLC
Domicile	United Kingdom
Listing	London, Main List – Premium Listing segment
Board	John Owen MBE CMG DL (Chairman), Doug Naismith, David Causer, Nicholas Bull, Peter Pleydell-Bouverie

Expected Timetable

Offer Closes Midnight 5 April 2010
 Applications under the Placing due by 12 noon on 7 April 2010
 Trading to commence on 19 April 2010

Securities Offered	GBP denominated securities – quote in Sterling on the LSE
Pricing	100 pence
Gearing	Borrowing restricted to 25% of Shareholders Funds May also use derivative instruments for gearing purposes Gross asset exposure (whether through borrowings or derivatives) will not exceed the net asset value of the company by more than 30%
Premium and Discount Management	Twice yearly tender opportunities, subject to Board discretion Tap issues of up to 10% of shares in issue over 12 month rolling period Normal buyback powers
Fees	Base fee: 1.5% of net assets. Annual performance fee: 15% of outperformance of NAV over the MSCI China Index plus a 2% hurdle rate. Total performance fee payable in any one year capped at 1.5% of net asset value Any outperformance above this cap will be carried forward. If the Company underperforms the hurdle rate in any year, the underperformance must be made good before any further Performance Fee becomes payable in future years. Both the Net Asset Value and the MSCI China Index will be calculated on a total return basis, while the Net Asset Value will be based on the weighted average number of Shares in issue.
Global Coordinator, UK Sponsor, Sole UK Bookrunner	Cenkos Securities Plc

Source: Cenkos Securities Plc

Anthony Bolton: Commitment and Track Record

Overview

The word most often associated with Anthony Bolton's investment style is "contrarian"...

Anthony Bolton's ("AB") investment style, which has been documented in some detail in at least two books, one of which he wrote himself (*Investing Against The Tide*), is most commonly associated with the word "contrarian". Indeed, if one were to take all the negative press coverage of China in the last month or so at face value, you'd have to be a contrarian to want to launch a China fund at the moment. Contrarian in this context does not simply mean, however, doing the exact opposite of everyone else, even if this were possible. AB emphasises the need for extensive research, including ongoing company meetings, quality of management, franchise and business model, balance sheet and cash flow. His typical valuation metrics are EV/EBITDA and P/E, as well as free cash flow ratios ("FCF") and cash flow returns on assets. He will ask questions about share registers e.g. are the shares over or under-owned by institutions; are insiders buying or selling; is the company a potential target for corporate activity through, for example, industry consolidation.

...although hard work also seems to play a significant role

He also likes to test in-house research against third-party research and is a proponent of technical chart analysis, using both in-house and external chartists' work (every Fidelity investment office has a "chart room") So although there is undoubtedly an element of being "born with it", there's also clearly a high degree of plain old-fashioned hard work involved. Given the types of metrics that AB is looking at, those that like investment style labels might add "Value" alongside the "Contrarian" label.

Personal Commitment

To put the two-year commitment into context, this is longer than almost any employment contract notice period

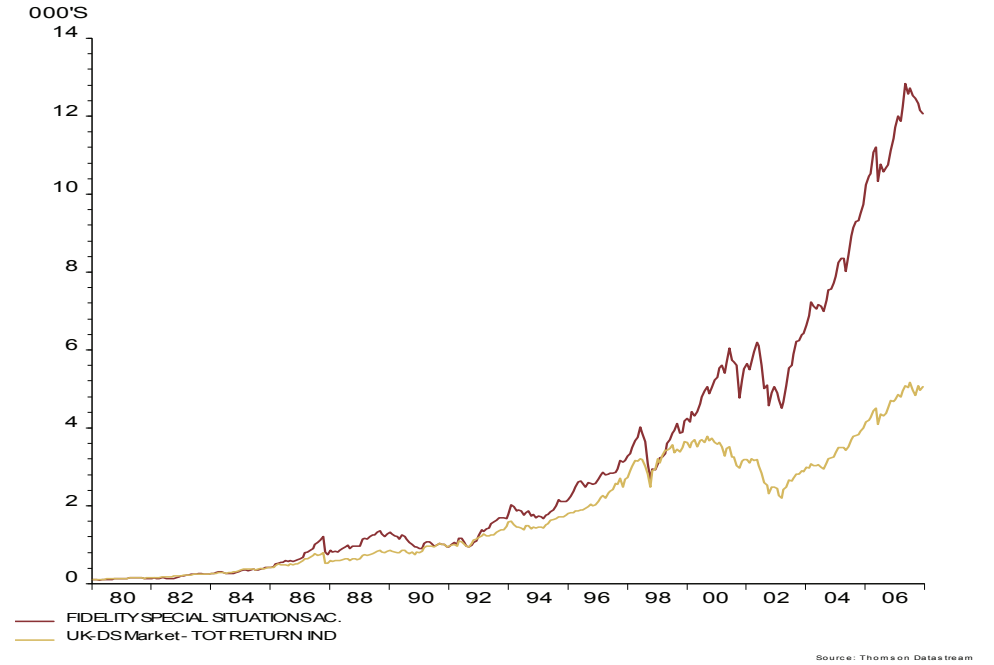
AB has stated that his minimum time commitment to managing Chinese equities is two years. This figure has been widely reported but must be put in context. First, even in an industry where notice periods are much longer than average, a notice period of more than two years is highly unusual. Second, although AB has not committed any further than this, the fact that a) he has postponed his retirement and b) is moving with his wife to live in Hong Kong are both substantial personal demonstrations of commitment. Clearly, there is an issue here, but it is highly unusual for anyone to give a commitment longer than two years in any job, and it has assumed greater importance because of AB's reputation.

A Reminder

Track record is sufficiently long to be statistically significant

Whilst on the subject of Anthony Bolton, let's briefly remind ourselves in chart form what his historical performance looks like. First, we have the Fidelity Special Situations fund, which he ran from December 1979 to December 2007, an unusually long period in the industry, and one that can be regarded as statistically significant. In other words there is enough data to conclude that there was more than just chance involved in the out-performance. Datastream doesn't hold total return figures for the FTSE All-Share that far back (retaining only the capital-only figures), so we've substituted Datastream's own UK equity index, which is a close-enough proxy for the FTSE All-Share for the purposes of this chart.

Fidelity Special Situations Total Return vs. Datastream UK Equities Index

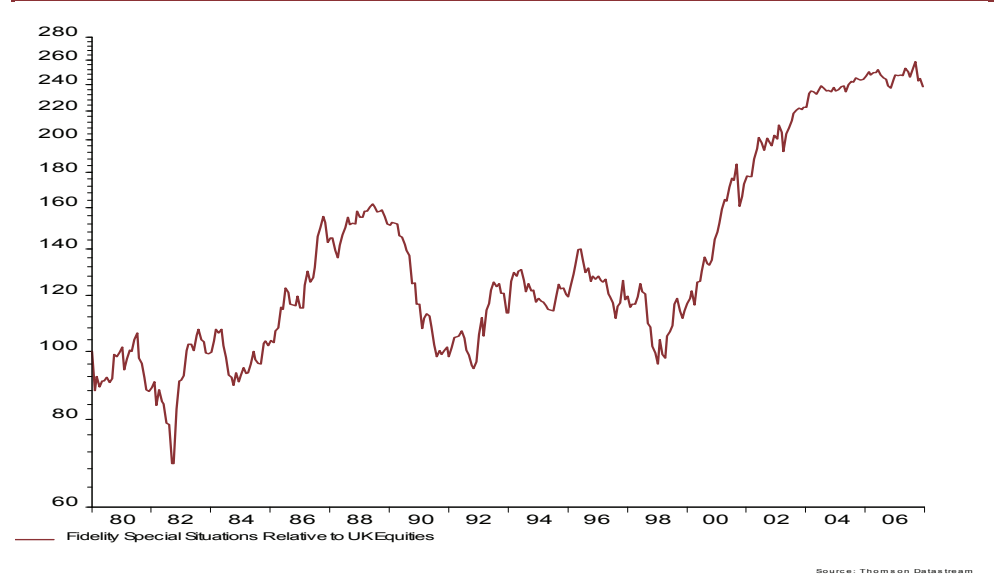


Source: Thomson Datastream

It's better to look at relative charts over long periods of time

Over long periods of time, charts like that can be visually misleading, so here's the same chart with the fund's performance divided by the market's performance. This makes it easier to see periods of out and under-performance and reminds us that a feature of AB's style is that performance can significantly diverge from the index in both directions. Note that this chart also has a log scale on the Y-axis to flatten out the cumulative performance of 30 years.

Fidelity Special Situations Total Return Relative to Datastream UK Equities Index

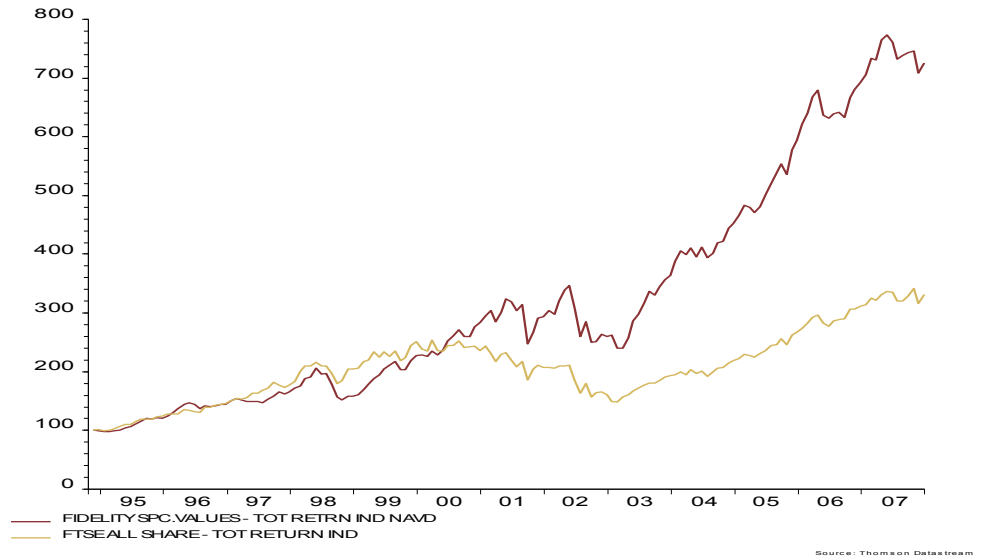


Source: Thomson Datastream

Investment trust mandates also produced impressive performance

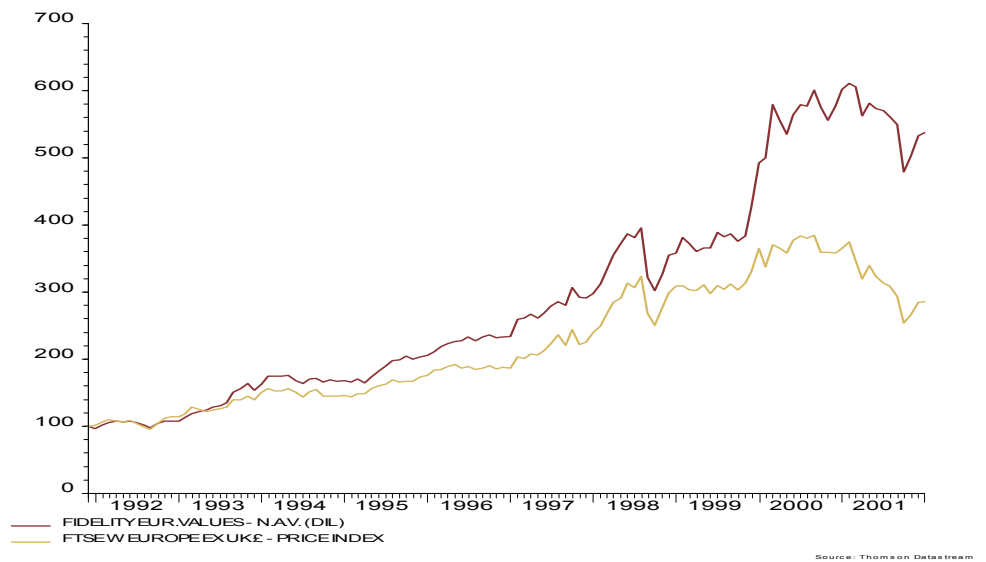
Next we have the two investment trusts AB ran, Fidelity Special Values PLC (FSV) and Fidelity European Values PLC (FEV). We won't labour the point about relative graphs and log-scales, these are just the straightforward performance charts.

Fidelity Special Values PLC NAV TR vs. FTSE All-Share TR



Source: Thomson Datastream

Fidelity European Values PLC NAV vs. FTSE World Europe Ex. UK

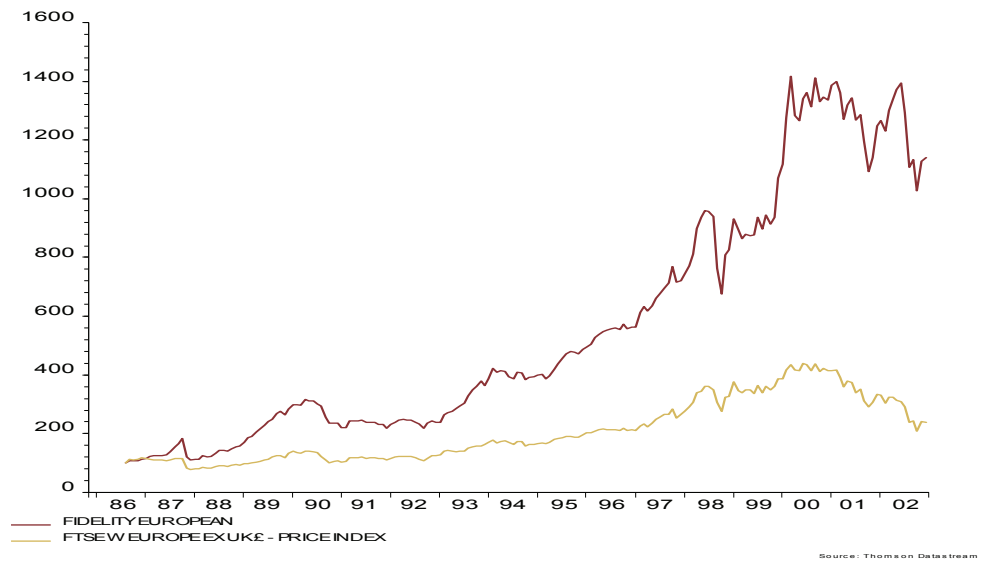


Source: Thomson Datastream

European experience is particularly relevant in some respects

In fact, as we'll come on to see, this ability to produce out-performance in Europe as well as the UK has some interesting parallels with the new China fund. So finally, here's the slightly longer European track record from the open-ended Fidelity European Fund.

Fidelity European vs FTSE World Europe Ex. UK



Source: Thomson Datastream

Clearly, this is an impressive track record to have assembled over the last 30 years.

How has Fidelity handled succession in the past?

Succession

Succession planning might seem premature, but it is relevant...

It seems premature to be discussing management succession before a fund has actually launched, but like the personal commitment question, it is relevant and deserves some exploration. Quite reasonably, AB says that you cannot plan a successor until you have worked with a team for some time. In addition, the Hong Kong office is likely to grow over the next few years, and so a definitive answer on succession will become clearer over time.

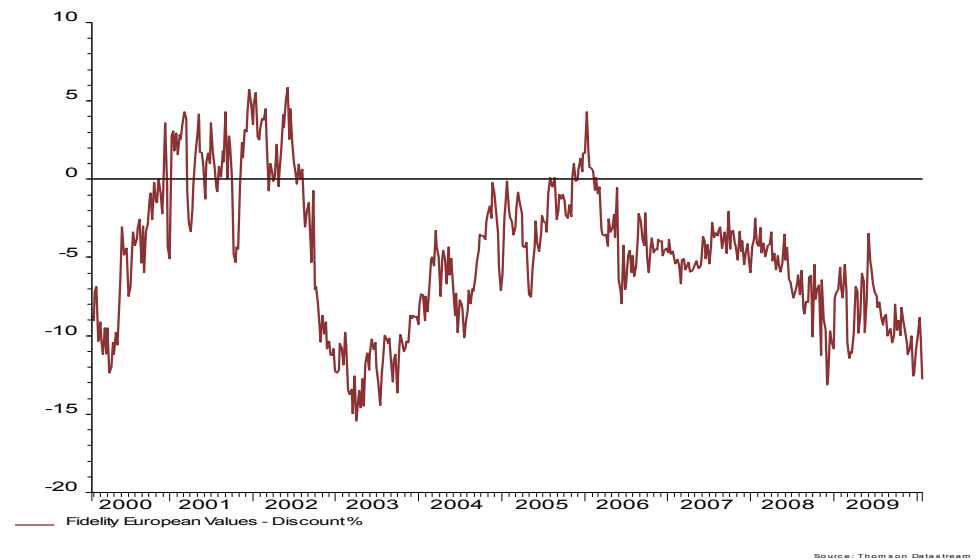
Fidelity's Record of Managing Succession in Investment Trusts

...and unusually we can look at two specific cases involving the same fund manager...

Unusually, we can examine two instances of Fidelity's handling of succession specifically relating to AB and investment trusts, rather than open-ended funds. Why is this important? Managing succession in an open-ended fund is mainly a commercial issue for the fund management group. Unitholders have to decide whether or not to stay invested, but the fact of succession has no bearing on the value of their holding today. For an investment trust, the issue is of more interest to all shareholders whether or not they wish to stay invested, because selling pressure has a direct effect on the share price of the investment trust itself, even if the underlying net asset value is unaffected. In other words, if the highly regarded fund manager of an investment trust announces he is stepping down, the shares can trade out to a discount if action isn't taken or strong discount control mechanisms aren't in place.

First, we have Fidelity European Values, where the announcement was made about a year in advance of AB stepping down at the end of 2001. The shares did not initially react in discount terms, but from early 2002 the shares traded from a modest premium out to a 15% discount.

Fidelity European Values PLC – Discount %

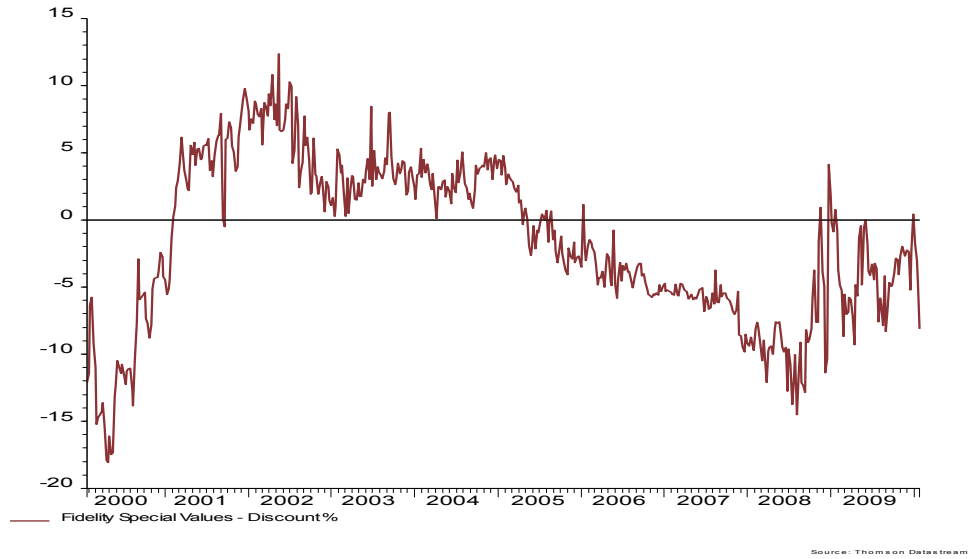


Source: Thomson Datastream

...the second time around, the discount was much better managed using share buybacks

Fidelity Special Values' succession was announced a couple of years in advance of the event itself, which occurred at the end of December 2007. The discount **did** start to drift out in the run up, but it was a much more gradual process than in the case of Fidelity European Values. Indeed, for most of this period, the discount remained in single digits, and the trust was an active buyer of its own shares – giving shareholders who wished to exit some additional liquidity. Now that AB's successor at Special Values has settled in, and has demonstrated some very good performance numbers, the discount has been on a narrowing trend.

Fidelity Special Values PLC – Discount %

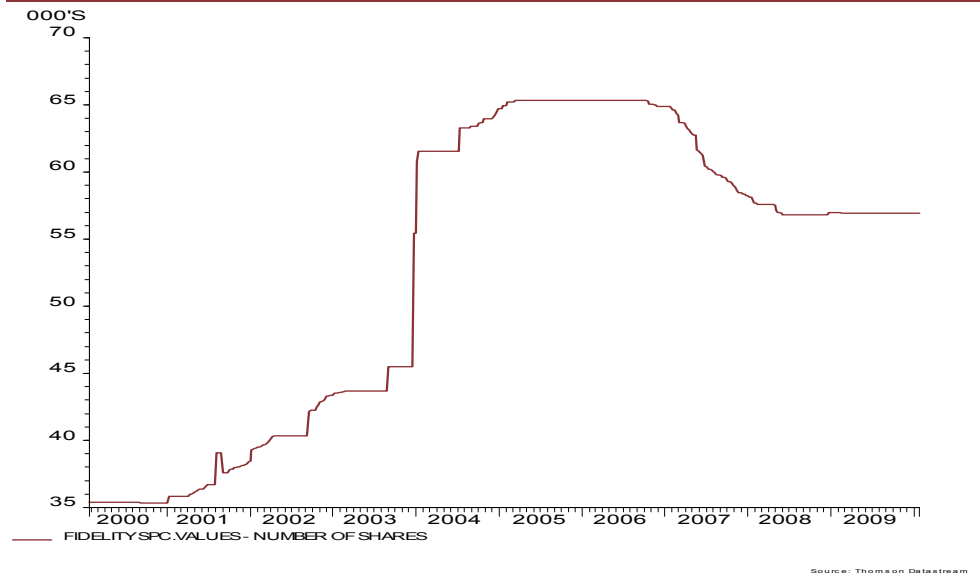


Source: Thomson Datastream

The *quid pro quo* for issuing shares is that you buy them back when the need arises...

The next chart shows Fidelity Special Values' shares in issue, which is a good way to track its share buyback activity. You can see that for a period earlier in the decade, Special Values was actually a net issuer of shares, in order to manage the premium rating which existed at the time. It subsequently began to buy shares back when a discount opened up.

Fidelity Special Values – Number of Shares in Issue

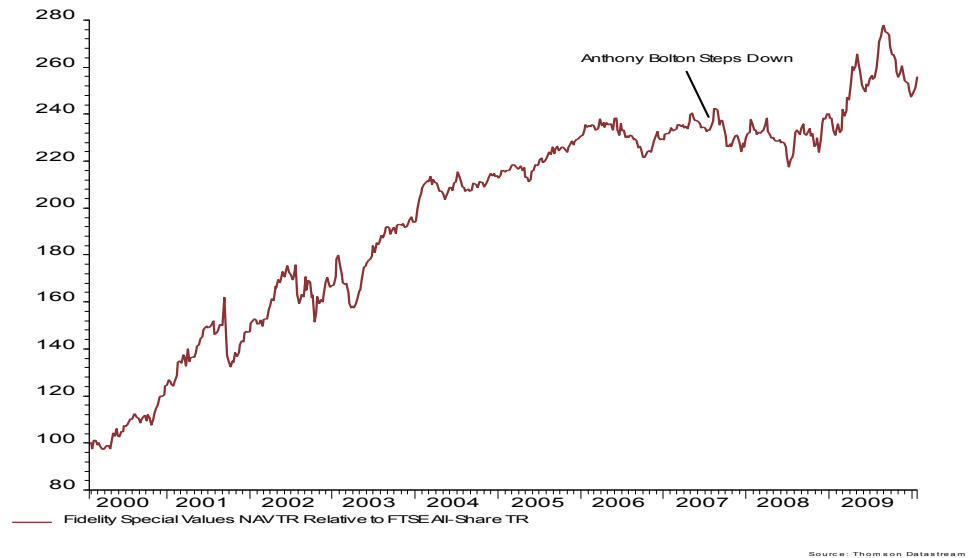


Source: Thomson Datastream

In strict fairness to Fidelity, one must also acknowledge that the two investment trusts had different independent boards, which can be very influential in matters such as share buybacks, although it would be unusual for a board to oppose buybacks if advised to do so by a fund management group. In any case, the second time around, Fidelity and the Fidelity Special Values board were armed with the perfect science that is hindsight, and from a discount and liquidity point of view, the issue of succession was much better handled.

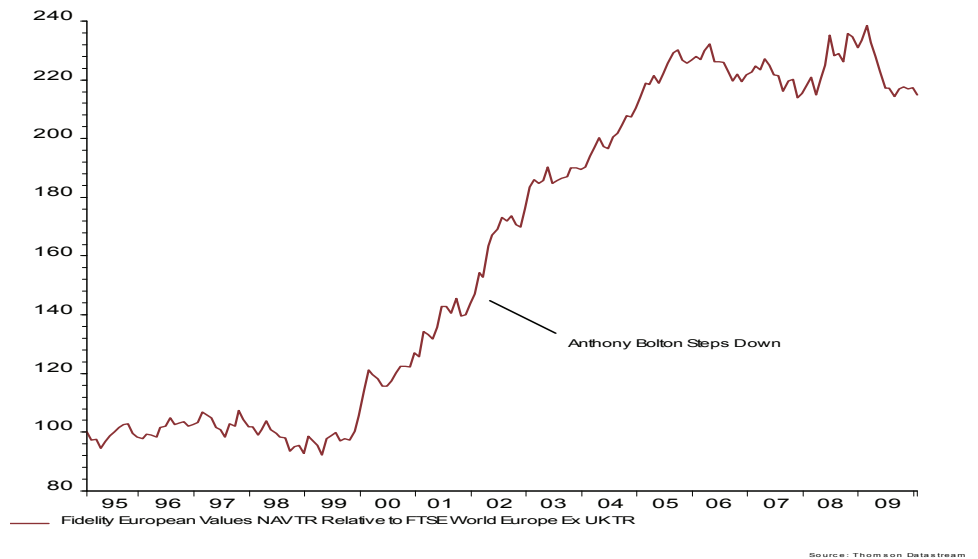
It is important to acknowledge that in terms of choosing a successor from an underlying performance point of view, both Fidelity Special Values and Fidelity European Values could be deemed a success, as the following two charts demonstrate.

Fidelity Special Values Relative to FTSE All-Share before and after AB steps down



Source: Thomson Datastream

Fidelity European Values Relative to FTSE World Europe Ex UK before and after AB steps down



Source: Thomson Datastream

Investment Management and China: Anthony Bolton's views

Fidelity is a major investor in research. Anthony Bolton also likes to use external research as a cross check

Fidelity's Hong Kong Office

In addition to AB himself, the Hong Kong office has two fund managers and five analysts running approximately US\$20bn in China and China-related mandates. Overall the Hong Kong office has nine fund managers and 12 equity research analysts. When you add in trading and management, there are 43 investment professionals in total. There are also wide resources available from Fidelity's global analysts – Fidelity has quite a sophisticated system that allows analysts and fund managers to communicate ideas and themes that might have implications across different stocks and regions. AB is in the process of recruiting an assistant, likely to be a local rather than someone from the London office, with the requisite language skills.

As well as quoted equities, Fidelity has been investing in private companies in China for a number of years

Fidelity has also been running a Chinese venture capital business, Asia Ventures, for the last fourteen years. AB anticipates that any unquoted stakes will be minority pre-IPO situations, and that these will not necessarily be sourced from the Asia Ventures business. FCSS has scope to hold up to 5% of its gross assets in unquoted stocks.

Anthony Bolton's own formal interest in China stems back several years

AB himself has been making trips to China since 2004, typically twice a year, and began investing a small portion of Fidelity Special Situations and Fidelity Special Values in Chinese stocks in 2005. Therefore he is not coming from a standing start and is already familiar with some of the names that are likely to go into the portfolio.

Research Access

AB is known to use third-party research from sources such as brokers, in contrast to many Fidelity fund managers who tend to rely almost solely on in-house research. He believes that local stock research is less well developed than in Europe, but that amongst that there is some good quality and he aims to foster relationships within this community. Fidelity's office has been in Hong Kong for 15 or 16 years, so already has good access to the brokers in the region.

Some of the third-party research Anthony Bolton has used in the past is also available for Chinese companies

In addition to brokers, AB has used an independent service for many years that produces a modified form of the value manager's favourite, the Z-Score, and he has found the same service covers many Hong Kong/China listed companies that he will be looking at. For reference, Z-Scores are a quant-based method of working out the probability of a company going bankrupt, using inputs such as working capital, assets, liabilities, earnings and sales. AB says that many of his mistakes in investment have been due to balance sheet, and that this service has proved invaluable over the years to check against his own views.

Fidelity is able to apply a substantial regional and global resource to a market that is, by Western standards, less well researched and consequently less efficient. This is one of the fundamental benefits of employing a fund manager with deep resources and a value-orientated contrarian style.

Language and Logistics

Going back to our earlier point regarding the particular relevance of AB's European investment record, the evidence suggests that the logistics and language barriers of investing over a large culturally diverse geographic area have not prevented AB from producing exceptional results. As an estimate, he says that about 60% of companies in Europe had someone English-speaking at senior management level when he started out, compared to perhaps 40% in China. English language skills are an aspiration in China and he expects this figure to rise.

Language is a barrier, but there are ways around it...

...should the best linguist or the best fund manager be running the money?

One observation AB has made in the past is that he found that the tradition in asset management houses was to put the best fund managers on the UK accounts and the best linguists on running European accounts. As a "non-linguist" he found that he could bring quite a lot to European accounts as a fund manager, which is borne out in the track record. AB freely admits that he is not a good linguist and he has no intention of trying to learn Mandarin. As in the case of Fidelity European, he will rely on colleagues and may

experiment with a simultaneous translation service, which he says some colleagues have been using successfully.

The Benefit of a Closed-Ended Fund

FCSS is, as we've seen, likely to be taking stakes in both mid and small cap quoted stocks, as well as unquoted pre-IPO stocks. Therefore, portfolio liquidity is an important consideration. AB's own view is that there will be sufficient liquidity in the portfolio to manage inflows and outflows, but he would far rather manage them on a planned basis – something that an open-ended fund would not allow. A closed-end fund by its nature doesn't *have* to buy shares or issue shares on any particular day, and FCSS's discretionary tender mechanism provides quite a long notice period for the fund manager to raise cash.

The closed-end fund structure has a number of advantages when investing in a capacity-constrained mandate

...as well as allowing the use of leverage

As a bull of Chinese equities, AB would also like to use gearing, which a closed-end fund is ideally suited to. As noted in the Gearing and Borrowing Policy in Appendix 2, the total leverage is capped at 30% of net assets.

QFII Licence and 'A' Shares

Although it is AB and Fidelity's firm intention to utilise its ability to invest directly into 'A' Shares once it has received its QFII licence, at an index level, AB admits that 'H' Shares, which often have an 'A' Share equivalent (i.e. the company is dual-listed) are typically cheaper, and certainly are at the moment. He believes, however, that in the mid and small cap space there are companies without an 'H' Share equivalent, and with share price ratings that he would be willing to pay for. Fidelity is able to gain exposure to 'A' Shares through, in effect, renting other QFIIs' quotas, and so for practical purposes the lack of a QFII licence is not an issue at the point of listing.

China 'A' Shares require a licence, which is expected to be granted in the next six months

Value investors – success in China?

AB expects corporate activity, which has been an important component of his performance in the UK, to be much less so in China. The same comment could be applied to his European portfolios, which could be characterised as being more growth orientated. Nevertheless, "growth" will not be purchased at any price, and "value" will still be a strong consideration. AB notes that evidence suggests that "value" is even more important in Emerging Markets than it is in Developed Markets. We'll explore this in a bit of detail in the next section, as it seems to us to be central to the question "why invest in China with a value-orientated fund manager?"

Some aspects of the contrarian/value style will be less in evidence in China, such as corporate activity

Can Value Investors Add Value in Growth Markets?

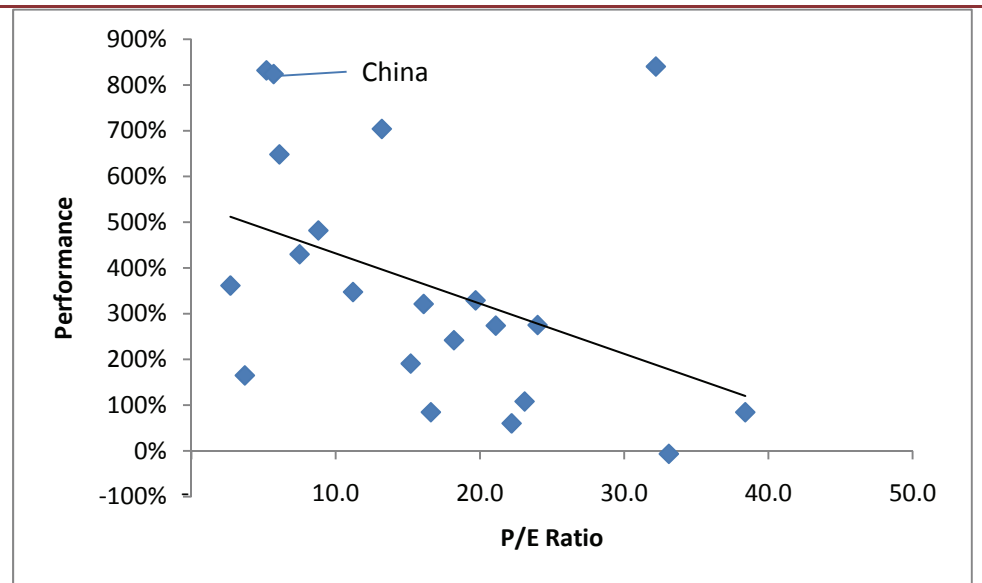
Intuitively you might think the best strategy in Emerging Markets is to chase growth stocks. After all, these are the high growth markets of the world, right?

It appears there is a very strong correlation between "value" and share price performance over long periods

Many people might consider Asian markets generally, including China, to be high growth markets where growth and momentum fund managers should flourish. So let's try to test the statement "Over the longer-term, value is even more important in Emerging Markets than it is in Developed Markets". By taking the market indices for a number of emerging markets and looking at their P/E ratios and price performance we can get a top down picture of whether the relationship holds true, and then go on to see whether it has any greater significance than it does in developed markets.

The first chart shows the relationship between P/E ratio and total return for the 20 or so countries that make up Datastream's Emerging Markets indices. In this case, we have started at the end of calendar 1999, taken the P/E ratio for each market at that time, and then the subsequent total return for the next 10 years up to 31/12/2009. If you bought the five markets with the lowest P/E ratios in equal proportions, your total return would have been 566%, whereas if you had bought the five markets with the highest P/E, your total return would have been 260%. We will explore this over a couple more charts and tables, but in essence, there does appear to be a relationship between valuation and returns over longer periods. Interestingly, the relationship also appears to hold true for China specifically, which is labelled on the chart.

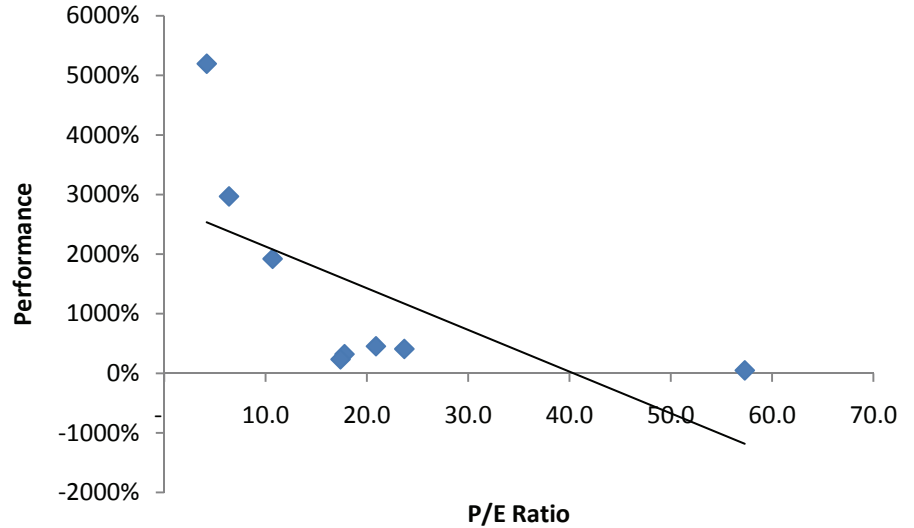
10 Year Relationship Between Starting P/E and Subsequent Price Performance



Source: Thomson Datastream

The twenty-year chart below, shows a similar pattern: the markets with lower starting P/Es tend to have produced higher share price performance, i.e. the trend line on the scatter graph slopes downwards left to right. Over 20 years, the sample size is quite a bit smaller due to a lack of historic data.

20 Year Relationship Between Starting P/E and Subsequent Price Performance



Source: Thomson Datastream

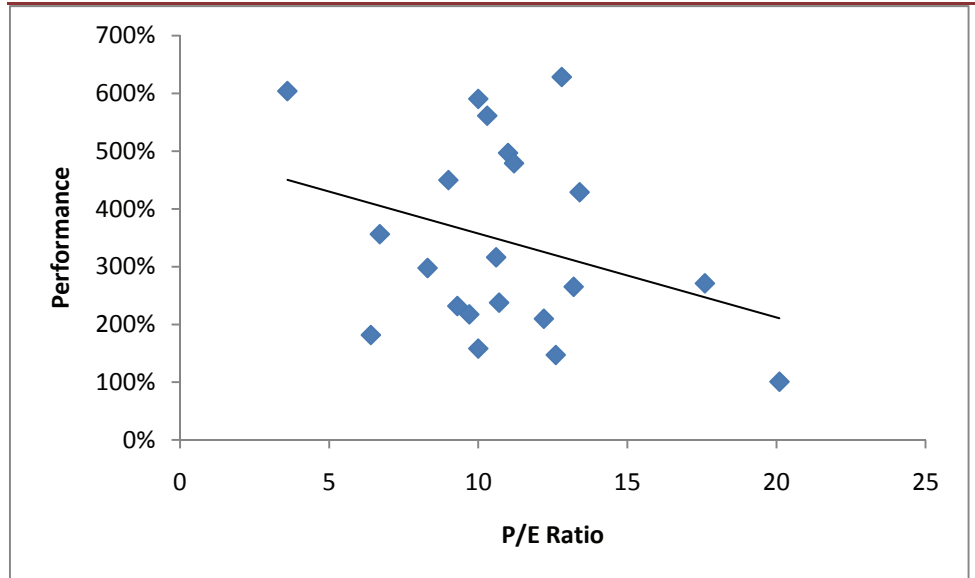
The pattern is becoming clear: don't buy markets trading above 30x earnings as a long term investment!

We won't labour the point by including it, but the fifteen year data also shows a similar relationship. In all three cases, it appears that paying more than 30x earnings as a long-term investor is a recipe for very low or even negative returns; twenty year investors in Japan will be all too familiar with this relationship.

The correlation is lower over shorter periods...

Looking at more recent data, the relationship begins to break down. This chart begins in March 2003 – around the low point for global markets in the last decade. There is still the downward-sloping left to right trend line mentioned above and at the two extremes the best performing market was the cheapest and the worst performing market was the most expensive. In between these two points, however, there was plenty of room for both growth and value managers to perform.

Starting P/E and Subsequent Price Performance from bottom of 2003 Bear Market

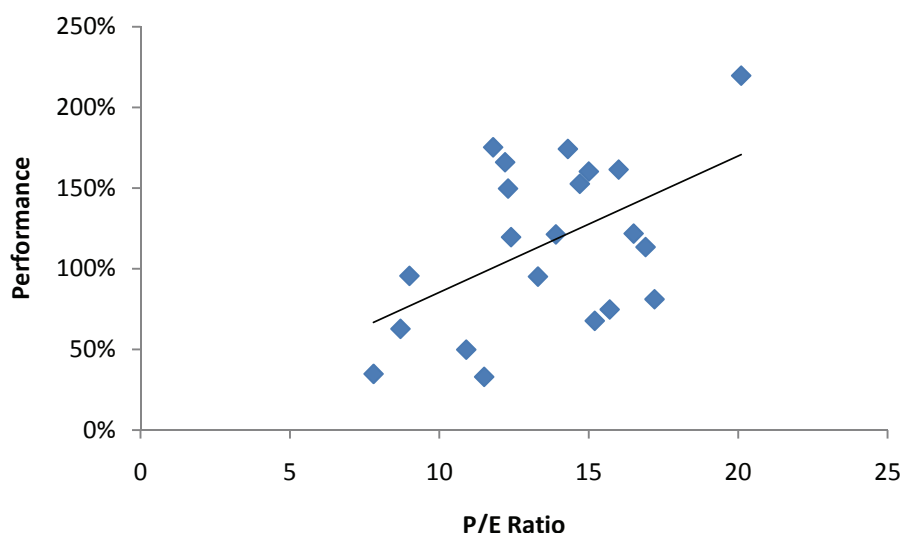


Source: Thomson Datastream

...and there will be periods where chasing growth is the right strategy

The five-year chart actually suggests that a strategy of buying higher P/E markets worked slightly better. So shorter-term evidence, which is what many investors inevitably focus on, is suggesting growth is the right strategy. To a contrarian, this is quite interesting, as the trend has been running for a few years now, helping shape consensus that "growth" is the place to be.

5 Year Relationship Between Starting P/E and Subsequent Price Performance



Source: Thomson Datastream

Finally, the last table brings developed markets into the mix just to illustrate that the same relationship appears to hold true over longer periods. Comparing the Datastream Emerging Markets universe to the Datastream World universe, we can see that over 10 and 20 years, in both cases valuation is extremely important. What we are showing here is the total return you would have generated if you had bought the top and bottom quartiles of each universe in terms of PE ratio. It is difficult to conclude that valuation is **more** important in emerging markets, and one would have to look at risk-adjusted returns to make a complete analysis, but the data strongly suggests that valuation is extremely important over long periods. Intuitively we probably all knew this was correct, but it's worth examining the figures to see whether it is true.

World & Emerging Markets 10 Year Relationship Between Valuation and Performance

	Datastream Emerging Market Universe		Datastream World Markets Universe	
Ten Years				
	Average PE	Average Total Return	Average PE	Average Total Return
Top Quartile	5	566%	8	483%
Bottom Quartile	30	260%	39	68%
Twenty Years				
	Average PE	Average Total Return	Average PE	Average Total Return
Top Quartile	5	4083%	9	1878%
Bottom Quartile	37	141%	32	279%

Source: Thomson Datastream

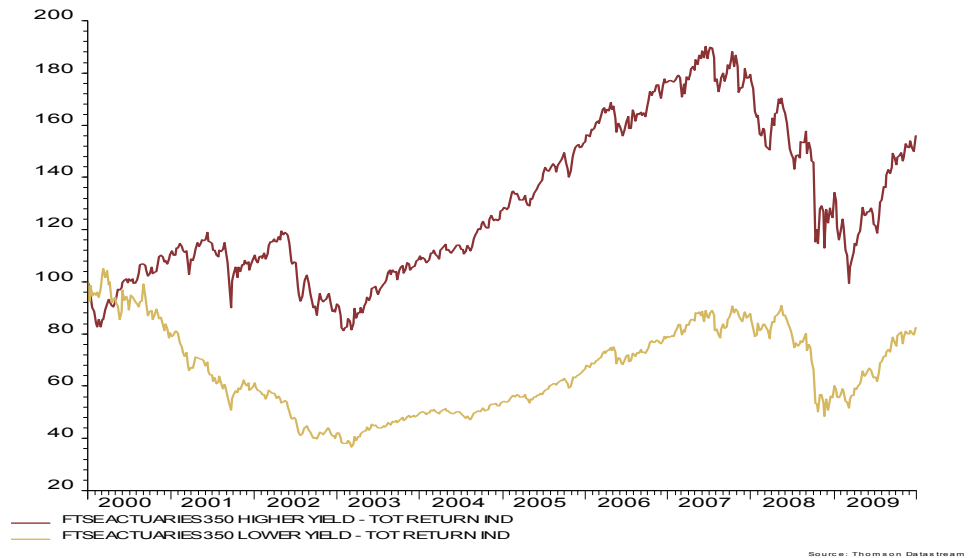
Scandinavian markets in particular show a similar value/performance relationship

It's quite interesting that if you analyse valuation versus return on developed markets, the Scandinavian countries, which Fidelity European Values was heavily invested in for many years, had some of the lowest PE ratios and largest subsequent returns in the sample group.

Note however that value investors can spend quite a long time waiting for others to appreciate the value of their stocks...

A further observation we would make is that value investors can spend quite a long time waiting for value anomalies to correct. The classic example is to compare the FTSE 350 High Yield index to the FTSE 350 Low Yield index, which are reasonable proxies in the UK equity market for Value and Growth respectively. If we first look at the chart of the two indices over the last decade, you can clearly see that value was the place to be.

UK: Value versus Growth

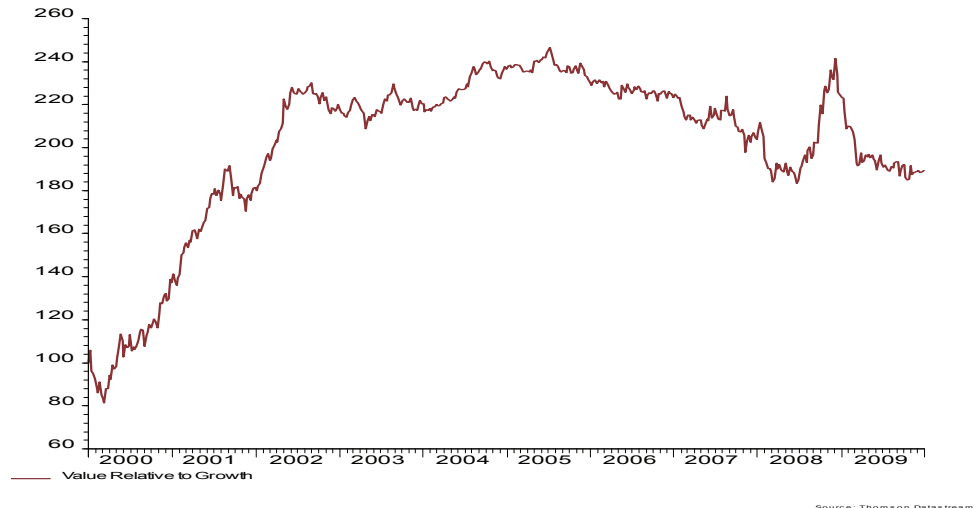


Source: Thomson Datastream

...value outperformed growth massively in the last decade, but most of the work was done in about two years in the UK

You've probably already guessed that we've used the optical illusion of cumulative performance on that last chart. If we now do the chart of value divided by growth to get the relative chart, you can see that Value's huge out-performance over Growth was largely generated in the first two years of the decade.

UK: Value relative to Growth

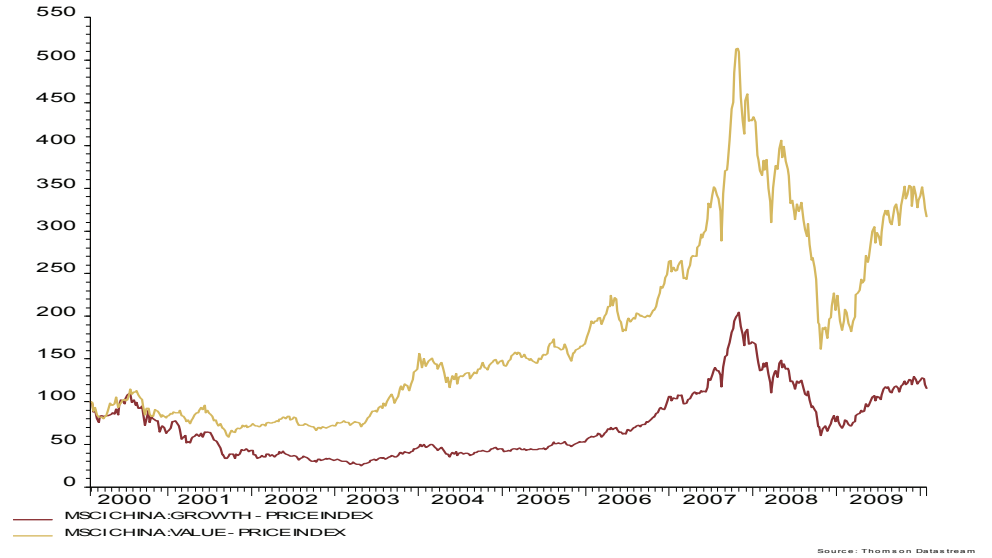


Source: Thomson Datastream

...and the same holds true for Chinese equities

“So how has value been performing against growth in China?” you might ask. The next chart shows the MSCI China style indices for growth and value. Once again, it appears that over 10 years, value has been the place to be.

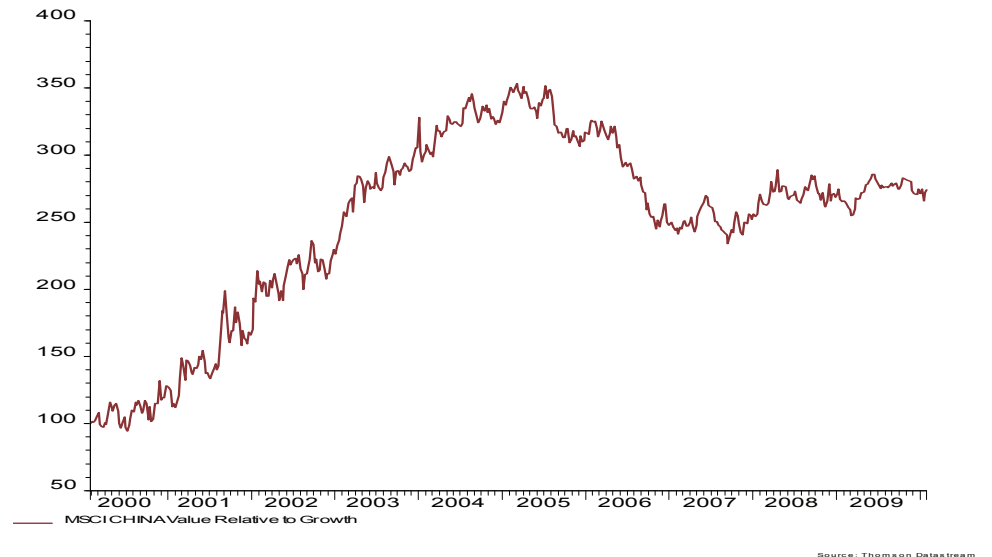
China: Value versus Growth



Source: Thomson Datastream

Again, we must look at the relative chart. We can see that value generated most of that outperformance in the early years of last decade.

China: Value relative to Growth



Source: Thomson Datastream

So the contrarian would have to be thinking that the trend against value has been running for quite some time now.

It's interesting that some of the best performing emerging markets fund managers would fall closer to "value" than "growth" if you had to classify their style

Whatever the labels you choose, it's fair to say that valuation is going to be a key criteria for the China portfolio, and long-term evidence does appear to support AB's observation about the superior returns that paying attention to valuation can produce. Indeed, if you asked anyone familiar with the investment trust industry who the best performing Emerging Markets and Asia Ex Japan fund managers were, they'd almost certainly name Mark Mobius (Templeton Emerging Markets) and Hugh Young (Aberdeen New Dawn among others), both of whom would put themselves more on the value side of the fence.

Risks

The FCSS Prospectus will have a highly detailed analysis of risks, to which we would also refer you. The risks below are some of the principal risks among those.

FCSS will not have a fully liquid portfolio

Liquidity of underlying portfolio

FCSS is expected to invest in a portfolio with a strong bias to small and mid cap companies, and also has scope to invest a proportion of its assets in unquoted companies. The closed-end fund structure is ideally suited to this type of portfolio since it does not have the daily inflows and outflows that are typical for an open-ended fund. Nevertheless, in extreme market conditions, liquidity of smaller companies may be severely impacted, with a knock on effect on FCSS's ability to manage discounts using buybacks and tender offers

Global fund flows can have a large effect both positive and negative on Chinese equities

Fund Flows

One of the key features of Emerging Markets generally and Chinese markets specifically is that their proportional representation in global stock market capitalisation is considerably smaller than their representation in the global economy. Therefore the opportunity is seen as being one of positive fund flows into these markets. However the reverse is also true – a relatively small change in global fund flows caused by a shift in sentiment, can have a large effect on pricing in these markets

There is a quite clear “key man” risk

“Key Man” Risk

We have dealt with this risk in some detail. Anthony Bolton's investment expertise is clearly a major element of FCSS. Fidelity and Anthony Bolton's track record of managing succession has been highly successful in terms of underlying asset performance produced by subsequent fund managers. FCSS has strong mechanisms in place to manage the discount risk that may be associated with a change of fund manager.

China is a “command economy” - a fund manager will not be able to easily anticipate government decisions that may have negative consequences for companies or sectors

Political

China is not an open market democracy, and although in some respects a “command economy” could be seen as an advantage when responding to global events of the last few years, there are risks attached. Decisions could be taken without consultation that render a particular company or sector's business model either invalid or materially less profitable. These risks are very difficult for a fund manager to anticipate.

Quantitative easing on this scale has never been seen before. The consequences of an end to this policy have no precedent to refer to

Macro Economic Factors

It is beyond the scope of this document to explore macro-economic factors in detail. However, the principal risks appear to be how the global economy, including China, responds to the inevitable end to the loose monetary policy that has been in place around the world in order to stimulate economic recovery. The scale of this action is unprecedented, and as a result there appears to be little or no precedent to fall back on when analysing the likely outcome of an end to this policy.

Use of Derivatives

Derivatives, including futures, options and contracts for difference, may be used to enhance portfolio performance as well as for efficient portfolio management and hedging. The Company's aggregate exposure through short positions will not exceed 15% of gross assets. We refer you to the detailed risk warnings in the company prospectus.

Gearing magnifies both positive and negative moves in the portfolio's value and as a result the net asset value and share price may be more volatile than the underlying assets

Use of Borrowings

FCSS intends to use borrowings to magnify the returns to shareholders. Use of borrowings works in both directions and negative portfolio returns will also be magnified. Liquidity risks (above) may prevent borrowings from being repaid immediately in extreme market conditions. Therefore the Net Asset Value is likely to be more volatile than the underlying portfolio assets.

Conclusions

FCSS's investment mandate, which includes small and mid-cap quoted companies as well as a limited number of unquoted positions, is best suited to a closed-end fund structure. Fidelity and AB are committed to managing the share rating and have included strong mechanisms in the structure of the company. AB himself has committed as much time as one could reasonably ask anyone to, and this commitment does not preclude him from staying in post for longer. Fidelity and AB have demonstrated their ability to pick successors that are capable of continuing his performance record.

Our analysis suggests that valuation, a key tenet of AB's style, is a very important driver of returns in all markets including Emerging Markets such as China, and AB's own track record already includes mandates where both language and geography were potential hurdles, which he successfully negotiated. We believe that this is an excellent time for a contrarian investor to invest in China.

Appendix 1 - About Fidelity

FIL Limited is an asset manager serving clients globally outside North America. Established in 1969, FIL Limited and its respective subsidiaries form the global investment management organisation that is commonly referred to as Fidelity Investments or FIL. FIL manages all significant asset classes for institutional and retail investors and employs over 4,000 people, of which 333 are investment professionals, in 21 countries managing US\$211.8bn worldwide including \$15bn on behalf of its North American affiliate Fidelity Management & Research ("FMR"). FIL also has access to resources within FMR LLC (a Fidelity Investments company in the US) and its subsidiaries. FMR LLC and its subsidiaries employ 494 portfolio managers and research professionals (Source: FIL Limited and FMR LLC as at 31.12.09).

Fidelity has a bottom-up, stock picking approach to equity investment...

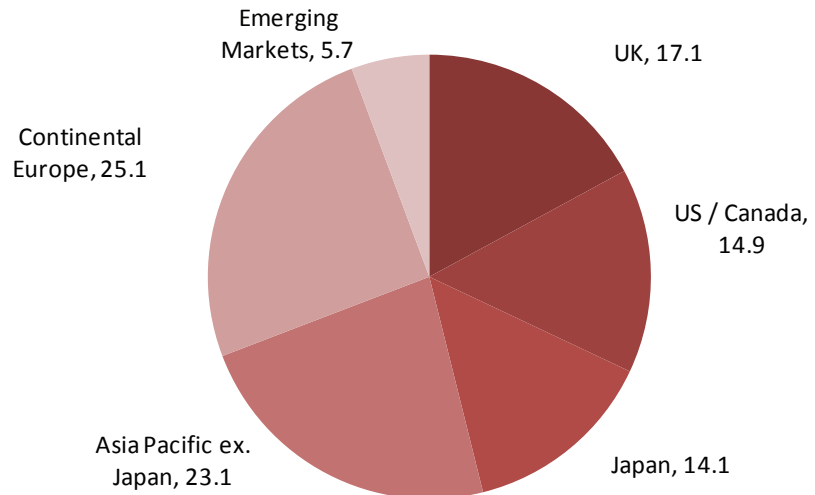
...and has invested heavily in in-house research over many years...

...as a privately owned company, it can invest through the cycle

FIL describes its investment style as "relying on fundamental research of companies and a strict bottom-up portfolio construction discipline." FIL has always invested heavily in in-house research, long before most asset managers in the UK, although this in-house research is more commonplace today. However, in many fund management organisations, the analyst role is seen as a stepping-stone on the path towards becoming a fund manager. At Fidelity, the analyst role is seen as a career path in its own right.

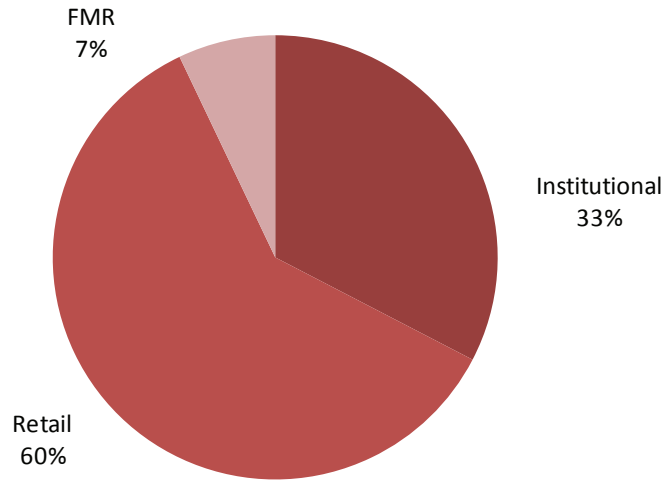
Fidelity is independent and privately owned. This means that it can take long-term investment decisions through the cycle, and as a result tends to have high levels of staff retention. It has investment professionals based in Hong Kong, Frankfurt, London, Milan, Mumbai, Paris, Seoul, Singapore, Sydney, Taipei and Tokyo.

FIL Funds under Management Q4 2009 % Split



Source: FIL Limited as at 31/12/09

FIL Funds by Client Type



Source: FIL Limited as at 31/12/09

Appendix 2 - Fund Details

The sections below in italics are reproduced from a draft prospectus dated 12/02/10 and should be read in conjunction with the final prospectus.

Investment Policy

The Company will invest in a diversified portfolio consisting primarily of securities issued by companies listed in China or Hong Kong and Chinese companies listed elsewhere. The Company may also obtain exposure to companies listed elsewhere which have significant interests in China or Hong Kong and may invest through equities, index linked, equity linked and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions, equity related securities and other interests including derivative instruments. Derivatives, including futures, forwards, options and contracts for difference, may be used to enhance portfolio performance as well as for efficient portfolio management and hedging. The Company's aggregate exposure through short positions will not exceed 15% of Gross Assets. The Company's interest in any one investment, will not, on acquisition, exceed 15% of the portfolio value. The Investment Manager is not required to seek to ensure that the Company's cash resources are fully invested at all times. Accordingly, there may be times when the Company holds cash or money market instruments pending investment.

The Company may invest in China A Shares both directly through the Investment Manager's QFII licence and indirectly through other investments, including equity linked securities, derivatives and collective investment schemes. At Admission, the Investment Manager will not have a QFII licence and the Company will therefore seek exposure to China A Shares through indirect investment.

Unlisted securities and assets other than listed securities, derivative instruments and cash

The Company is permitted to invest up to [5]% of Gross Assets in unlisted securities issued by, and other interests in, entities carrying on business, or which have significant interests, in China or Hong Kong. However, the Board has been advised that certain investments in unlisted securities and other interests would expose the Company to a material risk of a significant exposure to Hong Kong profits tax and no such investment will be made unless the Board is satisfied that there is no risk of a material exposure to tax as a result. It must be emphasised that there can be no guarantee that this will ever take place.

Borrowing and gearing policy

The Board considers that long-term capital growth can be enhanced by the judicious use of borrowing. The Board is responsible for the level of gearing in the Company and will review the position on a regular basis.

Under the Articles, the Company may borrow up to 25% of Shareholders' Funds. Any borrowing, except for short-term liquidity purposes, will be used for investment. The Company may also use derivative instruments for gearing purposes, in which case the investment restrictions will be calculated on the basis that the Company has acquired the securities to which the derivatives are providing exposure.

The Board has adopted the policy that the Gross Asset Exposure of the Company, whether from borrowing or derivatives, will not exceed the Net Asset Value of the Company by more than 30%.

China A Shares and QFII

In order to invest directly into Chinese 'A' Shares i.e. shares listed in Shanghai and Shenzhen, Fidelity requires a "Qualified Foreign Institutional Investor" licence ("QFII"). This gives the holder a quota of locally listed stock that it is allowed to buy. At the time of listing, Fidelity has not yet received its QFII licence, and anticipates it will receive it in about 6 months. Many Chinese companies are listed on other exchanges, notably 'H' Shares on the Hong Kong Stock Exchange, where many Chinese companies with 'A' Shares have a dual listing ('H' Shares are also often referred to as "Red Chips", which is a word play on the common Western expression "Blue Chips"). There are also many Chinese companies listed on NASDAQ, for example. It is also possible to "rent" another institution's quota for 'A' shares, and therefore the fact that the QFII licence will not be in place at the point of listing is not an obstacle to assembling a portfolio.

Fidelity requires a QFII licence to invest directly in China 'A' Shares

Discounts managed via bi-annual tender plus share buy backs

Discount and Premium Management

Any discount issues will be managed through a discretionary tender mechanism and the usual share buyback powers, which will be used to buy back shares for cancellation up to the standard 14.99% of shares in issue, after which shareholder approval must be sought to renew the buyback authority. Note that there is no intention to hold shares in treasury.

The tender offer mechanism will, if implemented, occur no more than twice a year. Each tender will be for up to 15% of shares in issue. The tender price will be calculated with reference to the NAV on the calculation date less a 5% discount.

The fund may use standard “tap” issue powers to drip feed blocks of shares into the market – on a rolling 12 months basis new shares equal to the amount of 10% of the existing share capital can be issued in this way.

Appendix 3 – The Board

The following section has been sourced from a draft prospectus dated 12/02/10 and should be read in conjunction with the final prospectus.

John Owen CMG MBE DL (Chairman)

Mr. John Owen, aged 70, is an independent non-executive director and Chairman of the Company. John has enjoyed successful careers in both the diplomatic service and industry. He served in the diplomatic service for thirty years until his retirement in 1999, serving in Indonesia, Vietnam, France, El Salvador, Iran, Brazil, China and London. John was British Consul General in Boston, USA from 1992 to 1995, and Governor of the Cayman Islands from 1995 to 1999.

John is currently chairman of several companies including Iceman Capital Advisers Limited, an investment advisory company specialising in investment in the developing markets of Asia. He has a number of directorships including Queensgate Bank Limited and Queensland Trust Company Limited.

John is also chairman of the Friends of Cayman in London. He is an Honorary Fellow of the University of Wales. He is also a Deputy Lieutenant of the County of Isle of Wight.

Nicholas Bull

Nicholas Bull, aged 57, is an independent non-executive director of the Company. He is also the Chairman of Smith's Corporate Advisory Limited, an independent corporate advisory firm based in London. Nicholas has over 30 years of experience as a corporate finance practitioner with Morgan Grenfell (subsequently Deutsche Bank), Societe Generale and ABN AMRO in London, Sydney, Singapore and Hong Kong.

Nicholas is a qualified chartered accountant and a member of Council of the University of Exeter.

David Causer

David Causer, aged 60, is an independent non-executive director of the Company. He is currently Chairman of the audit committee, and a non-executive director, of Schroder Income Growth Fund plc, an investment trust listed on the London Stock Exchange. He is a qualified chartered accountant and a member of the Securities Institute.

David has held a number of senior positions within financial services organisations including as finance director of Mercury Asset Management Group plc and as a managing director of Merrill Lynch Investment Managers until 2001. He was finance director of The British Red Cross Society until December 2007. He is a trustee of a number of charities and of a pension fund.

Douglas Naismith

Douglas Naismith, aged 50, is a non-executive director of the Company. He is managing director of the UK Institutional & Product Group at FIL. In addition, he is chief executive of FIL Pensions Management and FIL Investment Advisors (UK) Limited and a director of FIL Life Insurance Limited and a member of the Supervisory Board of Fidelity Investments S.A.S..

Douglas has spent a career of 27 years in asset management, eleven of which he has spent at FIL, joining the Hong Kong office in 1998 as a senior director and regional institutional head. In 2001, Douglas was appointed as managing director for FIL's South East Asia operations. He then spent a further four years in Hong Kong before returning to the UK to take up a position as head of UK and European direct retail businesses in 2005. Before taking up his current role, Douglas also managed FIL's European and UK defined contribution businesses.

The Hon. Peter Pleydell-Bouverie DL

Peter Pleydell-Bouverie, aged 52, is an independent non-executive director of the Company. He is an investment professional with over 29 years of investment experience, particularly in

the Far East and emerging markets. His current non-executive positions include acting as a trustee on investment committees for family and charitable trusts.

Previously, Peter spent ten years with FIL where he was investment director until 1996, managing Japanese unit trusts (including Japan Special Situations Trust), offshore funds, pension funds and the Fidelity Emerging Markets Fund.

Prior to his time with Fidelity International, Peter was an associate director at Kleinwort Grieveson Investment Management and fund manager at Grieveson, Grant and Co, where he also managed Asia focussed investment funds.

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