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The 14 stocks Bolton is backing to turn around performance

Fidelity China Special Situations manager reveals 14 of his favourite stocks as he bids to turn around performance after a year in which the trust's NAV fell by 18.5%. REXLot (Market capitalisation: 460m) (Portfolio weighting: 3.1%)

There is only one legalised form of gambling in China - the two state-owned lotteries, namely the Welfare Lottery and the Sports Lottery. These raise money by selling a range of products such as scratch cards, computer-generated tickets, bets on single-match sports games and on video lottery terminals.

Interestingly the total size of the two lotteries in terms of take is about US$35bn, a bit larger than the size of the total take in Macau and this figure is growing at about 30% a year. Exciting new products are being brought in that will allow tickets to be sold via mobile phones and the internet.

Because of the involvement of the state the area is not without risks. REXLot is one of the largest service providers to the lottery sector and is actively involved in developing the newer products. It is growing at about 20% a year, but only sells at about 8 times this year's estimated earnings. AsiaInfo-Linkage (520m) (2.3%) This is a US-listed Chinese company that Fidelity's Chinese private-equity business invested in before it listed on the stock market. Its main business is providing IT services and systems for the three large telecom carriers in China. It is a similar business to the US-listed Amdocs.

The stock has done poorly over the last 12 months or so until recently due to general fears about US-listed Chinese companies and some softness in its business at a time when costs have continued to rise. The growth rate is about 15% while the shares sell at about 11 times this year's estimated earnings (or only 6.6 times, stripping out the company's net cash from the market capitalisation).

Amdocs is growing at about 6% and sells on a similar valuation. The company has recently been approached by Chinese private equity investors who are looking to buy out the company. CSI Properties (205m) (1.2%) CSI is a small Hong Kong-based property developer. I was originally attracted to it because of the very cheap valuation of the shares which sold at a 75% discount to net assets, a level of discount I have only rarely come across in the West. I thought that if this could sell at a 50% discount (still a very high level) the shares could double in price.

CSI Properties shares have risen recently and now sell on a discount of 69%. I believe that in the developer market small companies can often be more attractive than larger ones as they are more geared to successful property deals, provided they are well-financed as CSI is.

Hutchison China MediTech (230m) (1.2%) I have spent some time trying to find Chinese companies developing Western-type small molecule drugs in China. My searches led me to this company (and an "A" listed company I also hold in the portfolio). It is a 71% subsidiary of a large Hong Kong-listed conglomerate, Hutchison Whampoa Group, and is, somewhat surprisingly, listed in the UK on the AIM market.

The company also has a healthcare division growing at about 20% a year selling traditional Chinese medicines in China. The company also owns a smaller consumer business selling food and beverages, beauty care and baby care products. The valuation of the shares can be justified by the latter two businesses alone while the drug discovery business, which could be very valuable if it finds a winner, is thrown in effectively for free. 3SBio (180m) (1.5%) Sadly, one of the fastest-growing diseases in China is diabetes. This is due to the changing nature of the Chinese diet as the country becomes better off and the fact that, in general, Chinese people are not

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particularly focused on healthy eating.

3SBio's main product is Erythropoietin ("EPO") which is used to help maintain red blood cell counts. All patients who go through dialysis need to take an EPO. 3SBio's EPO has a 41% share by value of the EPO market in China, nearly 3 times that of its nearest competitor. The stock is growing at about 20% a year and sells on about 14 times this year's earnings (or 8.4 times excluding cash).

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