FIDELITY CHINA SPECIAL SITUATIONS PLC

Final Results for the year ended 31 March 2020

Financial Highlights:

- The Board of Fidelity China Special Situations PLC (the “Company”) recommends a final dividend of 4.25 pence per share, an increase of 10.4% to the prior year.
- The Company recorded a net asset value (“NAV”) total return of -5.9% and share price total return of -6.5%. The discount to NAV moved over the period from 7.9% to 8.6%.
- April 2020 marked the Company’s 10th anniversary. Over the decade the NAV has increased by 160.8%, giving an annualised total return of 10.1%. The share price increased by 138.6%, giving an annualised return over the decade of 9.1%.
- The portfolio currently has six unlisted investments representing 6.0% of the Company’s Gross Assets, including Bytedance (TikTok), Didi (ride hailing), DJI (manufacturers of drones) and Pony.ai (driverless vehicles).

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CHAIRMAN'S STATEMENT

Our year to 31 March 2020, the tenth year since the Company launched, can be seen in two parts: the first nine months to 31 December 2019 and then, as Coronavirus ("COVID-19") hit in China, the quarter to 31 March 2020.

GDP growth in China for the year 2019 was a relatively robust 6.1%. However, in the New Year, as the virus struck, China entered the first of three phases: the stoppage of production and the restriction of movement. The second phase followed as the pandemic was brought under control and production resumed gradually. The effect of this was that growth in GDP in the quarter ended 31 March 2020 fell by 6.8%. The third phase followed at the beginning of our new financial year with the end of the Wuhan lockdown on 8 April 2020. By the end of April, economic activity had increased to the extent that growth of electricity consumption was back to the level of the same time in the previous year.

At the time of writing, economists in China are forecasting a significant rebound in the economy, with some estimates of positive GDP growth for 2020 as a whole. Clearly it is too soon to tell.

The stock market in China, which had risen 3.2% during the nine months to 31 December 2019, fell 4.2% in the first quarter of 2020 so that overall the MSCI China Index, against which we measure our performance, produced a total return of -1.0% during the year under review. Against that, the Company returned a NAV total return performance of -5.9%, which, as Dale Nicholls explains in greater detail in his report, was largely due to the underperformance of our smaller and mid cap companies in an environment where retail money followed the largest, best-known stocks in the index.

In April, in the midst of the COVID-19 crisis, our Company reached its 10th anniversary. Looking back over that decade, a number of things are clear. First, for our shareholders, on a total return basis, the NAV has increased 160.8% and the share price 138.6%, significantly outperforming the Index which increased by 87.4%. Looked at in terms of investment return, a shareholder who invested in the IPO in 2010 and reinvested all dividends will have experienced a share price annualised return over the decade of 9.1%. The annualised total return in NAV in the ten years since our IPO in 2010 has been 10.1%.

Second, in that decade, investors' attitude to China has developed in a major way. When the Company launched, commentators asked: "Why invest in China?" Now they ask: "What is the best way to invest in China?" Our objective from the start has been to provide investors the opportunity to include in their portfolios a direct exposure to the growing Chinese economy. Consistently through those ten years we have focused on the growth within China and have followed the growth in the Chinese middle class (both in size and in prosperity) by investing in companies providing products and services which they consume.

Third, the importance of China as an investment destination has been recognised by the increasing number of companies included in world stock market indices.

The Board of the Company sets aside a day each year to consider its strategy and, as we enter our second decade, we still believe that the best way to participate in China's growth is, first, through the medium of a closed ended vehicle – an investment trust; second, by utilising Fidelity's extensive in-country presence to identify companies that will grow, many of which have not yet been fully recognised; third, by investing in companies whose business is within China rather than being export-based; fourth, in utilising a portion of the portfolio to invest in unlisted securities ahead of their potential IPO; and fifth, utilising an element of gearing to reflect our long-term confidence in our investment proposition.

RISKS

The year under review saw the Company's ability to deal with a number of key risks stress tested; most significantly, domestic and foreign investor sentiment.

The principal risks facing the Company and investors, as identified by the Board, are set out below.

DUE DILIGENCE VISIT TO CHINA

The Board undertook its 10th annual due diligence visit to China in October 2019, visiting four cities in five days: Hong Kong, Shenzhen, Guangzhou and finally Shanghai. Two Board members remain from the launch of the Company and have been on each visit since inception. It was interesting to reflect on how much China has developed during that time – something which can be witnessed in the ever-changing skylines of each city, as well as through our busy schedule of meetings.

As in previous years, we met members of Fidelity International's investment and research teams in Hong Kong and spent time with the analysts who cover the individual stocks in which we are invested.

In each city, we met economists and industry experts and with the executive management teams of 17 companies, 16 of which were already in the portfolio and one which we have subsequently added in to it. We visited each company with Dale Nicholls and the relevant Fidelity research analyst.

In Shenzhen, we met with Tencent Holdings, the world's largest video game company and one of the world's largest social media companies, with venture capital and investment interests. It is the largest position in our portfolio and is one of the largest companies by market capitalisation in the world. We also met with the management of unlisted holding, DJI International, the world's leader in commercial and civilian drones and with Yuto, a company principally engaged in the research, design, manufacture and distribution of printed paper and packaging products.

In Guangzhou, we met with Pony.ai, a leader in autonomous driving, which subsequently became our newest unlisted investment. In the traditional automobile space, we visited China Meidong Auto Holdings, a chain of new car dealerships and service centres focused on the popularity of luxury cars in China.

Shanghai had a packed agenda of meetings with highlights including meetings with Noah Holdings, a wealth manager with a focus on financial services and asset allocation for high net worth individuals and enterprises in China, and China Pacific Insurance Group, one of the country's largest insurance groups.

Details of our ten largest holdings, as well as of the unlisted companies we have exposure to, are set out in the Annual Report.

Our visit reconfirmed our confidence in the Portfolio Manager and his team of research analysts. It was also a timely reminder of what a fast-developing and exciting country China remains to invest in and, although our visit preceded the COVID-19 outbreak, how well placed it is to face up to the undeniable challenges before it.

UNLISTED COMPANIES

The Company is permitted to invest up to 10% of its Gross Assets in unlisted companies. Starting with BNN Technology in May 2011 (IPO in July 2014) and then Alibaba Group in September 2012 (IPO in September 2014), we have invested in ten unlisted companies ahead of their planned IPOs, four of which have now listed. Each of these four investments appreciated significantly from purchase to IPO exhibiting superior annual rates of return while unlisted.

There is a higher risk associated with investing in unlisted companies. Not entirely surprisingly therefore, one of our ten investments has not been a success. Shanghai Yiguo, a supplier of on-line groceries, has not yet been able to fulfil its potential in a very competitive market place. Subsequent to the year end, we revalued upwards our holding in ByteDance by 27% following secondary market trading at that new level.

At the start of the year, we held five unlisted investments representing 4.8% of Gross Asset Exposure. At the end of the year, we held six investments representing 6.4% of the Company's Gross Asset Exposure.

More details of our unlisted holdings can be found in the Annual Report.

GEARING

The Company's unsecured fixed rate facility agreement with Scotiabank Europe PLC for US$150,000,000 matured on 14 February 2020. On the same date, the Company entered into a new three-year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US$100,000,000. The interest rate is fixed at 2.606% per annum until the facility terminates on 14 February 2023.

To achieve further gearing, the Company uses contracts for difference ("CFDs") on a number of holdings in its portfolio. Further details are in Note 20 below.

At 31 March 2020, the Company's gross gearing, defined as the Gross Asset Exposure in excess of Net Assets, was 25.2% (2019: 26.1%). The level of gross gearing is determined by the Manager within the limit set by the Company's Prospectus of 30%. Net gearing which nets off short positions was 23.2% (2019: 20.9%).

DIVIDEND

The Board recommends a final dividend of 4.25 pence per ordinary share for the year ended 31 March 2020 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 23 July 2020. This represents an increase of 10.4% over the 3.85 pence paid in respect of the prior year. The dividend will be payable on 28 July 2020 to shareholders on the register on 19 June 2020 (ex-dividend date 18 June 2020).

Shareholders may choose to reinvest their dividends to purchase more shares in the Company. Details of the Dividend Reinvestment Plan are set out in the Annual Report.

At the launch of the Company, it was envisaged that returns for investors would come from capital growth. Nevertheless, we have been able to increase the dividend per share every year for the last ten years (see Record Since Launch in the Annual Report). With interest rates decreasing, the Directors recognise that the dividend has become a more important part of the total return to shareholders. This year we have increased the dividend by 10.4%, a healthy increase, particularly when compared to investments in other more mature stock markets. It is our hope that we can go on increasing the annual dividend.

DISCOUNT MANAGEMENT

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

The Company's discount went from 7.9% at the start of the reporting year to 8.6% at the end of its reporting year (see chart below). During this period, the Board authorised the repurchase of 10,765,437 ordinary shares into Treasury, representing 2% of our share capital. These share repurchases have benefited remaining shareholders as the NAV per share has been increased by purchasing shares at a discount. Since the year end and as at the date of this report, the Company has repurchased a further 14,296,529 ordinary shares into Treasury.

At the forthcoming AGM, the Board is seeking to renew the annual authority to repurchase up to 14.99% of the Company's shares, to be either cancelled or held in Treasury, as it has done each year previously.

FIDELITY AS MANAGER

The Board has contracted with Fidelity to provide the Company with investment management and administrative services. In reviewing Fidelity, the Board notes Fidelity's leadership position in fund management in China where it employs a significant number of analysts on the ground in both Shanghai and Hong Kong. Furthermore, the performance of the Portfolio Manager, Dale Nicholls, since his appointment, has been ahead of the Benchmark Index (NAV per share total return of 119.8% and share price per share total return of 124.4% compared to the Benchmark Index return of 98.7%).

MANAGEMENT FEES

This is the first full year that the variable management fee arrangement with FIL Investment Services (UK) Limited, the Company's Alternative Investment Fund Manager (the "Manager") has been in place. Details of this fee structure are set out in the Directors' Report in the Annual Report. The variable management fee which became effective on 1 July 2018 provides an overall reduction from the previous management fee structure.

ONGOING CHARGES

The Ongoing Charge for the year was 0.99% (2019: 1.02%). The variable element of the management fee was a credit of 0.20% (2019: credit 0.09%), therefore the Ongoing Charge including the variable element was 0.79% (2019: 0.93%). I am pleased to report that the adoption of the variable management fee has contributed to the reduction in the Ongoing Charge for this year.

BOARD OF DIRECTORS

Peter Pleydell-Bouverie has served on the Board since the Company's launch on 19 April 2010. He will step down from the Board at the conclusion of the AGM on 23 July 2020. I would like to thank him on behalf of the Board and all of the Company's stakeholders and for his dedication and attention to detail in chairing the Investment Committee of the Board. We shall miss his wisdom as a Board member and he takes with him our good wishes.

As reported last year, David Causer, having served on the Board as a non-executive Director and Chairman of the Audit and Risk Committee since the Company's launch on 19 April 2010, and having completed nine years, stepped down from the Board at the conclusion of last year's AGM on 24 July 2019. As part of the Board's succession plan, Mike Balfour succeeded David as Audit and Risk Committee Chairman on 24 July 2019 following the AGM.

Also as reported in last year's Annual Report, the Board was pleased to welcome Linda Yueh as a non-executive Director with effect from 1 June 2019.

Having engaged the services of an executive head-hunter, our search for a new Director to replace Peter Pleydell-Bouverie is underway, with a number of preliminary stage interviews having taken place via video-link. We are proceeding as quickly as circumstances allow. Further details are in the Annual Report.

The Board's succession plan for the next two years can be found in the Corporate Governance Statement in the Annual Report.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, all Directors, with the exception of Peter Pleydell-Bouverie, are subject to annual re-election at the AGM on 23 July 2020. The Directors' biographies can be found in the Annual Report and, between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

In July 2019, the Board appointed a Board Apprentice, Megan McCracken, for a period of one year. This was a result of a government-supported scheme to give board exposure to aspiring non-executive directors, particularly women and minority groups. Our Apprentice attended all Board meetings and telephone calls as an observer and when she leaves us following the AGM in July, we wish her every success in securing a non-executive director role. We have started the process of appointing a replacement apprentice under this scheme.

From 2015, our Company Secretary was Bonita Guntrip. Suddenly, unexpectedly and tragically in May 2020, Bonita died at home during the virus lockdown. The Board would like to record both their appreciation for her work and support over the last five years, which was always delivered with professionalism and good humour, and our condolences to her husband and children.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Recent years have seen increasing concern about global warming, and the growth of serious efforts to counter its effects. Businesses for their part are under pressure to ensure that their activities are environmentally sustainable, as well as demonstrating social responsibility and good corporate governance.

The standards of ESG in China, as in other emerging markets, are not as developed as those of their more mature counterparts, though are increasing each year. As a stock picker, our Portfolio Manager attempts to assess the quality of governance in the companies he researches and visits, as experience has clearly shown that better governed companies make better investments.

Environmental standards are improving too, with President Xi's increased focus on power generation on a macro scale, as well as, on a micro scale, in the discharge practices of manufacturing companies, which has had a significant effect on a number of businesses.

Direct engagement with companies is an increasingly important aspect of investing responsibly and there are several examples of the Portfolio Manager having lobbied for better disclosure and governance. Our dealings with Sunny Optical Technology Group, which Dale Nicholls highlights in his Review, has been a key example of this initiative in action this year. Another area that our investment team has worked hard to influence is responsible sourcing in the supply chain within the apparel retail sector. The Portfolio Manager comments on this in detail in his Review below.

OUTLOOK

In these uncertain times it is appropriate to take a step back and consider the merits of investing in China through the Company. Over the long-term it is clear to me that China is too big to ignore and that every diversified portfolio should have exposure to the Chinese economy; and that this is best done by focusing on the growth within China.

In the shorter-term, we still have a way to go before we can declare the COVID-19 crisis over, but it does seem that China is leading the way out of this crisis economically. With factories back at work the supply side of the economy is recovering and now we need to see the demand side following. The centralised system of government in China permits the authorities to take actions to stimulate the economy and to fulfil their own objectives of continuing to increase the standard of living of their citizens.

ANNUAL GENERAL MEETING – THURSDAY 23 JULY 2020

In response to the wide spread of the Coronavirus (COVID-19), the current Government guidance stipulates that large gatherings of people are prohibited.

With this in mind, this year's AGM will be largely virtual in nature, with an online presentation by the Chairman and Portfolio Manager which will be made available online at fidelity.co.uk/china.

In order to satisfy the legal requirement to hold a physical AGM, we will be convening a meeting at 11.00 am on 23 July 2020 at Flat 2, Fidelity International, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent, TN11 9DZ. Only one Board member and one additional shareholder will be present at this meeting due to current government restrictions. The other member has already been contacted and has confirmed his attendance in person. Therefore, anyone who ignores government advice and attempts to join the meeting in person will not be admitted.

The meeting in person will be restricted to the formal business of the meeting as set out in the Notice of Meeting in the Annual Report and voting on the resolutions therein.

Paper copies of the Portfolio Manager's presentation can be requested by email at investmenttrusts@fil.com or in writing to the Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP.

It is not the Board's intention to exclude or discount the views of the Company's shareholders, but at the moment, the health of all investors, workforce and officers must be paramount. We urge all shareholders to make use of the proxy form provided. If you hold shares through the Fidelity Platform or a nominee (and not directly in your own name) proxy forms are not provided and you are advised to contact the company with which you hold your shares to determine alternative options (if available) for lodging your voting instructions.

We encourage all investors who have any questions or comments to contact the Secretary so that she can relay your comments to the Board, and we will respond in due course.

We thank you for your cooperation and sincerely hope to resume the meeting's usual format in future.

NICHOLAS BULL
Chairman
3 June 2020

PORTFOLIO MANAGER'S REVIEW

QUESTION
How has the Company performed in the year under review?

ANSWER
The twelve months to 31 March 2020 were characterised by high levels of uncertainty driven by speculation and fear. During the first nine months of the period under review, speculative news flow about possible outcomes of the Sino-US trade dispute and a slowing pace of overall economic activity in China dominated investor sentiment. Just when the signing of the "Phase One" trade deal between the US and China brought some respite, a black swan event unfolded as COVID-19 emerged as an epidemic in China.

The country responded with a range of measures, including restrictions on movement in January 2020, stalling the economy. Chinese policymakers implemented pro-active prevention and control measures including extending the Chinese New Year public holidays, imposing large scale quarantines and travel restrictions and declaring a nation-wide lockdown to curtail the contagion. As the virus spread from China across the world and assumed pandemic proportions, there was a significant surge in stock market volatility.

As a result of the strict containment measures, China recorded a steep decline in new infections and this prompted a narrative of 'China first in, first out' from the crisis. Chinese equities were caught in this downtrend yet outperformed global indices supported by this narrative.

Despite this, smaller market capitalisation stocks experienced substantial declines compared to larger market capitalisation stocks. Over the period from 1 April 2019 to 31 March 2020, on a total return basis, the Company's NAV declined by 5.9%. During this period, the MSCI China Index returned -1.0% while the Company's share price returned -6.5% in total return and UK sterling terms. A heavier than benchmark weighting to smaller-sized companies was a significant factor in the relative underperformance. The conservative write-down of values of some of the unlisted companies also detracted from performance.

QUESTION
What about the top five holdings specifically? And what have been the key contributors and detractors?

ANSWER
The portfolio's preferred consumption-led holdings delivered strong performance over the reporting period. A noteworthy contribution came from China Meidong Auto Holdings, a prominent automobile dealership network and long-term top holding, which focuses on the premium car segment in China, with brands such as BMW, Porsche and Lexus. Its revenues exceeded expectations supported by accelerated new store openings. It also reported encouraging growth in margins, as the increase in luxury car sales boosted strong growth in its aftersales service business.

Alibaba Group Holding and Tencent Holdings continue to be core holdings in the portfolio and are central pillars of the Chinese economy in general, with businesses spanning e-commerce, online gaming, cloud services and rapidly growing finance businesses centres around payment. Many of these businesses are seeing accelerated growth as a result of the virus outbreak. Notwithstanding the fact we have significant exposure to both stocks, and that they have contributed to performance, our relative underweight position contributed to us lagging the Index. In my view there are better opportunities to be had elsewhere at the moment.

The position in 21Vianet Group, the leading carrier-neutral internet data centre (IDC) in China, boosted returns. Carrier neutral IDCs allow a range of customers to locate their servers and networking equipment in one location. China's internet infrastructure industry is among the fastest growing in the world, driven by mobile as well as enterprise-led data demand. Adding Alibaba as an enterprise client was a key win, evidencing strong strategy execution from management.

Among financial holdings, China Pacific Insurance Group (also a top five holding) and China Life Insurance Company detracted from returns, amid concerns over impact on agency productivity as the restriction limited any engagement and direct sales. Nervous investors overlooked the strong jumpstart in China Life Insurance's sales and the encouraging growth in new business value margins reported in its recent results. Both stocks are trading near historical low valuations despite the strong growth prospects for the industry in the mid-term. This is another area where I feel growth could accelerate coming out of the shutdown.

Chinese wealth management specialist Noah Holdings experienced fraud-related losses in one of its supply chain financing products in the early months of the period under review. The management team engaged proactively in the subsequent evaluation and reviewed all its products comprehensively. While remaining mindful of the impact of investment flows in the short-term, I am confident the company can recover and that its long-term positioning in a market with significant growth potential remains unchanged. Its recent quarterly results demonstrated the resilience of the underlying business model and I retain conviction in its management team. I have added to the position.

Another key detractor over the year was a position in Hutchison China MediTech. Shares in the biotechnology company suffered after its largest shareholder reduced its stake as it realised some value from its long-term holding. In doing so, the parent company accepted a discounted valuation, which weighed on investor sentiment. Hutchison China MediTech continues to see solid cash flows from its traditional Chinese medicine business and continues to maintain solid progress in what is an exciting oncology drug pipeline.

QUESTION
With the top 5 holdings representing 40% of the portfolio, why do you spread the rest among 140 other stocks?

ANSWER
The investment opportunities in China are diverse and span a number of markets. Generally, larger companies are better understood and more appropriately priced. Smaller companies tend to be less well covered, offering more mispricing opportunities, and thus more upside as they grow and liquidity improves over time. Fidelity is uniquely positioned to uncover and research these opportunities given the depth of the team. While the goal is always to own more of the best opportunities, factors such as liquidity can limit the size of the investments we can make in each company. I believe shareholders will benefit as these smaller companies grow and become recognised by the broader market over time.

QUESTION
And what about the performance of the wider market?

ANSWER
Over the review period, uncertainty around outcomes of "Phase One" of the US-China trade deal and how much it will weigh on China's decelerating economy have weighed on the market. Chinese policymakers remained very committed to supporting economic activity and actively managed internal stimulus measures to reduce the pressure and manage the slowdown.

Once these concerns tapered off, the COVID-19 contagion came to the fore and brought considerable uncertainty, which prompted a forceful response from the Chinese government in restricting activity to prevent the potential spread of infection. There has also been huge volatility in performance between companies and sectors, with the market efficiently rewarding those companies that are set to benefit from the containment phase and punishing those in the firing line on the economic impact, especially those with a more global footprint. I retain a focus on companies in sectors such as consumer and technology, which I expect to benefit from the structural growth drivers that we have been highlighting over the past years.

QUESTION
How are individual companies going to be impacted by the virus?

ANSWER
I believe that many of the broad trends that were already underway in China will be accelerated as a result of the virus. It is not just Alibaba Group Holding and Tencent Holdings that are likely beneficiaries of the ongoing shift to online usage. Holdings such as independent data centre operator 21Vianet Group, will be a clear beneficiary of increased data traffic. We estimate over 40% of the Company's holdings are potential beneficiaries of such shifts. If we were to include sectors like healthcare and life insurance, which is already an area of structural growth, but is likely to see renewed interest post-virus, this exposure moves closer to 50%.

The Company has significant exposure to personal consumption and the impact to these companies really depends on the nature of the business. For some products, we may see some pent-up demand that could eventually be realised. Autos may be one such area - and we are seeing positive signs of recovery in the auto dealer we own, China Meidong Auto Holdings.

A key assumption here is that we don't see significant damage to incomes and related consumer sentiment – and the initial signs of recovery give us hope here. For some products and services, lost demand is unlikely to be made up, and areas like travel are likely to be the last to recover.

Given the lagging recovery for other parts of the world, one needs to be cautious for companies with such exposure. This remains relatively small for the Company, with revenues from outside Greater China comprising less than 10% of the total.

As a broader process point, while 'in-person' company meetings have been paused for now, we are undertaking a full schedule of virtual conversations, which are proving to be highly effective. Our access to corporates and industry experts remains as strong as ever.

QUESTION
What is your assessment of the Chinese government's response to COVID-19? How much stimulus will Small and Medium Enterprises ("SMEs") need to weather the storm?

ANSWER
As we have seen in China, containment has huge economic consequences. We need to assume significant shorter-term declines in broader measures of growth (i.e. GDP). We have seen a massive response from governments around the world, both on the monetary and fiscal side. While it varies by industry and by region, we are now seeing a clear ongoing recovery in activity. There will be many challenges in recovery, including the risk of a "second wave" of infection and the demand shock from overseas for export-related sectors. Given the procedures in place, any resurgence in cases is likely to be detected and acted on rapidly, which could delay the recovery, but is unlikely to require the strict shutdowns we have seen earlier this year.

The Chinese government has announced a series of stimulus measures, which are encouraging but I expect more significant measures to be announced. Bold moves other central banks have made give the People's Bank of China room to ease. Infrastructure spending is likely to be boosted, with notable funds already being raised by local governments in bonds, and there is an expectation of more to come. Government directives to the banks will support corporates - but a concern will be how much of this makes it to SMEs. The fallout from the sharp slowdown is something that needs to be closely monitored.

On the consumption front, to date we have seen supportive measures such as the issuance of consumption coupons and provinces and cities announcing subsidies in areas such as auto and home appliances. Again, on the regional level, I believe we will see further actions to loosen rules regarding number plate acquisition, another support for the auto market. Easing of regulation around property purchase also seems likely. What is clear to me, is that spurring on domestic consumption remains a priority for the government. In my view, the natural development of the middle class will remain the strongest driver of consumption growth in coming years.

QUESTION
What do the events of the past six months mean for US-China relations?

ANSWER
I always believed that China and the US would arrive at some semblance of a trade deal over the course of 2019, which played out with the "Phase One" trade deal. However, this is far from an all-encompassing deal and investors will now endure further rounds of negotiations. I expect this will be a long drawn out process and, in any case, the COVID-19 virus may result in trade negotiations being put on hold. While one would hope that this health crisis would bring governments closer together, we unfortunately do not seem to be headed in that direction.

As I have said in the past, I believe tensions between China and the US will be with us for decades to come. The Company remains focused on opportunities supported by ongoing structural shifts in China within the domestic economy.

QUESTION
How have valuations changed in the period under review? Small caps have lagged large caps quite markedly for some time. What are the drivers behind that?

ANSWER
The inclusion of US-listed ADRs into MSCI China began in late 2015 and continued until the first half of 2016. These stocks were large-sized companies and their inclusion directed significant passive flows towards them. This in turn attracted higher levels of interest among retail and institutional investors as well as those who were presumably drawn to the growth prospects and were willing to pay the premium valuations that such stocks began to command. A marked pick-up in flows through Stock Connect, the trading scheme linking Shanghai and Shenzhen with Hong Kong, also served to boost market sentiment and direct flows towards the larger cap stocks as a first port of call.

The performance of the MSCI China Index has, at times, been led by a relatively narrow set of large cap names. It is an interesting and relevant observation from the chart above that while small cap stocks have lagged the larger capitalisation segment, mid cap stocks have outperformed.

While we recognise the performance differential among market cap categories, we also maintain that Fidelity's advantage lies in stock-picking based on the extensive real time and on the ground research resources that support our process. We believe this is a distinct advantage and the Company has been able to identify and invest in several stocks at an early stage of their market cap journey and benefited as the underlying thesis becomes more widely recognised.

It's been a tough couple of years for small caps as they have underperformed the broader market. However, as we have seen in previous corrections, when markets stabilise, and as long as companies can execute, that will be reflected in the share price. Obviously, we need to make sure the companies we invest in can survive this crisis, and as such we are spending more time analysing balance sheet strength. We are very much focused on those companies that can come out of this period with higher market share and stronger market positions.

QUESTION
How has the development of China's capital markets evolved over the period under review?

ANSWER
While China's economic clout is indisputable, the position of its capital markets is less robust. Large parts remain controlled and sometimes opaque, particularly for outsiders unfamiliar with the territory. For the A share market, some arcane rules around things like IPOs remain, and we have seen several cases where governance and enforcement has been lacking. Such factors are clearly part of the reason why China has not been afforded a proportionate role in global asset allocation thus far. However, there has been a perceptible change as the mainland opens its arms ever wider to foreign inflows. The launch of the Hong Kong-Shanghai Stock Connect programme in November 2014 and the extension of the Hong Kong-Shenzhen Stock Connect removed one of the most significant barriers for international investors - market access.

Another development is the Shanghai Stock Exchange Science and Technology Innovation Board, also known as the Star Market, which debuted in July 2019. This is considered China's attempt to ensure its most innovative companies look to the onshore markets for listing rather than the traditional options of Hong Kong or NASDAQ. The sheer breadth and depth of China's onshore markets and the lack of formal institutional investors mean the stocks are relatively under-researched and provide rich stock-picking opportunities for active investors. Over the last 10 years, China has gone from 1.9% to 4.9% of the MSCI AC World Index. It will continue to rise - I expect the growth of China will be the largest shift in global equity and bond indices in the next decade.

Capital markets will naturally mature on the back of this increased institutional and foreign participation. As China's weight grows in global indices, it will be harder for global investors to ignore.

China retains many traits typical of an emerging economy, including restrictions on capital flows, still-maturing markets with a dominant retail investor-base heightening sentiment-driven volatility, and the ever-present prospect of government intervention alongside the usual macroeconomic and sector-specific risks. China's debt growth, while on the radar of authorities, remains problematic and will clearly accelerate as part of a necessary response to the COVID-19 virus. This clearly needs to be monitored. Meanwhile, the escalating tensions between China and the US are causing swings in global risk appetites and have already had an impact on Chinese manufacturers of goods, such as circuit boards, microprocessors, vehicle parts and machinery.

Over the next few years, I am hoping we will see more reform from the government within its State-Owned Enterprises ("SOEs"). Many SOEs have attractive assets, and have the potential for higher returns under strong, incentivised management teams. While there are certainly opportunities in this space, it is worth noting that the core of the portfolio is still very much focused on private companies, with strong management teams, which tend to operate in those sectors set to benefit from structural change in the economy, such as consumer, technology and pharmaceuticals.

QUESTION
As Fidelity China Special Situations PLC celebrates its 10th anniversary, how much has the Chinese equity market and indeed China itself changed in the past 10 years?

ANSWER
China is recognised as being a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, mean investors increasingly consider exposure to China when building a balanced investment portfolio. Since its launch in 2010, the Company has offered direct exposure to China's growth story. As Portfolio Manager, it is my job to try to identify and invest in companies that are best placed to capitalise on China's transformation.

From my point of view, the drivers of performance of Fidelity China Special Situations PLC have always been – and will continue to be – the individual stocks that we invest in. Many of the stocks the Company owns play into the growth and development of the domestic consumer. The rise of the middle class, its tremendous spending power, increasing aspirations and the way they consume, underpin a number of the portfolio's investments.

The Company's focus has not changed, even during this current environment. We are seeing a shift in the economy away from reliance on investment, net exports etc, and towards consumption. Obviously, consumption is a core theme in the portfolio: supported by the natural development of the middle class, and we have seen the emergence of strong local brands. We continue to see high levels of innovation and development in areas like technology and healthcare. Well managed companies have grown and some very significantly. Who would have thought that we would have the likes of Alibaba and Tencent now together exceeding 30% of the MSCI China Index?

Tencent was the first internet company to list on the Stock Exchange of Hong Kong in June 2004. It was added to the MSCI China Index in May 2008. Since then its total market cap has risen to $488 billion from $3 billion. Its weighting within the MSCI China Index increased to 14.5% as at the end of March 2020 from just under 2% at the time of its inclusion. Alibaba Group, which we have held before IPO, listed on the New York Stock Exchange in September 2014 and was added to the MSCI China Index in December 2015. Similarly, we have seen its weighting within the MSCI China Index increase to 17.4% as at the end of March 2020 from just under 4.5% in 2015.

Another area in which we have seen progress is Environmental, Social and Governance ("ESG") standards. This is happening from a government level, with regulations supporting ESG. For instance in September 2018, the China Securities Regulatory Commission ("CSRC") established an ESG information disclosure framework. The regulator announced that by 2020, it will mandate all listed companies and bond issuers to disclose ESG risks in their annual or semi-annual reports. And back in 2017, the CSRC revised Corporate Social Return reporting guidelines for listed companies, mandating key polluting companies to disclose environmental information, and encouraged listed issuers to disclose information on ecological protection and property alleviation efforts.

From a corporate level, many Chinese companies are making strong efforts to improve disclosure, ESG reporting, responsible sourcing monitoring etc. Alibaba Group issued their first Environmental, Social and Governance Report in 2018, which identified ESG issues as most critical to the sustainability of the company. The company acknowledges it has a significant social responsibility to take intellectual property infringement seriously. And we have seen results with breakthroughs in recent years to include expansion of Alibaba Anti-Counterfeiting Alliance, express IPP, multilingual trademark support and enhanced reporting channels.

There are other examples such as Sunny Optical Technology Group and Li Ning that have shown they are open and willing to adopt change in this area. They have also responded well to our ESG engagement approach (more detail below). Investors, domestic and international, are also accelerating ESG integration in China and raising awareness among corporates. Foreign ownership of A-shares is expected to accelerate and bring with it increased scrutiny on ESG policies and practices. We are also seeing domestic asset managers fast adopting the concept and practice of ESG integration.

QUESTION
How has your gearing positioning changed over the reporting period?

ANSWER

Gearing levels reflect the opportunities that I see in the market at any point in time - it tends to move up when there are more buying opportunities and down when there are less. The net gearing level moved down into the low teens in late February when I felt there were increased risks in the market, particularly around the COVID-19 virus. The subsequent fall in the market created more buying opportunities. Adding to long positions and closing short positions led to a sharp increase in net gearing during March.

QUESTION
Pony.ai is a new addition to the portfolio – what of your Unlisteds more broadly?

ANSWER
I view the capacity to invest in unlisted companies as very important in terms of getting full exposure to China and its investment opportunities. The Company allows for up to 10% of gross assets in unlisted investments. In March 2020, a new position in an unlisted company called Pony.ai was added. This increased the portfolio's total unlisted exposure to around 6.0% as at the end of March. Pony.ai is China's leading autonomous driving (AD) technology company, based in Silicon Valley and China. We first met the management of Pony.ai as part of our ongoing work on the AD industry and have been closely following its progress.

With a stellar team, the company is a technology leader, which has helped the firm to secure strategic partnerships with leading car manufacturers, including Toyota and Hyundai. To put its business into perspective, there are five leading players globally in this nascent industry, with limited opportunity for newcomers given high capital requirements and advanced technological progress already achieved by the incumbents. Having taken test rides in its cars several times, I can vouch for the performance - they compare quite favourably versus human drivers in my view.

I am positive on the outlook for the other unlisted companies in the portfolio and believe we have taken a conservative approach to valuing these companies.

QUESTION
How do you incorporate Environmental, Social and Governance ("ESG") into your process? Do you have any examples?

ANSWER
Considering ESG factors is a core part of our investment process. At Fidelity, we believe that high standards of corporate responsibility make good business sense and have the potential to protect and enhance investment returns. Consequently, our investment process takes ESG issues into account when, in our view, these issues have a material impact on either investment risk or return. Our proprietary ratings system enables us to quantify relevant elements and compare the positions of different companies.

Our core belief is that if governance is weak then concerns related to a company's environment and social impact will potentially follow. Equally, these concerns are reduced with robust governance. As a result, ESG is not an overlay, but embedded in all our fundamental analysis of any company which we consider for investment. I do not screen out companies from our investment universe purely on the grounds of poor ESG performance but rather adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest, or are considering investing in. We believe it is an advantage to us and our clients to build positive relationships with our investee companies as this enhances our ability to introduce constructive change where required.

For example, Sunny Optical Technology Group is a company that is in the portfolio. It's one of China's leading integrated optical device manufacturers. We felt the company's ESG disclosure was limited and the governance of its sustainable strategy could be clearer. We engaged directly with the company to provide it with this feedback. After positive conversations, we welcomed its management team's proactive approach to enhancing their ESG reporting. The company has made big improvements already by including ESG in its 2018 annual report. We encouraged increased transparency on greenhouse gas emissions targets, sustainability matters and water usage calculations. In addition, we also encouraged the company to review international reporting standards such as Global Reporting Initiative.

Another example is Li Ning, a company with a very strong local brand. We initiated a thematic engagement on human rights and responsible sourcing in the supply chain within the apparel retail sector. Insufficient management of ESG factors in the supply chain open companies up to reputational, operational and regulatory risk and the apparel industry is dominated by multi-tier supplier relationships with a lack of traceability and rapid market driven changes. The company has recently updated its human rights guidelines to include coverage of its full operations including suppliers. It runs a quality assessment scorecard for each supplier and human rights has a 10% weighting of this assessment. Its management runs on-site assessments of each of their suppliers and if they are in serious breach of any human rights issues, they will sever ties with that supplier.

QUESTION
As we go into a new decade, what should investors be focusing on in the months and years ahead?

ANSWER
Volatility in the market is not always a bad thing - it can often create opportunities where we have conviction around the long-term value of businesses. The current environment is certainly one of those times and I have taken advantage as reflected in the increased gearing. I note that the current valuation of the portfolio is one of the lowest versus the market we have seen in years. I continue to be positive on the outlook for the Company and remain a happy shareholder in a personal capacity.

My core focus remains on consumer and technology-related companies, which I expect to benefit from the structural growth drivers that we have been highlighting over the past years. COVID-19 seems likely to accelerate many of these trends. The shift online, be it in e-commerce or services like online education, coupled with the need to manage the data that drives this, will become even more paramount. As I said earlier, it's not just Alibaba Group and Tencent Holdings that are likely beneficiaries of the ongoing shift to online. Holdings such as independent data centre operator 21Vianet Group, will be a significant beneficiary of increased data traffic. By our calculations over 40% of the Company's holdings will be beneficiaries of such shifts.

DALE NICHOLLS
Portfolio Manager
3 June 2020

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

As required by provisions 28 and 29 of the 2018 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/ the "Manager"), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties that the Company faces. The Audit and Risk Committee carried out a separate exercise in February 2020 to identify any new emerging risks and take any action necessary to mitigate their potential impact. The risks identified are placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of existing and emerging risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit and Risk Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company. The risks are unchanged from those reported in the prior year apart from the addition of the "Pandemic risk" and some additional updates to the "Market, Economic and Geopolitical risk" and the "Cybercrime risk".

Principal Risks	Description and Risk Mitigation
Market, Economic and Geopolitical risk	Investing in an emerging market such as the People's Republic of China (PRC) subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability (such as the ongoing geo-political tensions between China and the US) legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background is core to the Company's continued success. The Board reviews material economic, market and legislative changes at each Board meeting. Most of the Company's assets and income are denominated in currencies other than sterling which is the Company's functional and presentation currency. As a result, movements in exchange rates may affect the UK sterling value of these items. This includes the US dollar loan facility. The risk of the likely effects of COVID-19 on the markets is discussed in the Chairman's Statement and in the Portfolio Manager's Review above. These risks are somewhat mitigated by the investment trust structure which means no forced sales will need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon. Risks to which the Company is exposed in the market risk and currency risk categories are included in Note 19 to the Financial Statements below together with summaries of the policies for managing these risks. The Company's unlisted investments by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than the other investments in the portfolio. No transaction is made in an unlisted investment until the Board is satisfied that this would not subject the Company to a material risk of exposure. As at 31 March 2020, holdings in unlisted companies was 6.0% of Gross Assets. The limit maximum limit is 10%. The Company has exposure to a number of companies with all or part of their business in Variable Interest Entity ("VIE") structures. A VIE structure facilitates foreign investment in sectors of the Chinese domestic economy which prohibit foreign ownership. The essential purpose of the VIE structure is to convey the economic benefits and operational control of ownership without direct equity ownership itself. As these entities have a controlling interest that is not based on the majority of voting rights, there is a risk to investors of being unable to enforce their ownership rights in certain circumstances. The proportion of the portfolio which is invested in companies operating a VIE structure is monitored on a monthly basis by the Manager and holdings are reported to the Board on a regular basis. As at 31 March 2020, 52.3% (2019: 44.8%) of the companies in the portfolio had a VIE structure (Benchmark Index: 43.4% (2019: 40.2%)).
Investment Performance risk	The achievement of the Company's investment performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to NAV and share price underperformance compared to the Benchmark Index. The Company has a clearly defined strategy and investment remit. Borrowing and derivative limits are set by the Board in line with the Company's Prospectus. The portfolio is managed by a highly experienced Portfolio Manager who is supported by a large team of analysts. The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the portfolio against the Company's Benchmark Index and that of its competitors and the outlook of the markets with the Portfolio Manager. The emphasis is on long-term investment performance and the Board accepts that by targeting long-term results the Company risks volatility and underperformance in the shorter-term. Performance for the financial year is outlined in the Chairman's Statement and Portfolio Manager's Review above.
Key Person risk	There is a risk that the Manager has an inadequate succession plan for key individuals. The loss of the Portfolio Manager could lead to potential performance, operational or regulatory issues. The Manager identifies key dependencies which are then addressed through succession plans. Fidelity has succession plans in place for portfolio managers which have been discussed with the Board.
Discount Control risk	Due to the nature of investment companies, the Board cannot control the discount at which the Company's share price trades to Net Asset Value ("NAV"). However, it can influence this through its share repurchase policy and through creating demand for the Company's shares through good performance and an active investor relations programme. The Board has a formal discount control policy whereby it seeks to maintain the discount in single digits in normal market conditions. The Company's share price, NAV and discount volatility are monitored daily by the Manager and regularly reported to the Board.
Gearing risk	The Company has the ability to invest up to the total of any loan facilities in equities. The principal risk is that the Portfolio Manager fails to use gearing effectively, resulting in a failure to outperform in a rising market or underperform in a falling market. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. The Company has a US$100,000,000 unsecured fixed rate facility agreement with Scotiabank Europe PLC which has been fully drawn down. In addition, the Company can also use contracts for difference ("CFDs") to obtain further gearing exposure. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.
Cybercrime risk	The operational risk from cybercrime is significant. Cybercrime threats evolve rapidly and consequently the risk is regularly re-assessed and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager's technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk is frequently re-assessed by Fidelity's information security and technology teams and has resulted in the implementation of new tools and processes as well as improvements to existing ones. Fidelity also has established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance. Risks are increased due to the COVID-19 crisis, primarily related to phishing, remote access threats, extortion and DDoS. The Manager has a dedicated detect and respond resource specifically to monitor the Cyber threats associated with COVID-19.

Pandemic risk	As the COVID-19 outbreak continues to spread, there has been increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis and will take all reasonable steps to continue meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. For example, to enhance its resilience, the Manager has mandated work from home arrangements and implemented split team working for those whose work is deemed necessary to be carried out in an office. The Manager has also imposed self-isolation arrangements on staff in line with Government recommendations and guidance. Investment team key activities, including portfolio managers, analysts and trading/support functions, are performing well despite the operational challenges posed by working from home or split team arrangements. The Company's other third party service providers have also confirmed the implementation of similar measures to ensure no business disruption.

Other risks facing the Company include:

TAX AND REGULATORY RISKS
There is a risk of the Company not complying with the tax and regulatory requirements in the UK and China.

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains.

The Board monitors tax and regulatory changes at each Board meeting and through active engagement with regulators and trade bodies by the Manager.

OPERATIONAL RISKS
The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. The Registrar, Custodian and Depositary are all subject to a risk-based programme of internal audits by the Manager. In addition, service providers' own internal control reports are received by the Board on an annual basis and any concerns are investigated. Risks associated with these service providers is rated as low, but the financial consequences could be serious, including reputational damage to the Company.

VIABILITY STATEMENT
In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long-term capital growth. The Board considers long-term to be at least five years, and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's NAV and share price performance;
- The principal risks and uncertainties facing the Company as set out above and their potential impact;
- The future demand for the Company's shares;
- The Company's share price discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance has been strong for the five year reporting period to 31 March 2020 with a NAV total return of 51.3%, a share price total return of 60.4% and a Benchmark Index total return of 42.7%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Investment Managers' compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The fact that the portfolio comprises sufficient readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy;
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets; and
- The Board's assessment of the risks arising from COVID-19 as set out in the Principal Risks above.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement below.

GOING CONCERN STATEMENT

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. This conclusion also takes into account the Board's assessment of the risks arising from COVID-19 as set out in the Pandemic Risk above. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors have to explain how they have discharged their duties in promoting the success of Fidelity China Special Situations PLC (the "Company"). The Directors must act in the way that is most likely to promote the success of the Company for the benefit of its shareholders. This includes having regard (amongst other matters) to the likely consequences of any decision in the long-term, fostering relationships with the Company's stakeholders and the desirability of the Company in maintaining a reputation for high standards of business conduct.

The Company was launched in 2010 to offer investors the opportunity to include in their portfolio some exposure to the growing economy of China. The Board considers this is best achieved via the investment trust structure constructing a portfolio of individually chosen shares in underlying companies whose business is in China.

The stock market in China is not as well researched as some of the more developed economies and therefore considerable research is done in house by our Manager to identify suitable investments. The Board works with the Portfolio Manager to ensure that he has the necessary resources available to him and that those resources are of the desired quality.

The Board, with the Portfolio Manager, sets an overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings.

In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the total aggregate percentage of unlisted investments in the portfolio, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored.

Our mandate is to invest in China, an emerging market with varying quality of available information. It is the Directors' view that well-governed companies make better investments and the Portfolio Manager and his team therefore perform extensive due diligence into the companies in which the Company invests and evaluate their standards of ESG.

It is one of our long-term objectives that the share price should trade at a level close to the underlying net asset value of the shares. In the past, we have attempted to achieve this through the mechanism of share repurchases and continue to do so. As reported in last year's Annual Report, the Board has adopted a formal discount control policy through which it seeks to maintain the discount in single digits in normal market conditions and will, subject to normal market conditions, repurchase shares with the objective of stabilising the share price discount within a single digit range.

Share price discounts and premiums are determined by supply and demand. The Directors have focused the marketing of the Company particularly on explaining, through the press, the characteristics of investing in China, largely to dispel sentiment-based negative misperceptions.

We are also mindful that investors expect their funds to be managed for a competitive fee. Over the years since launch, we have renegotiated the fees payable to the Managers and progressively reduced them to the current level. The Company's Ongoing Charge for the year of 0.99% compares favourably to the previous year of 1.02% and to the cost of competitor products in the market.

The opportunity to invest in China through a dedicated investment product is now more widely available and the Directors are keen to set out clearly their approach to investment and the Company's differentiation from competitor products, through the medium of the Annual Report and the Company's pages on the Manager's website.

It is important that shareholders have access to both the Portfolio Manager and the Board. The Portfolio Manager under normal circumstances, visits the UK twice a year from China to meet with shareholders, stock market analysts, journalists and other commentators. During the year, the Chairman and Senior Independent Director are both available to meet shareholders.

As long-term investors, we look to the future – the Portfolio Manager in constructing the portfolio and the Board in governing the Company. The performance of the Company and its reputation for transparency and good governance are paramount to its long-term success for the benefit of all its stakeholders.

ON BEHALF OF THE BOARD
Nicholas Bull
Chairman
3 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the reporting period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report that comply with that law and those regulations.

The Directors have delegated to the Manager the responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at **www.fidelityinvestmenttrusts.com**. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their own jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 3 June 2020 and signed on its behalf by:

NICHOLAS BULL
Chairman

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

		year ended 31 March 2020			year ended 31 March 2019		
		revenue	capital	total	revenue	capital	total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Revenue							
Investment income	3	22,520	–	22,520	19,359	–	19,359
Derivative income	3	9,015	–	9,015	10,287	–	10,287
Other income	3	1,481	–	1,481	1,264	–	1,264
Total income		33,016	–	33,016	30,910	–	30,910
Losses on investments at fair value through profit or loss	10	–	(57,341)	(57,341)	–	(25,386)	(25,386)
Losses on derivative instruments	11	–	(33,597)	(33,597)	–	(51,505)	(51,505)
Foreign exchange gains on other net assets		–	3,634	3,634	–	3,878	3,878
Foreign exchange losses on bank loans		–	(3,321)	(3,321)	–	(8,357)	(8,357)
Total income and losses		33,016	(90,625)	(57,609)	30,910	(81,370)	(50,460)
Expenses							
Investment management fees	4	(3,031)	(6,409)	(9,440)	(3,195)	(8,348)	(11,543)
Other expenses	5	(1,177)	–	(1,177)	(1,214)	–	(1,214)
Profit/(loss) before finance costs and taxation		28,808	(97,034)	(68,226)	26,501	(89,718)	(63,217)
Finance costs	6	(3,590)	(10,771)	(14,361)	(3,490)	(10,470)	(13,960)
Profit/(loss) before taxation		25,218	(107,805)	(82,587)	23,011	(100,188)	(77,177)
Taxation	7	(488)	–	(488)	(688)	–	(688)
Profit/(loss) after taxation for the year		24,730	(107,805)	(83,075)	22,323	(100,188)	(77,865)
Earnings/(loss) per ordinary share	8	4.51p	(19.67p)	(15.16p)	4.06p	(18.21p)	(14.15p)

The Company does not have any income or expenses that are not included in the profit/(loss) after taxation for the year. Accordingly the profit/(loss) after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company and is prepared in accordance with IFRS. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

All the profit/(loss) and total comprehensive income is attributable to the equity shareholders of the Company. There are no minority interests.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes below form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total equity £'000
Total equity at 31 March 2019		5,713	211,569	914	331,362	818,370	33,660	1,401,588
Repurchase of ordinary shares	17	–	–	–	(24,313)	–	–	(24,313)
(Loss)/profit after taxation for the year		–	–	–	–	(107,805)	24,730	(83,075)
Dividend paid to shareholders	9	–	–	–	–	–	(21,153)	(21,153)
Total equity at 31 March 2020		5,713	211,569	914	307,049	710,565	37,237	1,273,047
Total equity at 31 March 2018		5,713	211,569	914	335,493	918,558	30,619	1,502,866
Repurchase of ordinary shares	17	–	–	–	(4,131)	–	–	(4,131)
(Loss)/profit after taxation for the year		–	–	–	–	(100,188)	22,323	(77,865)
Dividend paid to shareholders	9	–	–	–	–	–	(19,282)	(19,282)
Total equity at 31 March 2019		5,713	211,569	914	331,362	818,370	33,660	1,401,588

The Notes below form an integral part of these Financial Statements.

BALANCE SHEET AS AT 31 MARCH 2020 COMPANY NUMBER 7133583

	Note	31 March 2020 £'000	31 March 2019 £'000
Non-current assets			
Investments at fair value through profit or loss	10	1,289,807	1,423,161
Current assets			
Derivative instruments	11	39,152	19,235
Amounts held at futures clearing houses and brokers		39,495	81,451
Other receivables	12	1,407	737
Cash and cash equivalents		38,523	86,963
		118,577	188,386
Current liabilities			
Derivative instruments	11	(45,183)	(90,161)
Bank loans	13	–	(115,331)
Other payables	14	(9,855)	(4,467)
		(55,038)	(209,959)
Net current assets/(liabilities)		63,539	(21,573)
Total assets less current liabilities		1,353,346	1,401,588
Non-current liabilities			
Bank loans	15	(80,299)	–
Net assets		1,273,047	1,401,588
Equity attributable to equity shareholders			
Share capital	16	5,713	5,713
Share premium account	17	211,569	211,569
Capital redemption reserve	17	914	914
Other reserve	17	307,049	331,362
Capital reserve	17	710,565	818,370
Revenue reserve	17	37,237	33,660
Total equity		1,273,047	1,401,588
Net asset value per ordinary share	18	236.27p	255.03p

The Financial Statements above and below were approved by the Board of Directors on 3 June 2020 and were signed on its behalf by:

NICHOLAS BULL
Chairman

The Notes below form an integral part of these Financial Statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
Operating activities		
Cash inflow from investment income	21,465	19,592
Cash inflow from derivative income	9,004	10,271
Cash inflow from other income	1,481	1,264
Cash outflow from Directors' fees	(124)	(207)
Cash outflow from other payments	(10,377)	(13,180)
Cash outflow from the purchase of investments	(476,779)	(452,059)
Cash outflow from the purchase of derivatives	(154,858)	(8,770)
Cash inflow from the sale of investments	558,055	502,367
Cash inflow from the settlement of derivatives	57,544	30,959
Cash inflow/(outflow) from amounts held at futures clearing houses and brokers	41,956	(51,204)
Net cash inflow from operating activities before servicing of finance	47,367	39,033
Financing activities		
Cash outflow from repayment of loan	(38,353)	–
Cash outflow from loan interest paid	(3,665)	(3,538)
Cash outflow from CFD interest paid	(10,595)	(7,380)
Cash outflow from short CFD dividends paid	(1,362)	(2,056)
Cash outflow from the repurchase of Ordinary Shares	(24,313)	(4,131)
Cash outflow from dividends paid to shareholders	(21,153)	(19,282)
Cash outflow from financing activities	(99,441)	(36,387)
(Decrease)/increase in cash and cash equivalents	(52,074)	2,646
Cash and cash equivalents at the start of the year	86,963	80,439
Effect of foreign exchange movements	3,634	3,878
Cash and cash equivalents at the end of the year	38,523	86,963

The Notes below form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACTIVITY

Fidelity China Special Situations PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 7133583, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 ACCOUNTING POLICIES

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union, the Companies Acts that apply to companies reporting under IFRS, IFRC interpretations and, as far as it is consistent with IFRS, with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC") in October 2019. The accounting policies adopted in the preparation of these Financial Statements are summarised below.

a) Basis of accounting – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative assets and liabilities. The Company's Going Concern Statement in the Directors' Report takes account of all events and conditions up to the date of approval of these Financial Statements and includes the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report.

b) Adoption of new and revised international financial reporting standards – the accounting policies adopted are consistent with those of the previous financial year, other than those stated below.

- IFRS 16: Leases – This standard is not applicable to the Company as it has no leases.

At the date of authorisation of these Financial Statements, the following new and revised IFRS were in issue but not yet effective:

- IAS 1 Presentation of Financial Statements (amendments)

- IAS 8 Accounting Policies, Changes in Accounting estimates and errors (amendments)

The Directors do not expect that the adoption of the above Standards will have a material impact on the Financial Statements of the Company in future periods.

c) Segmental reporting – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The revenue profit after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Significant accounting estimates, assumptions and judgements – The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates.

The key sources of estimation and uncertainty relate to the fair value of the unlisted investments.

Judgements

The Directors consider whether each fair value is appropriate following detailed review and challenge. The judgement applied in the selection of the methodology used (see Note 2(l) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

The key estimate in the Financial Statements is the determination of the fair value of the unlisted investments by the Manager's Fair Value Committee ('FVC') for consideration by the Directors. This estimate is key as it significantly impacts the valuation of the unlisted investments at the Balance Sheet date. When no recent primary or secondary transaction in the company's shares have taken place, the fair valuation process involves estimation using subjective inputs that are unobservable (for which market data is unavailable). The estimates involved in the valuation process inputs include the following:

(i) the selection of appropriate comparable companies. Comparable companies are chosen on the basis of their business characteristics and growth patterns;

(ii) the selection of a revenue metric;

(iii) the selection of an appropriate illiquidity discount factor to reflect the reduced liquidity of unlisted companies versus their listed peers;

(iv) the estimation of the likelihood of a future exit of the position through an initial public offering ('IPO') or a company sale;

(v) the selection of an appropriate industry benchmark index to assist with the valuation; and

(vi) the calculation of valuation adjustments derived from milestone analysis (i.e. incorporating operational success against the plans/ forecasts of the business into the valuation).

As the valuation outcomes may differ from the fair value estimates a price sensitivity analysis is provided in Other Price Risk Sensitivity in Note 19 below to illustrate the effect on the Financial Statements of an over or under estimation of fair value.

The risk of an over or under estimation of fair value is greater when methodologies are applied using more subjective inputs.

Assumptions
The determination of fair value by the FVC involves key assumptions dependent upon the valuation technique used. The valuation process recognises that the price of a recent investment may be an appropriate starting point for estimating fair value. The Multiples approach involves subjective inputs and therefore presents a greater risk of over or under estimation, particularly in the absence of a recent transaction.

f) Income – Income from equity investments and long contracts for difference ("CFDs") is credited to the revenue column of the Income Statement on the date on which the right to receive the payment is established, normally the ex-dividend date. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as a gain in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

Interest received on CFDs, collateral and bank deposits are accounted for on an accruals basis.

g) Functional currency and foreign exchange – The functional and reporting currency of the Company is UK sterling, which is the currency of the primary economic environment in which the Company operates. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Investment management and other expenses – These are accounted for on an accruals basis and are charged as follows:

- The base investment management fee is allocated 25% to revenue and 75% to capital;
- The variable investment management fee, effective 1 October 2018, is charged/credited to capital as it is based on the performance of the net asset value per share relative to the Benchmark Index; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

i) Finance costs – Finance costs comprise interest and fees on bank loans and overdrafts and interest paid on CFDs, which are accounted for on an accruals basis, and dividends paid on short CFDs, which are accounted for on the date on which the obligation to incur the cost is established, normally the ex-dividend date. Finance costs are allocated 25% to revenue and 75% to capital.

j) Taxation – The taxation charge represents the sum of current taxation and deferred taxation.

Taxation currently payable is based on the taxable profit for the year. Taxable profit differs from profit before taxation, as reported in the Income Statement, because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current taxation is calculated using taxation rates that have been enacted or substantially enacted by the Balance Sheet date.

Deferred taxation is the taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding taxation bases used in the computation of taxable profit based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Where expenses are allocated between revenue and capital any tax relief in respect of the expenses is allocated between revenue and capital returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

k) Dividend paid to shareholders – Dividends payable to equity shareholders are recognised when the Company's obligation to make payment is established.

l) Investments – The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Under IFRS 9 investments are held at fair value through profit or loss, which is initially taken to be their cost, and is subsequently measured as bid or last traded prices, depending upon the convention of the exchange on which they are listed, where available, or otherwise at fair value based on published price quotations.

Investments which are not quoted, or are not frequently traded, are stated at Directors' best estimate of fair value. The Manager's Fair Value Committee ('FVC'), which is independent of the Portfolio Manager's team, provides a recommendation of fair values to the Directors. These are based on the principles outlined in Note 2 (e) above.

The unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the FVC.

The techniques applied by the FVC when valuing the unlisted investments are predominantly market-based approaches. The market-based approaches are set out below and are followed by an explanation of how they are applied to the Company's unlisted portfolio:

- Multiples;
- Industry Valuation Benchmarks; and
- Available Market Prices.

The nature of the unlisted investment will influence the valuation technique applied. The valuation approach recognises that the price of a recent investment, if resulting from an orderly transaction, generally represents fair value as at the transaction date and may be an appropriate starting point for estimating fair value at subsequent measurement dates. However, consideration is given to the facts and circumstances as at the subsequent measurement date, including changes in the market or performance of the investee company. Milestone analysis is used where appropriate to incorporate the operational progress of the investee company into the valuation. Consideration is also given to the input received from the Fidelity analyst that covers the company and an external valuer. Additionally, the background to the transaction must be considered. As a result, various multiples-based techniques are employed to assess the valuations particularly in those companies with established revenues.

An absence of relevant industry peers may preclude the application of the Industry Valuation Benchmarks technique and an absence of observable prices may preclude the Available Market Prices approach.

The unlisted investments are valued according to a three monthly cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

- at the year end and half year end of the Company; and
- where there is an indication of a change in fair value (commonly referred to as 'trigger' events).

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments within losses on investments held at fair value through profit or loss in the capital column of the Income Statement and has disclosed them in Note 10 below.

m) Derivative instruments – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include CFDs, futures, options, warrants and forward currency contracts. Under IFRS 9 derivatives are classified at fair value through profit or loss – held for trading, and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- CFDs – the difference between the strike price and the value of the underlying shares in the contract, calculated in accordance with accounting policy 2(l) above;
- Futures – the difference between contract price and the quoted trade price; and
- Options – the quoted trade price for the contract.

Where such transactions are used to protect or enhance income, if the circumstances support this, the income derived is included in derivative income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the gains and losses derived are included in losses on derivative instruments held at fair value through profit or loss in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or current liabilities.

The Company obtains equivalent exposure to equities through the use of CFDs. All gains and losses in the fair value of the CFDs are included in losses on derivative instruments held at fair value through profit or loss in the capital column of the Income Statement.

n) Amounts held at futures clearing houses and brokers – Cash deposits are held in segregated accounts on behalf of brokers as collateral against open derivative contracts. These are carried at amortised cost.

o) Other receivables – Other receivables include securities sold for future settlement, accrued income and other debtors and prepayments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. Other receivables are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method and as reduced by appropriate allowance for estimated irrecoverable amounts.

p) Cash and cash equivalents – Cash and cash equivalents may comprise cash and short-term money market funds which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

q) Bank loans – Loans are initially included in the Financial Statements at cost, being the fair value of the consideration received net of any issue costs relating to the borrowing. After initial recognition, the loans are measured at amortised cost using the effective interest rate method. The amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

r) Other payables – Other payables include securities purchased for future settlement, amounts payable on share repurchases, investment management, secretarial and administration fees payable, interest payable and other creditors and expenses accrued in the ordinary course of business. Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Other payables are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

s) Other reserve – The full cost of ordinary shares repurchased and held in Treasury is charged to the other reserve.

t) Capital reserve – The following are transferred to capital reserve:

- Gains and losses on the disposal of investments and derivatives instruments;
- Changes in the fair value of investments and derivative instruments, held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Variable investment management fees;
- 75% of base investment management fees;
- 75% of finance costs;
- Dividends receivable which are capital in nature; and
- Taxation charged or credited relating to items which are capital in nature.

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL, the determination of realised profits and losses in the context of distributions under the Companies Act 2006, states that changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of

Changes in Equity and the Balance Sheet. At the Balance Sheet date, all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of level 3 investments which had unrealised investment holding losses of £13,650,000 (2019: gains of £5,115,000).

3 INCOME

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
Investment income		
Overseas dividends	22,333	19,359
Overseas scrip dividends	187	–
	------------	------------
	22,520	19,359
	------------	------------
Derivative income		
Dividends received on long CFDs	8,047	9,797
Interest received on CFDs	968	490
	------------	------------
	9,015	10,287
	------------	------------
Other income		
Interest received on collateral and deposits	1,481	1,264
	------------	------------
Total income	33,016	30,910
	=======	=======

Special dividends of £1,822,000 (2019: £1,393,000) have been recognised in capital.

4 INVESTMENT MANAGEMENT FEES

	year ended 31 March 2020			year ended 31 March 2019		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Investment management fee – base	3,031	9,094	12,125	3,195	9,585	12,780
Investment management fee – variable	–	(2,685)	(2,685)	–	(1,237)	(1,237)
	----------	----------	----------	----------	----------	----------
	3,031	6,409	9,440	3,195	8,348	11,543
	======	======	======	======	======	======

FIL Investment Services (UK) Limited (a Fidelity group company) is the Company's Alternative Investment Fund Manager ("the Manager") and has delegated portfolio management to FIL Investment Management (Hong Kong) Limited and FIL Investments International ("the Investment Managers").

From 1 July 2018 the Company adopted a new fee arrangement which reduced the base management from 1.00% of the net assets to 0.90% of net assets per annum and has removed the existing performance fee of up to 1.00%. In addition, with effect from 1 October 2018, there is a +/-0.20% variation fee based on the Company's NAV per share performance relative to the Company's Benchmark Index. Fees are payable monthly in arrears and are calculated on a daily basis.

Further details of the terms of the Management Agreements are given in the Directors' Report in the Annual Report

5 OTHER EXPENSES

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
AIC fees	21	20
Custody fees	226	255
Depositary fees	64	66
Directors' expenses	48	58
Directors' fees*	168	166
Legal and professional fees	120	73
Marketing expenses	175	238
Printing and publication expenses	74	77
Registrars' fees	52	44
Secretarial and administration fees payable to the Investment Manager	100	100

Other expenses	81	85
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	48	32
	----------	----------
	1,177	1,214
	======	======

* Details of the breakdown of Directors’ fees are provided within the Directors’ Remuneration Report in the Annual Report.

6 FINANCE COSTS

	year ended 31 March 2020			year ended 31 March 2019		
	revenue	capital	total	revenue	capital	total
	£’000	£’000	£’000	£’000	£’000	£’000
Interest on bank loans and overdrafts	876	2,628	3,504	892	2,676	3,568
Interest paid on CFDs	2,374	7,121	9,495	2,084	6,252	8,336
Dividends paid on short CFDs	340	1,022	1,362	514	1,542	2,056
	------------	------------	-----------	----------	-----------	-----------
	3,590	10,771	14,361	3,490	10,470	13,960
	=======	=======	=======	=======	=======	=======

7 TAXATION

	year ended 31 March 2020			year ended 31 March 2019		
	revenue	capital	total	revenue	capital	total
	£’000	£’000	£’000	£’000	£’000	£’000
a) Analysis of the taxation charge for the year						
Overseas taxation charge	488	–	488	688	–	688
	------------	------------	------------	------------	------------	------------
Taxation charge for the year (see Note 7b)	488	–	488	688	–	688
	=======	=======	=======	=======	=======	=======

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19% (2019: 19%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	year ended 31 March 2020			year ended 31 March 2019		
	revenue	capital	total	revenue	capital	total
	£’000	£’000	£’000	£’000	£’000	£’000
Profit/(loss) before taxation	25,218	(107,805)	(82,587)	23,011	(100,188)	(77,177)
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	4,791	(20,483)	(15,692)	4,372	(19,036)	(14,664)
Effects of:						
Capital losses not taxable*	–	17,219	17,219	–	15,460	15,460
Income not taxable	(4,278)	–	(4,278)	(3,678)	–	(3,678)
Expenses not deductible	–	1,551	1,551	–	1,539	1,539
Excess expenses	(513)	1,713	1,200	(694)	2,037	1,343
Overseas taxation	488	–	488	688	–	688
Taxation charge (Note 7a)	488	–	488	688	–	688
	=======	=======	=======	=======	=======	=======

* The Company is exempt from UK corporation tax on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred tax asset of £22,320,000 (2019: £18,897,000), in respect of excess expenses of £117,472,000 (2019: £111,156,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

8 EARNINGS/(LOSS) PER ORDINARY SHARE

	year ended 31 March 2020			year ended 31 March 2019		
	revenue	capital	total	revenue	capital	total
	£’000	£’000	£’000	£’000	£’000	£’000
Earnings/(loss) per ordinary share -basic and diluted	4.51p	(19.67p)	(15.16p)	4.06p	(18.21p)	(14.15p)
	=======	=======	=======	=======	=======	=======

Earnings/(loss) per ordinary share are based on the revenue profit after taxation for the year of £24,730,000 (2019: £22,323,000), the capital loss after taxation for the year of £107,805,000 (2019: capital loss of £100,188,000) and the total loss after taxation for the year of £83,075,000 (2019: total loss of £77,865,000) and on 548,133,431 (2019: 550,331,713) ordinary shares, being the weighted average number of ordinary shares held outside Treasury during the year. Basic and diluted earnings per share are the same as the Company has no dilutive financial instruments.

9 DIVIDENDS PAID TO SHAREHOLDERS

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
Dividend paid		
Dividend paid of 3.85 pence per Ordinary Share paid for the year ended 31 March 2019	21,153	–
Dividend paid of 3.50 pence per Ordinary Share paid for the year ended 31 March 2018	–	19,282
	21,153	19,282
Dividend proposed		
Dividend proposed of 4.25 pence per Ordinary Share paid for the year ended 31 March 2020	22,292	–
Dividend proposed of 3.85 pence per Ordinary Share paid for the year ended 31 March 2019	–	21,159
Total dividends paid	22,292	21,159

The Directors have proposed the payment of a dividend for the year ended 31 March 2020 of 4.25 pence per Ordinary Share which is subject to approval by shareholders at the Annual General Meeting on 23 July 2020 and has not been included as a liability in these Financial Statements. The dividend will be paid on 28 July 2020 to shareholders on the register at the close of business on 19 June 2020 (ex-dividend date 18 June 2020).

10 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 £'000	2019 £'000
Total investments*	1,289,807	1,423,161
Opening book cost	1,194,625	1,155,104
Opening investment holding gains	228,536	340,714
Opening fair value of investments	1,423,161	1,495,818
Movements in the year		
Purchases at cost	482,280	446,028
Sales – proceeds	(558,293)	(493,299)
Losses on investments	(57,341)	(25,386)
Closing fair value	1,289,807	1,423,161
Closing book cost	1,188,495	1,194,625
Closing investment holding gains	101,312	228,536
Closing fair value of investments	1,289,807	1,423,161

* The fair value hierarchy of the investments is shown in Note 19 below.

The Company received £558.3m (2019: £493.3m) from investments sold in the year. The book cost of these investments when they were purchased was £488.4m (2019: £406.5m). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Investment transaction costs incurred in the acquisition and disposal of investments, which are included in the losses on investments were as follows:

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
Purchases transaction costs	901	601
Sales transaction costs	773	609
	1,674	1,210

The portfolio turnover rate for the year was 37.6% (2019: 32.7%). The portfolio turnover rate measures the Company's trading activity. It is calculated by taking the average of the total amount of securities purchased and the total amount of securities sold in the reporting year divided by the average investment portfolio value of the Company.

11 DERIVATIVE INSTRUMENTS

	year ended 31 March 2020 £'000	year ended 31 March 2019 £'000
Net losses on derivative instruments		
Realised (losses)/gains on CFDs	(118,418)	21,083
Realised gains on futures	7,895	2,505
Realised gains/(losses) on options	13,327	(7,375)
Movement in investment holding gains/(losses) on CFDs	62,482	(63,613)
Movement in investment holding losses on futures	(2,436)	(1,073)
Movement in investment holding gains/(losses) on options	3,553	(3,032)
	(33,597)	(51,505)

	2020 fair value £'000	2019 fair value £'000
Fair value of derivative instruments recognised on the Balance Sheet*		
Derivative instrument assets	39,152	19,235
Derivative instrument liabilities	(45,183)	(90,161)
	(6,031)	(70,926)

* The fair value hierarchy of the derivative instruments is shown in Note 19 below.

	2020 fair value £'000	2020 gross asset exposure £'000	2019 fair value £'000	2019 gross asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	(10,694)	446,471	(65,953)	376,578
Short CFDs	2,047	12,524	(6,441)	36,784
Short CFDs (hedging exposure)	940	(25,370)	2,205	(26,539)
Futures (hedging exposure)	(3,173)	(87,510)	(737)	(42,859)
Put options (hedging exposure)	4,849	(41,706)	–	–
	(6,031)	304,409	(70,926)	343,964

12 OTHER RECEIVABLES

	2020 £'000	2019 £'000
Securities sold for future settlement	274	36
Accrued income	1,037	646
Other receivables	96	55
	1,407	737

13 BANK LOANS - REPAYABLE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Fixed rate unsecured US dollar loan		
US dollar 150,000,000 fixed at a rate of 3.01%	–	115,331

The prior loan agreement with Scotiabank Europe PLC was repaid on 14 February 2020.

14 OTHER PAYABLES

	2020 £'000	2019 £'000
Securities purchased for future settlement	8,350	1,858
Investment management, secretarial and administration fees	782	820

Finance costs payable	–	1,100
Accrued expenses	723	689
	------------	------------
	9,855	4,467
	=======	=======

15 BANK LOANS – REPAYABLE AFTER MORE THAN ONE YEAR

	2020 £'000	2019 £'000
Fixed rate unsecured US dollar loan		
US dollar 100,000,000 fixed at a rate of 2.606%	80,299	–
	=======	=======

On 14 February 2020, the Company entered into a three year unsecured loan agreement with Scotiabank Europe PLC. The interest rate is fixed at 2.606% per annum until the agreement terminates on 14 February 2023.

16 SHARE CAPITAL

	number of shares	2020 £'000	number of shares	2019 £'000
Issued, allotted and fully paid				
Ordinary shares of 1 penny each held outside Treasury				
Beginning of the year	549,574,480	5,496	551,414,480	5,514
Ordinary shares repurchased into Treasury	(10,765,437)	(108)	(1,840,000)	(18)
	------------------	------------------	------------------	------------------
End of the year	538,809,043	5,388	549,574,480	5,496
	===========	===========	===========	===========
Ordinary shares of 1 penny each held in Treasury*				
Beginning of the year	21,780,000	217	19,940,000	199
Ordinary shares repurchased into Treasury	10,765,437	108	1,840,000	18
	------------------	------------------	------------------	------------------
End of the year	32,545,437	325	21,780,000	217
	===========	===========	===========	===========
Total share capital		5,713		5,713
		===========		===========

* The ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

17 RESERVES

The share premium account represents the amount by which the proceeds from share issues, less the associated costs, exceed the nominal value of the ordinary shares issued. High Court approval was given on 21 April 2010 to cancel the account at that date and as a result £452,232,000 was transferred to the other reserve. Subsequently, the Company issued 157,654,480 Ordinary Shares resulting from its C share issue and 45,000,000 Ordinary Shares in separate issues pursuant to the authorities granted by shareholders. The share premium account cannot be used to fund share repurchases and it is not distributable by way of dividend.

The capital redemption reserve represents the nominal value of Ordinary Shares repurchased and cancelled. It cannot be used to fund share repurchases and it is not distributable by way of dividend.

The other reserve is a distributable premium reserve created on 21 April 2010 when High Court approval was given for the share premium account at that date to be cancelled. As a result £452,232,000 was transferred from the share premium account to the other reserve. It can be used to fund share repurchases. During the year 10,765,437 (2019: 1,840,000) ordinary shares were repurchased and held in Treasury. The cost of these repurchases amounting to £24,313,000 (2019: £4,131,000) was charged to this reserve.

The capital reserve represents realised gains or losses on investments and derivatives sold, increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend. The Board has stated that it has no current intention to pay dividends out of capital. See Note 2(t) above for further details.

The revenue reserve represents the net revenue surpluses recognised in the revenue column of the Income Statement that have not been distributed as dividends to shareholders. It is distributable by way of dividend.

18 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets of £1,273,047,000 (2019: £1,401,588,000) and on 538,809,043 (2019: 549,574,480) ordinary shares, being the number of ordinary shares held outside Treasury at the year end. It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

19 FINANCIAL INSTRUMENTS

Management of risk

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Investment Managers, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, economic and geopolitical, investment performance, key person, discount control, gearing, cybercrime and pandemic risks. Other risks identified are tax and regulatory and operational risks, including those relating to third party service providers covering investment management, marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. Risks identified are shown in the Strategic Report above.

This Note is incorporated in accordance with IFRS 7: Financial Instruments: Disclosures and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments may comprise:

- Equity shares (listed and unlisted), equity linked notes and fixed-interest securities;
- Derivative instruments including CFDs, warrants, futures and options written or purchased on stocks and equity indices and forward currency contracts;
- Cash, liquid resources and short-term receivables and payables that arise from its operations; and
- Bank borrowings.

The risks identified by IFRS 7 arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

Market price risk
Interest rate risk
The Company finances its operations through its share capital raised. In addition, the Company has derivative instruments and an unsecured fixed rate loan facility for US$100,000,000 expiring on 14 February 2023. The Company has drawn down the whole of this facility as disclosed in Note 15 above.

Interest rate risk exposure
The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2020 £'000	2019 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	457,165	442,531
Bank loans	80,299	115,331
	------------	------------
	537,464	557,862
	=======	=======
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	40,881	59,087
Amounts held at futures clearing houses and brokers	39,495	81,451
Cash and cash equivalents	38,523	86,963
	------------	------------
	118,899	227,501
	=======	=======
Net exposure to financial instruments that bear interest	418,565	330,361
	=======	=======

Foreign currency risk
The Company's loss after taxation and its net assets can be affected by foreign exchange movements because the Company has income, assets and liabilities which are denominated in currencies other than the Company's functional currency which is UK sterling.

Three principal areas have been identified where foreign currency risk could impact the Company:

- movements in currency exchange rates affecting the value of investments and bank loans;
- movements in currency exchange rates affecting short-term timing differences, for example, between the date when an investment is bought or sold and the date when settlement of the transaction occurs; and
- movements in currency exchange rates affecting income received.

Currency exposure of financial assets
The Company's financial assets comprise of equity investments, long positions on derivative instruments, short-term debtors and cash and cash equivalents. The currency exposure profile of these financial assets is shown below:

Currency	Investments held at fair value through profit or loss £'000	gross asset exposure to long derivative instruments[1] £'000	other receivables[2] £'000	cash and cash equivalents £'000	2020 total £'000
Canadian dollar	144	–	–	–	144
Chinese renminbi	145,293	–	–	19,109	164,402
Hong Kong dollar	596,560	267,060	12,300	19,382	895,302
South Korean won	–	–	–	7	7
Taiwan dollar	30,155	–	–	24	30,179
UK sterling	28,600	–	96	–	28,696
US dollar	489,055	24,825	28,506	1	542,387
	1,289,807	291,885	40,902	38,523	1,661,117

1 The gross asset exposure of long CFDs after the netting of hedging exposures.
2 Other receivables include amounts held at futures clearing houses and brokers.

Currency	Investments held at fair value through profit or loss £'000	gross asset exposure to long derivative instruments[1] £'000	other receivables[2] £'000	cash and cash equivalents £'000	2019 total £'000
Australian dollar	7,183	–	–	–	7,183
Canadian dollar	234	–	–	–	234
Chinese renminbi	163,545	–	–	15,731	179,276
Hong Kong dollar	706,607	295,042	4,116	71,202	1,076,967
South Korean won	–	–	–	7	7
Taiwan dollar	45,304	–	–	22	45,326
UK sterling	42,088	–	56	–	42,144
US dollar	458,200	12,138	78,016	1	548,355
	1,423,161	307,180	82,188	86,963	1,899,492

1 The gross asset exposure of long CFDs after the netting of hedging exposures.
2 Other receivables include amounts held at futures clearing houses and brokers.

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and borrowings. The Company's financial liabilities comprise short positions on derivative instruments, US dollar denominated bank loan and other payables. The currency profile of these financial liabilities is shown below:

Currency	gross asset exposure to short derivative instruments* £'000	US dollar bank loan £'000	other payables £'000	2020 total £'000
Hong Kong dollar	7,286	–	7,167	14,453
Taiwan dollar	–	–	172	172
UK sterling	–	–	1,573	1,573
US dollar	5,238	80,299	943	86,480
	12,524	80,299	9,855	102,678

Currency	gross asset exposure to short derivative instruments* £'000	US dollar bank loan £'000	other payables £'000	2019 total £'000
Hong Kong dollar	30,777	–	2,202	32,979
UK sterling	–	–	1,075	1,075
US dollar	6,007	115,331	1,190	122,528
	------------	------------	------------	------------
	36,784	115,331	4,467	156,582
	=======	=======	=======	=======

* The gross asset exposure of short derivative instruments excluding hedging exposures.

Other price risk
Other price risk arises mainly from uncertainty about future prices of financial instruments. It represents the potential loss the Company might suffer through price movements in its investment positions. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective.

The Investment Managers are responsible for actively monitoring the portfolio selected in accordance with the overall asset allocation parameters and seeks to ensure that individual stocks also meet an acceptable risk/reward profile. Other price risks arising from derivative positions, mainly due to the underlying exposures, are assessed by the Investment Managers' specialist derivative instruments team.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required. The Company has the facility to borrow up to US$100,000,000 (2019: US$150,000,000) until 14 February 2023. The current borrowing is shown in Note 15 above.

Counterparty risk
Certain derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's ("ISDA") market standard derivative legal documentation. These are known as Over The Counter ("OTC") trades. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Managers employ, this risk is minimised by only entering into transactions with

counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and evaluates derivative instrument credit risk exposure.

Collateral
For OTC and exchange traded derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 March 2020, £13,217,000 (2019: £nil) was held by the brokers, in a segregated collateral account, on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised: Goldman Sachs International Ltd £1,148,000 in cash denominated in US dollars and HSBC Bank plc £12,069,000 in cash denominated in US dollars. As at 31 March 2020, £39,495,000 (2019: £81,451,000), shown as amounts held at futures clearing houses and brokers on the Balance Sheet, was held by the Company, in a segregated collateral account, on behalf of the brokers, to reduce the credit risk exposure of the brokers. The collateral comprised: Deutsche Bank AG £nil (2019: £20,471,000) in cash, Goldman Sachs International Ltd £nil (2019: £4,852,000) in cash, HSBC Bank plc £nil (2019: £33,938,000) in cash, Morgan Stanley & Co. International Ltd £1,100,000 (2019: £nil) and UBS AG £38,395,000 (2019: £22,190,000) in cash.

Offsetting
To mitigate counterparty risk for OTC derivative transactions, the ISDA legal documentation is in the form of a master agreement between the Investment Trusts managed by Fidelity and the broker. This allows enforceable netting arrangements in the event of a default or termination event. Derivative instrument assets and liabilities that are subject to netting arrangements have not been offset in preparing the Balance Sheet.

The Company's derivative instrument financial assets and liabilities recognised in the Balance Sheet and amounts that could be subject to netting in the event of a default or termination are shown below:

				related amounts not set off on balance sheet		2020
Financial assets	gross amount £'000	gross amount of recognised financial liabilities set off on the balance sheet £'000	net amount of financial assets presented on the balance sheet £'000	financial instruments £'000	Margin account received as collateral £'000	net amount £'000
CFDs	34,303	–	34,303	(16,485)	(13,217)	4,601
Put options	4,849	–	4,849	–	(4,849)	–
	------------	------------	------------	------------	------------	------------
	39,152	–	39,152	(16,485)	(18,066)	4,601

Financial liabilities	gross amount £'000	gross amount of recognised financial assets set off on the balance sheet £'000	net amount of financial liabilities presented on the balance sheet £'000	related amounts not set off on balance sheet: financial instruments £'000	Margin account pledged as collateral £'000	2020 net amount £'000
CFDs	(42,010)	–	(42,010)	16,485	25,525	–
Futures (exchange traded)	(3,173)	–	(3,173)	–	3,173	–
	(45,183)	–	(45,183)	16,485	28,698	–

Financial assets	Gross amount £'000	gross amount of recognised financial liabilities set off on the balance sheet £'000	net amount of financial assets presented on the balance sheet £'000	related amounts not set off on balance sheet: financial instruments £'000	Margin account received as collateral £'000	2019 net amount £'000
CFDs	19,235	–	19,235	(19,235)	–	–

Financial liabilities	gross amount £'000	gross amount of recognised financial assets set off on the balance sheet £'000	net amount of financial liabilities presented on the balance sheet £'000	related amounts not set off on balance sheet: financial instruments £'000	margin account pledged as collateral £'000	2019 net amount £'000
CFDs	(89,424)	–	(89,424)	19,235	70,189	–
Futures (exchange traded)	(737)	–	(737)	–	737	–
	(90,161)	–	(90,161)	19,235	70,926	–

Credit risk
Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Investment Managers and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Investment Managers. Exposure to credit risk arises on outstanding security transactions, derivative instrument contracts and cash at bank.

Derivative instrument risk
A Derivative Instrument Charter, including an appendix entitled Derivative Risk Measurement and Management, details the risks and risk management processes used by the Investment Managers. This Charter was approved by the Board and allows the use of derivative instruments for the following purposes:

- to gain exposure to equity markets, sectors or individual investments;
- to hedge equity market risk in the Company's investments with the intention of mitigating losses in the events market falls;
- to enhance portfolio returns by writing call and put options; and
- to take short positions in equity markets, which would benefit from a fall in the relevant market price, where the Investment Managers believe the investment is overvalued. These positions distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

The risk and investment performance of these instruments are managed by an experienced, specialist derivative team of the Investment Managers using portfolio risk assessment tools for portfolio construction.

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at the Balance Sheet date, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the loss after taxation for the year and decreased the net assets of the Company by £846,000 (2019: increased the loss after taxation and decreased the net assets by £538,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial assets and liabilities held and currency exchange rates ruling at the Balance Sheet date, a strengthening of the UK sterling exchange rate by 10% against other currencies, with all other variables held constant, would have increased the loss after taxation for the year and decreased the net assets of the Company by the following amounts:

	2020	2019
Currency	£'000	£'000
Australian dollar	–	653
Canadian dollar	13	21
Chinese renminbi	14,946	16,297
Hong Kong dollar	80,077	94,908
South Korean won	1	–
Taiwan dollar	2,728	4,121
US dollar	41,446	38,712
	-----------	-----------
	139,211	154,712
	=======	=======

Based on the financial assets and liabilities held and the exchange rates ruling at the Balance Sheet date, a weakening of the UK sterling exchange rate by 10% against other currencies would have decreased the loss after taxation for the year and increased the net assets of the Company by the following amounts:

	2020	2019
Currency	£'000	£'000
Australian dollar	–	798
Canadian dollar	16	26
Chinese renminbi	18,267	19,920
Hong Kong dollar	97,872	115,998
South Korean won	1	1
Taiwan dollar	3,334	5,036
US dollar	50,656	47,314
	-----------	-----------
	170,146	189,093
	=======	=======

Other price risk sensitivity analysis

Changes in market prices affect the loss after taxation for the year and the net assets of the Company. Details of how the Board sets risk parameters and performance objectives are disclosed in the Strategic Report above.

An increase of 10% in the share prices of the listed investments held at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £120,866,000 (2019: decreased the loss after taxation and increased the net assets by £135,647,000). A decrease of 10% in share prices of the investments designated at fair value through profit or loss would have had an equal but opposite effect.

An increase of 10% in the valuation of unlisted investments held at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £8,115,000 (2019: decreased the loss after taxation and increased the net assets by £6,669,000). A decrease of 10% in the valuation would have had an equal but opposite effect.

Derivative instruments exposure sensitivity analysis

The Company invests in derivative instruments to gain or reduce exposure to the equity market. An increase of 10% in the share prices of the investments underlying the derivative instruments at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £27,936,000 (2019: decreased the loss after taxation and increased the net assets by £27,040,000). A decrease of 10% in share prices of the investments underlying the derivative instruments would have had an equal but opposite effect.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Notes 2(l) and (m) above, investments and derivative instruments are shown at fair value. In the case of cash and cash equivalents, book value approximates to fair value due to the short maturity of the instruments. The exception is the US dollar denominated bank loan, its fair value having been calculated by discounting future cash flows at current US dollar interest rates.

	fair value	2020 book value	fair value	2019 book value
	£'000	£'000	£'000	£'000
Fixed rate unsecured loan of US dollar 100,000,000	82,687	80,299	–	–
Fixed rate unsecured loan of US dollar 150,000,000	–	–	114,111	115,331
	=======	=======	=======	=======

Fair Value of Hierarchy
The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to quoted prices for similar assets or liabilities or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be CFDs
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Notes 2(l) and (m). The table below sets out the Company's fair value hierarchy:

	level 1	level 2	level 3	2020 total
Financial assets at fair value through profit or loss	£'000	£'000	£'000	£'000
Investments – shares	1,208,661	–	81,146	1,289,807
Derivative instrument assets	4,849	34,303	–	39,152
	------------	------------	------------	------------
	1,213,510	34,303	81,146	1,328,959
	=======	=======	=======	=======
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(3,173)	(42,010)	–	(45,183)
	=======	=======	=======	=======
Financial liabilities at fair value				
Bank loan	–	(82,687)	–	(82,687)
	=======	=======	=======	=======

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

Level 3 Investments (unlisted and delisted investments)

	2020	2019
	£'000	£'000
Pony.ai	25,695	–
DJI International	20,696	23,066
Xiaoju Kuaizhi (Didi)	17,699	22,132
SenseTime	9,508	6,812
ByteDance	7,548	7,227

Shanghai Yiguo	–	7,449
3 listed investments whose listings are currently suspended	–	17
	------------	------------
	81,146	66,703
	=======	=======

Pony.ai
Pony.ai develops artificial intelligence and autonomous driving technology solutions for transportation and is an unlisted company. The valuation at 31 March 2020 is based on the cost of the investment when it was purchased in March 2020. As at 31 March 2020, its fair value was £25,695,000.

DJI International
DJI International is a manufacturer of drones and is an unlisted company. The valuation at 31 March 2020 is based on benchmarking the position to a range of comparable market data. As at 31 March 2020, its fair value was £20,696,000.

Xiaoju Kuaizhi (Didi)
Xiaoju Kuaizhi (Didi) is a leading Chinese e-commerce company providing transport services and is an unlisted company. The valuation at 31 March 2020 is based on the company results for 2019 and the outlook for 2020 given the impact of COVID-19. As at 31 March 2020, its fair value was £17,699,000.

SenseTime
SenseTime develops application technology and is an unlisted company. During the year, the Company increased its shareholding by subscribing to a further round of fundraising. The valuation at 31 March 2020 is based on the company results for 2019 and the outlook for 2020 given the impact of COVID-19. As at 31 March 2020, its fair value was £9,508,000.

ByteDance
ByteDance develops application software and is an unlisted company. Following internal and external review, the original purchase price in November 2018 remained appropriate for the valuation as at 31 March 2020. As at 31 March 2020, its fair value was £7,548,000. Since the end of the year, ByteDance’s valuation has been increased. See Note 22 below.

Shanghai Yiguo
Shanghai Yiguo operates an e-commerce platform, selling fruit and vegetables online to customers in China and is an unlisted company. The valuation at 31 March 2020 is based the financial information received in November 2019. As at 31 March 2020, its fair value was £nil.

Companies whose listings are suspended
Three listed companies in the portfolio have had their listing suspended: DBA Telecommunication (Asia) Limited (suspended July 2014), China Animal Healthcare Limited (suspended March 2015) and BNN Technology Limited (suspended September 2017). The Directors have valued each holding at £nil.

	2020 level 3	2019 level 3
Movements in level 3 investments during the year	£’000	£’000
Level 3 investments at the beginning of the year	66,703	64,357
Purchases at cost	33,206	35,202
Transfers out of Level 3*	–	(33,113)
Unrealised (losses)/profits recognised in the Income Statement	(18,763)	257
	------------	------------
Level 3 investments at the end of the year	81,146	66,703
	=======	=======

* Financial instruments are transferred out of level 3 when they become listed.

20 CAPITAL RESOURCES AND GEARING
The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital, reserves and gearing, which are disclosed on the Balance Sheet. The Company is managed in accordance with its investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report The principal risks and their management are disclosed in the Strategic Report above and in Note 19 above.

The Company’s gearing at the year end is set out below:

	2020			
	gross asset exposure		net asset exposure	
	£’000	%[1]	£’000	%[1]
Investments	1,289,807	101.3	1,289,807	101.3
Long CFDs	446,471	35.1	446,471	35.1
	------------	------------	------------	------------
Total long exposures before hedges	1,736,278	136.4	1,736,278	136.4
Less: short derivative instruments hedging the above	(154,586)	(12.2)	(154,586)	(12.2)
	------------	------------	------------	------------

Total long exposures after the netting of hedges	1,581,692	124.2	1,581,692	124.2
Short CFDs	12,524	1.0	(12,524)	(1.0)
	------------	------------	------------	------------
Gross/net asset exposure	1,594,216	125.2	1,569,168	123.2
	=======	=======	=======	=======
Shareholders' funds	1,273,047		1,273,047	
	------------	------------	------------	------------
Gearing[2]		25.2%		23.2%
		=======		=======

	2019			
	gross asset exposure		net asset exposure	
	£'000	%[1]	£'000	%[1]
Investments	1,423,161	101.5	1,423,161	101.5
Long CFDs	376,578	26.9	376,578	26.9
	------------	------------	------------	------------
Total long exposures before hedges	1,799,739	128.4	1,799,739	128.4
Less: short derivative instruments hedging the above	(69,398)	(4.9)	(69,398)	(4.9)
	------------	------------	------------	------------
Total long exposures after the netting of hedges	1,730,341	123.5	1,730,341	123.5
Short CFDs	36,784	2.6	(36,784)	(2.6)
	------------	------------	------------	------------
Gross/net asset exposure	1,767,125	126.1	1,693,557	120.9
	=======	=======	=======	=======
Net Assets	1,401,588		1,401,588	
	------------	------------	------------	------------
Gearing[2]		26.1%		20.9%
		=======		=======

1 Exposure to the market expressed as a percentage of Net Assets.
2 Gearing is the amount by which gross/net asset exposure exceeds Net Assets expressed as a percentage of Net Assets.

21 TRANSACTIONS WITH THE MANAGERS AND RELATED PARTIES
FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investment Management (Hong Kong) Limited and FIL Investments International. They are all Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report. During the year, management fees of £9,440,000 (2019: £11,543,000), and accounting, administration and secretarial fees of £100,000 (2019: £100,000) were payable to the Managers. At the Balance Sheet date, management fees of £774,000 (2019: £820,000), and accounting, administration and secretarial fees of £8,000 (2019: £nil) were accrued and included in other payables. Fidelity also provides the Company with marketing services. The total amount payable for these services was £175,000 (2019: £238,000). At the Balance Sheet date, £20,000 (2019: £nil) for marketing services was accrued and included in other payables.

Disclosures of the Directors' interests in the ordinary shares of the Company and fees and taxable expenses, relating to reasonable travel expenses, payable to the Directors are given in the Directors' Remuneration Report .in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £18,000 (2019: £17,000) of employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £57,000 (2019: £14,000) were accrued and payable.

22 POST BALANCE SHEET EVENT
As the result of a secondary market transaction, the valuation of ByteDance was increased by 27.4% in May 2020. If this price increase had been applied at 31 March 2020, the uplift in the value of ByteDance would have increased the net assets of the Company by 0.16%.

ALTERNATIVE PERFORMANCE MEASURES

TOTAL RETURN
Total return is considered to be an alternative performance measure (as defined in the Glossary of Terms in the Annual Report). NAV total return includes reinvestment of the dividend in the NAV of the Company on the ex-dividend date. Share price total return includes the reinvestment of the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAV per ordinary share and share prices of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 March 2020 and 31 March 2019.

Net asset
value per

2020	ordinary share	Share price
31 March 2019	255.03p	235.00p
31 March 2020	236.27p	216.00p
Change in the year	-7.4%	-8.1%
Impact of dividend reinvestment	+1.5%	+1.6%
	-------------	-------------
Total return for the year	-5.9%	-6.5%
	=========	=========

2019	Net asset value per ordinary share	Share price
31 March 2018	272.55p	239.00p
31 March 2019	255.03p	235.00p
Change in the year	-6.4%	-1.7%
Impact of dividend reinvestment	+1.1%	+1.4%
	-------------	-------------
Total return for the year	-5.3%	-0.3%
	=========	=========

ONGOING CHARGES

Ongoing charges are considered to be an alternative performance measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of management fees and other expenses expressed as a percentage of the average net assets throughout the year

	2020 £'000	2019 £'000
Investment management fees (£'000)	12,125	12,780
Other expenses (£'000)	1,177	1,214
	-------------	-------------
Ongoing charges (£'000)	13,302	13,994
	-------------	-------------
Variable management fee (£'000)	(2,685)	(1,237)
Average net assets (£'000)	1,344,131	1,376,023
	-------------	-------------
Ongoing charges ratio	0.99%	1.02%
	-------------	-------------
Ongoing charges ratio including variable management fee	0.79%	0.93%
	=========	=========

GEARING

Gearing is considered to be an alternative performance measure. See Note 20 above for details of the Company's gearing.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 March 2020 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2019 and 2020 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the Registrar of Companies. The 2020 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at: www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website:

www.fidelityinvestmenttrusts.com where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

ENDS