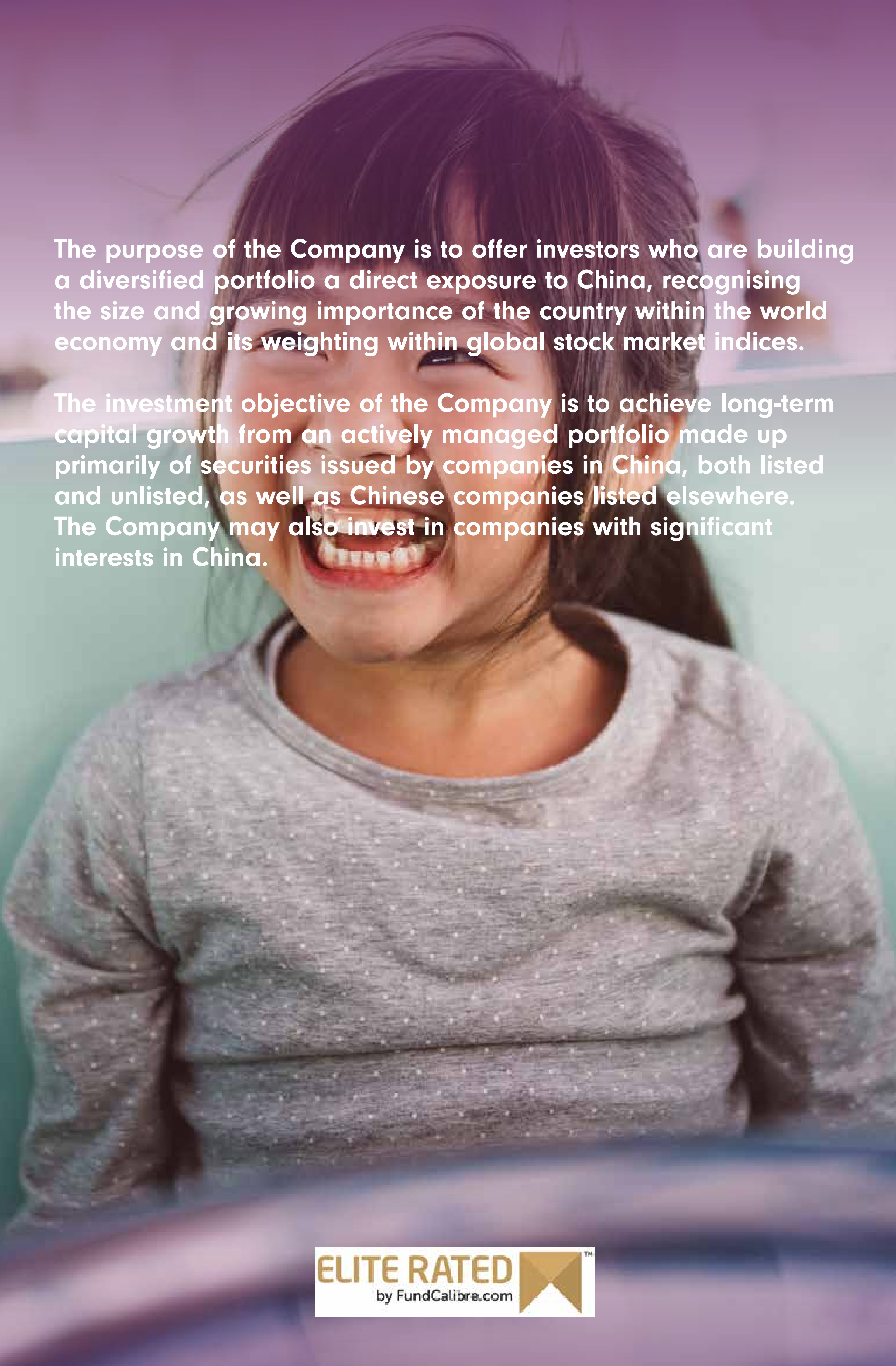
FIDELITY CHINA SPECIAL SITUATIONS PLC

Annual Report for the year ended 31 March 2022



The purpose of the Company is to offer investors who are building a diversified portfolio a direct exposure to China, recognising the size and growing importance of the country within the world economy and its weighting within global stock market indices.

The investment objective of the Company is to achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies in China, both listed and unlisted, as well as Chinese companies listed elsewhere. The Company may also invest in companies with significant interests in China.

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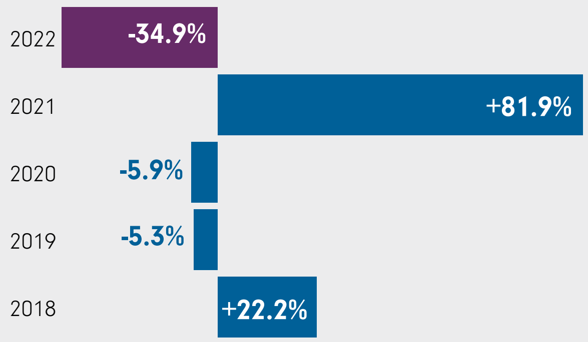
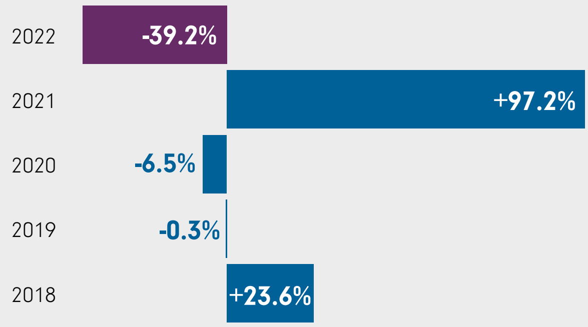
The Year at a Glance

In the reporting year, the Company's Net Asset Value per Share declined by 34.9% and the Share Price declined by 39.2%, whilst the Benchmark Index declined by 29.3% (all performance data on a total return basis).

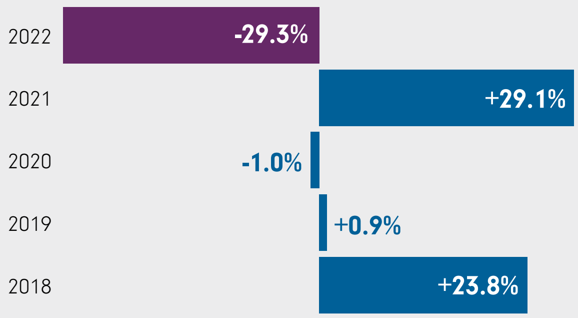
Net Asset Value per Share total return[1,2]
Year ended 31 March



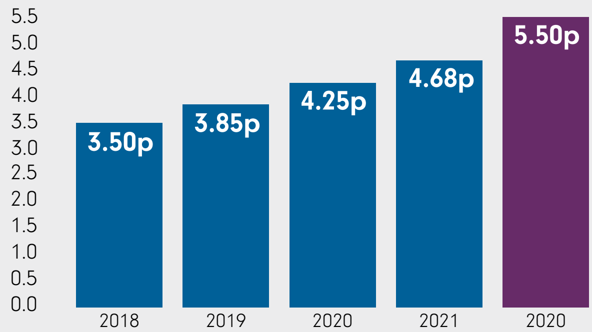
Share Price total return[1,2]
Year ended 31 March



MSCI China Index total return (in UK sterling terms)[1,3]
Year ended 31 March



Dividend per Share
Year ended 31 March



1 Includes reinvested income.
2 Alternative Performance Measures. See page 96.
3 The Company's Benchmark Index.

As at 31 March 2022

Equity Shareholders' Funds

£1,400.6m

Market Capitalisation

£1,295.2m

Capital Structure
Ordinary Shares of 1 pence held outside Treasury

513,957,409

Summary of the key aspects of the Investment Policy

The Portfolio Manager will focus on identifying companies which are most likely to benefit from China's growth and changing economy.

The Company is not restricted in terms of size or industry when including companies in the portfolio and may invest in unlisted securities.

The Company may also invest into other transferable securities, collective investment schemes, money market instruments, cash and deposits and is also able to use derivatives and bank borrowing for gearing purposes and efficient portfolio management.

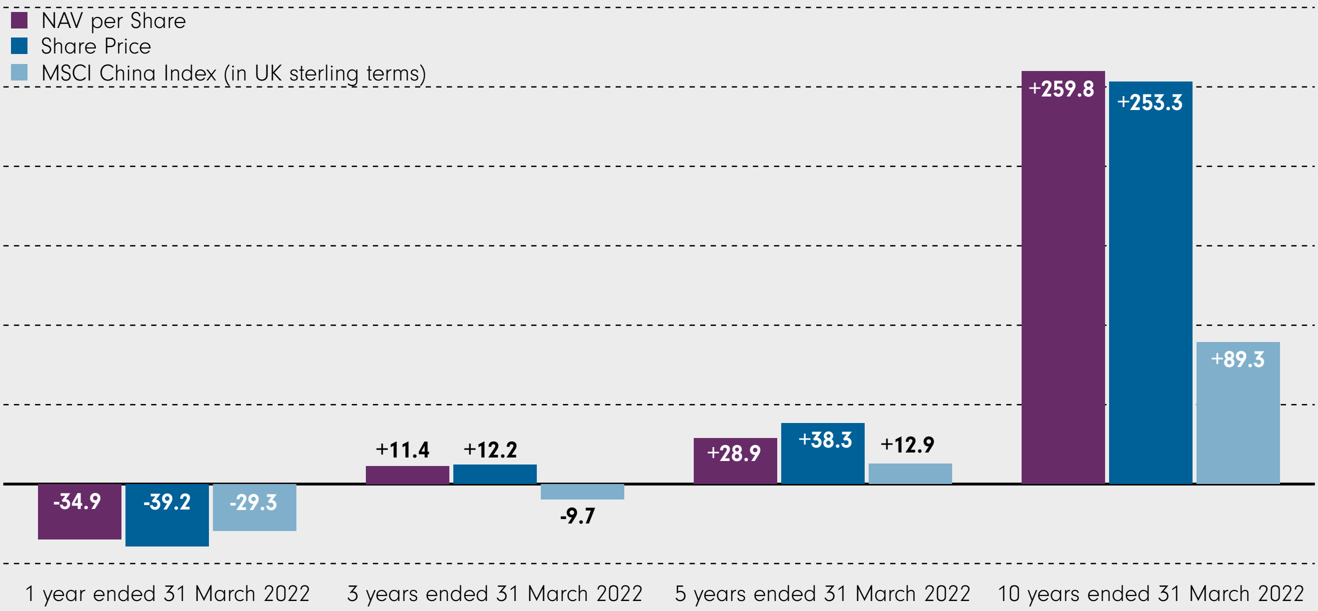
The Company operates a variable management fee arrangement which is calculated by referencing performance relative to the MSCI China Index (in UK sterling terms).

Financial Highlights

	2022	2021
Assets as at 31 March		
Gross Asset Exposure	**£1,765.6m**	£2,754.9m
Net Assets	**£1,400.6m**	£2,183.0m
Gross Gearing[1,2]	**26.1%**	26.2%
Net Gearing[1,2]	**23.5%**	18.4%
Net Asset Value ("NAV") per Share[2]	**272.52p**	423.50p
Share Price and Discount as at 31 March		
Share Price at year end	**252.00p**	419.00p
Share Price – year high	**436.50p**	498.00p
Share Price – year low	**218.50p**	212.00p
Discount at year end[2]	**(7.5%)**	(1.1%)
Discount – year high	**(10.4%)**	(13.2%)
Premium – year high	**2.7%**	2.3%
Earnings for the year ended 31 March – see page 65		
Revenue Earnings per Share[2,3]	**6.42p**	4.70p
Capital (Loss)/Earnings per Share[2,3]	**(152.81p)**	186.11p
Total (Loss)/Earnings per Share[2,3]	**(146.39p)**	190.81p
Ongoing Charges for the year to 31 March[2,4]	**0.94%**	0.97%
Variable Management Fee	**0.20%**	0.12%
Ongoing Charges including Variable Management Fee for the year to 31 March[2,4]	**1.14%**	1.09%

1 See Note 20 on pages 93 and 94. Defined in the Glossary to the Annual Report on pages 102 and 103.
2 Alternative Performance Measures.
3 Based on the weighted average number of shares held outside of Treasury during the year.
4 Ongoing charges (excluding finance costs and taxation) expressed as a percentage of average net asset values for the year (prepared in accordance with guidance issued by the Association of Investment Companies ("AIC")).

Standardised Performance Total Return[1] (%)



1 Includes reinvested income.

Sources: Fidelity International and Datastream.
Past Performance is not a guide to future returns.

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Chairman's Statement

I have pleasure in presenting the Annual Report of Fidelity China Special Situations PLC for the year ended 31 March 2022.

Nicholas Bull, Chairman

£1,400.6
(As at 31 March 2022)
Equity Shareholders' Funds

-34.9%
(Year ended 31 March 2022)
Net Asset Value per Share (total return)

-39.2%
(Year ended 31 March 2022)
Share Price (total return)

-29.3%
(Year ended 31 March 2022)
Benchmark Index (total return)

The reporting year proved challenging for investors in China – driven by four key factors. China's apparent recovery from COVID-19 stalled and it returned to its zero-COVID policy, reinstating restrictions on movement and lockdown isolation requirements in several major cities. Fears about China's slowing growth and debt burden weighed on equities; as did an increase in geopolitical tensions, linked in part to Russia's invasion of Ukraine. Regulatory crackdowns also held back performance, causing sharp sell-offs in sectors linked to President Xi Jinping's Three Mountains policy to increase equality in education (and internet), health care and property sectors.

Our Benchmark Index, the MSCI China Index, fell by 29.3% in the reporting year giving up all of the gains it had made during the previous twelve months. The net asset value ("NAV") per share fell by 34.9% where the gearing effect (-10.9%) outweighed the gains from stock selection (+6.6%). During the same period, the Company's share price fell by 39.2% as the discount widened to 7.5% from 1.1% at the end of the last reporting year.

The NAV and share price have both been particularly volatile during the last two years since the global pandemic was declared and we will no doubt see further volatility in the future. However, it should be noted that the share price and NAV as at 31 March 2022 of 252.00p and 272.52p respectively are still some way ahead of that at the same date in 2020 (216.00p and 236.27p) when the global pandemic was declared.

At a time when the world is experiencing volatility and uncertainty both politically and in its financial markets, investors will be re-appraising the makeup of their portfolios. Questions are asked, such as "Should a diversified portfolio have direct exposure to China?" "And if so, how?"

The Board continues to believe that a direct exposure to China is an important constituent of a diversified portfolio. Not only is China the second largest economy in the world but its Gross Domestic Product ("GDP") has for many years grown at a faster rate than the world average and it is projected to continue to do so. A geographically diversified portfolio needs to have exposure to this growth.

Fidelity China Special Situations has set out its stall to offer a "one stop shop" to investors to provide the China content of their portfolios.

Our Portfolio Manager, Dale Nicholls, concentrates on identifying those parts of the Chinese economy which are growing the fastest. He invests in the large capitalisation stocks such as Alibaba Group Holding and Tencent Holdings whose businesses continue to grow strongly. He also uses his large research team on the ground in China to seek out attractively priced medium and smaller capitalisation companies which will generate returns as they grow. Our top ten holdings are described on pages 23 and 24.

Making use of the closed ended nature of an investment trust, Dale can also invest up to 15% of the portfolio in unlisted companies taking advantage of their early stage growth before they become listed on the public markets. During the year, two of our unlisted holdings achieved their IPO, each recording a significant uplift over their original cost. However, since the dates of their IPOs, the fall in the markets has affected their prices. Subsequent to the year end, the Company converted its preference shares in the ride hailing company Xiaoju Kuaizhi (Didi Chuxing) into American Depositary Shares (ADS). Further details are in Note 22 on page 94. The valuation of Didi has been particularly affected by the fall in the markets, concerns over US listings, and increased regulation requirements. Three more investments were added to the unlisted part of the portfolio. Our unlisted investments are described on pages 20 to 22.

Because of our confidence in the long-term growth characteristics of the Chinese economy we include an element of gearing in the portfolio. This ensures that positive long-term returns are amplified but does result in increased volatility in the Net Asset Value and Share Price as it also accentuates losses in a falling market, as happened this year.

Dale Nicholls, in his report, describes those parts of the Chinese economy where he perceives the greatest growth, and comments on some of the specific investments he holds including his rationale for holding his five largest investments, which comprise 29.0% of his portfolio.

The Board is mindful of the risks of investing in a single emerging market and monitors those risks, both current risks and our perception of emerging risks. These risks are set out on pages 33 to 35. We believe, however, that those risks are outweighed by the opportunities of investing in China, and, in particular, in investing in Fidelity China Special Situations.

By investing in the domestic economy, Dale mitigates much of the geopolitical risk of investing in China. The growth of the middle class from a population of 1.4 billion people provides a momentum to consumer spending. Although, in a year when this has been reduced by the effects of the pandemic, Dale has sought value in other parts of the economy which he describes in his report.

The Board believes that the size and quality of Fidelity's research team gives the Manager a considerable advantage. Market dislocations create stock specific pricing anomalies and these can only be identified by extensive and rigorous research. Research also enables the Manager to position the portfolio to try and mitigate regulatory changes from the Chinese government some of which can be predicted from the nature of a centrally planned economy.

Board visit to China

In the years prior to the pandemic, the Board visited China each year to observe the Manager and his team in action, to meet the Fidelity analysts and also to meet some of the Companies in which we are invested. Last year, for the second time, we were unable to do that but had virtual visits in which we used video conferencing to meet with a combination of the Fidelity team, market commentators and some investee companies.

Among the companies we met was Bilibili, a video sharing internet company based in Shanghai, themed around animation, comics, and games, with whom the Portfolio Manager discussed limiting the impact from regulations, in particular, possible restrictions on "time spent" for minors on video content as seen on games.

We also heard from the management team of Huazhu Group, a hotel management company in China, that was ranked as the No.7 Hotel Group around the world in 2021 by Hotels.com; and from BC Technology Group which specialises in digital assets and blockchain platforms.

The Board was, once again, impressed by the breadth and depth of Fidelity's team, spending time not only with the Manager and the analysts but also with the Global Head of Stewardship and Sustainable Investing, who is based in Singapore.

I would like to take this opportunity to reiterate the Board's confidence in our Portfolio Manager, Dale Nicholls, and his team, in their skills and proven track record of identifying growth opportunities in the Chinese marketplace.

Environmental, Social and Governance (ESG) Investment and Climate Change

COP26 was an important global event in November 2021 where governments, businesses, climate experts and campaigners gathered for discussions and negotiations to tackle climate change. It provided a platform to attempt to align and co-ordinate international efforts in the fight against the climate crisis. There is increasing concern about global warming, and a focus on serious efforts to counter its effects. There was progress in the form of commitments and initiatives across a wide range of areas from deforestation to clean energy transition but more needs to be done. 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. Continuing deterioration in the climate brings investment risk into our portfolio. Fidelity International continues to evolve its approach to ESG and has a new climate investing policy as well as sustainable investing voting principles and guidelines and is making further improvements to its proprietary forward-looking ESG and climate ratings.

The growing body of middle-class consumers in China who care about the environmental and social footprints of what they buy means that companies need to take sustainability more seriously. The rise of sustainable investing offers further incentives for companies to step up their ESG efforts for the sake of easier financing. Given this confluence of factors, it is unsurprising that companies are generally willing and, at times, keen to engage with investors on ESG issues.

The evaluation of ESG factors are a core part of our Portfolio Manager's investment process and he continues to see progress regarding the level of engagement and transparency with Chinese companies. Sustainability factors are key topics of conversation with companies and many management teams are looking at ways to generate a more sustainable outcome for their companies. Although China continues to lag most other major markets in this area, we are encouraged by the fast rates of improvement which we are seeing. China's regulators are engaging with companies to improve the disclosure of ESG metrics to align themselves more with these standards in

Chairman's Statement continued

Hong Kong. Not only is this a good outcome globally, but we also believe that progress on better ESG practices could be a key source of performance for the portfolio over the longer-term.

Fidelity International has a proprietary sustainability ratings system leveraging its internal research and interactions with issuers. The ratings are designed to generate a forward-looking and holistic assessment of ESG risks and opportunities based on sector specific performance indicators. Analysts quantify the direction of change of companies' ESG performance (positive, neutral or negative trajectory) and rate the companies using a scale of A to E. The Board pays close attention to the ratings of underlying portfolio companies and challenges the Portfolio Manager and his team on any stocks with lower ratings. The ratings of the companies within the portfolio are well ahead of the broader market and continue to improve.

Dale Nicholls outlines his approach to this important subject in his report and what this means for the Company's investment portfolio. The Fidelity group of companies (including the Manager) has embedded ESG factors in its investment decision making process. Further details are on pages 16 to 19 which show how the Company is positioned in terms of ESG.

Gearing
The Company has a 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 on pages 93 and 94.

As at 31 March 2022, the Company's Gross Gearing, which is Gross Asset Exposure in excess of Net Assets, was 26.1% (2021: 26.2%). The level of Gross Gearing is determined by the Manager within the limit set by the Board of 30%. Net Gearing, which nets off short positions, was 23.5% at the year end (2021: 18.4%).

Dividend
Our investment objective is to achieve long-term capital growth. Nevertheless, the Company has been able to increase the dividend per share every year since the Company launched. With interest rates being low, the Directors recognise that the dividend has become a more important part of the total return to shareholders.

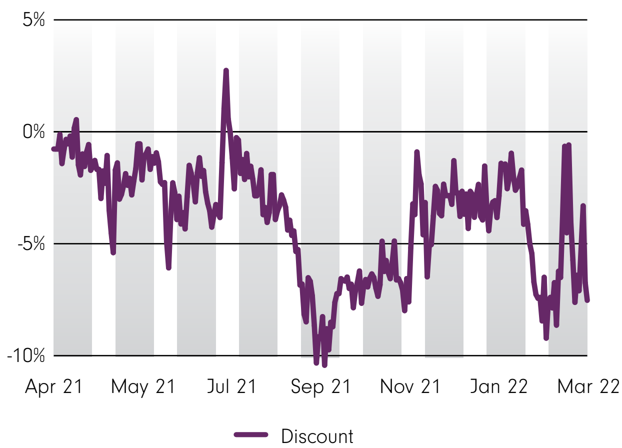
The Board recommends a final dividend of 5.50 pence per share for the year ended 31 March 2022 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 20 July 2022. This represents an increase of 17.5% over the 4.68 pence paid in respect of the prior year. The dividend will be payable on 27 July 2022 to shareholders on the register on 17 June 2022 (ex-dividend date 16 June 2022).

The revenue per share earned by the Company during the year was 6.42 pence, which is an increase of 36.6% over the 4.70 pence earned in the prior year, and covers the recommended dividend.

Discount Management
The Board believes that investors are best served when the share price trades close to net asset value ("NAV"). 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. The Board has a discount control policy in place whereby it seeks to maintain the discount in single digits in normal market conditions. Subject to market conditions, it will authorise the repurchase of shares with the objective of stabilising the share price discount within a single digit range.

The Company's discount widened from 1.1% at the start of the reporting year to 7.5% at the end of the reporting year. During the year, the Board authorised the repurchase of 1,506,074 shares into Treasury, representing 0.3% of issued share capital, in its effort to stabilise the discount. 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 511,450 ordinary shares into Treasury. No shares have been repurchased for cancellation. The graph below shows the history of the Company's discount during the year.

Discount to NAV



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.

Management Fees
With effect from 1 April 2021, the Board agreed a reduced management fee with the Manager, FIL Investment Services (UK) Limited. The revised fee structure is on a tiered basis of 0.90% on the first £1.5 billion of net assets reducing to 0.70% on net assets over £1.5 billion. The variable element of +/-0.20% from the previous fee structure remains unchanged. At the same time, the fixed annual fee of £100,000 for services other than portfolio management has been removed. The revised fee provides savings on the overall percentage costs for shareholders assuming net assets remain constant.

Details of the fee structure for the year ended 31 March 2022 are set out in the Directors' Report on page 40.

Ongoing Charge
The Ongoing Charge for the year was 0.94% (2021: 0.97%). As indicated, the Manager is entitled to earn up to an additional 0.20% of NAV per annum if performance is ahead of benchmark over a three-year basis, calculated on a daily basis. Notwithstanding the underperformance against the Benchmark Index in the year, the three year performance has been sufficient to earn the maximum variable element of 0.20%. As a result the Ongoing Charge for the year, including this variable element, was 1.14% (2021: 1.09%).

Board of Directors
Elisabeth Scott, having served on the Board as a non-executive Director since 1 November 2011 and as a Senior Independent Director since 22 July 2016, stepped down from the Board at the conclusion of the AGM on 20 July 2021. She was succeeded as a non-executive Director by Alastair Bruce who was appointed to the Board on 1 July 2021 and she was succeeded as Senior Independent Director by Linda Yueh on 20 July 2021.

As part of the Board's succession plan, I will retire as Chairman at the AGM on 20 July 2022. Following a formal process, the Board decided that Mike Balfour will succeed me as Chairman at the conclusion of the AGM. As Mike is currently Chairman of the Audit and Risk Committee, Alastair will succeed Mike at the same time.

The Board has appointed Georgina Field as a non-executive Director from 1 July 2022. Her biography is on page 39 and she will stand for election at the AGM on 20 July 2022.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, all Directors, with my exception, are subject to annual re-election at the AGM on 20 July 2022. The Directors' biographies can be found on page 39, and, between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

Board Apprentice
The Board continues to participate in the Board Apprentice Scheme arising from a government-supported initiative to give board exposure to aspiring non-executive directors, particularly women and those from ethnic minority backgrounds. Kal Foley-Khalique was appointed as a Board Apprentice on 1 December 2020 for a period of one year. As COVID affected her exposure to the workings of the Board, it was decided to extend her apprenticeship to the AGM on 20 July 2022. She attends all Board and Committee meetings as an observer and it is intended that this will assist her aspirations in securing a non-executive director role in the future. The Board has commenced the process to identify and appoint a new Board Apprentice.

Outlook
I shall retire from the board at the forthcoming AGM on 20 July 2022 having served, first as Senior Independent Director and then as Chairman, for the 12 years since our IPO in 2010. Much has changed in China during that time but one thing has not changed. We launched the Company to offer investors with a diversified portfolio the opportunity to have direct exposure to China's growth; and that approach is now widely accepted. Over the 12 years since the Company launched, the share price total return has been 169.3% compared to a Benchmark Index total return of 81.3%.

Official forecasts in China are that, in the year 2022, growth in GDP will be 5.5% which is greater than the OECD forecast of global growth, although some commentators are questioning whether that rate will be achieved. China is too large and growing too fast to be ignored by investors, especially when that growth is translated into attractively priced earnings for listed companies.

The Company is designed to be a one stop shop for investors' exposure to China. Dale Nicholls invests in companies of all sizes and has established a record of successfully identifying unlisted companies before they do their own IPO. His emphasis is always to identify those parts of the Chinese economy that are growing fastest and he is supported by a large and experienced team of research analysts on the ground.

ESG has become a prominent issue in recent years although it has always been the case that better governed companies make better investments. Fidelity has used its resources to apply its own ESG ranking methodology which enables the Manager to screen his investments and to engage with companies on their ESG standards.

No doubt the progress of the Company's share price will continue to experience short-term volatility but we have always portrayed holding shares in the Company as a long-term investment.

I have been a shareholder since I joined the board and will continue to be one as I retire; and I look forward to seeing the Company going from strength to strength.

Meanwhile, I hope to see you at our Annual General Meeting in July. Details of the AGM are on the next page.

Nicholas Bull

Nicholas Bull
Chairman
30 May 2022

Annual General Meeting – Wednesday, 20 July 2022 at 11.00 am

The AGM of the Company will be held at **11.00 am on Wednesday, 20 July 2022** at 155 Bishopsgate, London EC2M 3YD and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Notice of Meeting on pages 97 to 100.

Appropriate social distancing and hygiene measures will be in place for those shareholders attending the AGM in person. For those shareholders who would prefer not to attend in person or for whom travel is not convenient, we will live-stream the formal business and presentations of the meeting online.

Dale Nicholls, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. He and the Board will be very happy to answer any questions that shareholders may have. Copies of his 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.

Properly registered shareholders joining the AGM virtually will be able to vote on the proposed resolutions. Please see Note 8 to the Notes to the Notice of Meeting on page 99 for details on how to vote virtually. Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and we will answer as many as possible at an appropriate juncture during the meeting.

Further information and links to the Lumi platform may be found on the Company's website **www.fidelity.co.uk/china**. On the day of the AGM, in order to join electronically and ask questions via the Lumi platform, shareholders will need to connect to the website **https://web.lumiagm.com**.

Please note that investors on platforms such as Fidelity Personal Investing, Hargreaves Lansdown, Interactive Investor or AJ Bell Youinvest will need to request attendance at the AGM in accordance with the policies of your chosen platform. They may request that you submit electronic votes in advance of the meeting. If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **152-195-444**. You should then select the 'Guest Access' option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

Portfolio Manager's Review

Dale Nicholls was appointed as Portfolio Manager of Fidelity China Special Situations PLC on 1 April 2014. He has 27 years of investment experience and also manages the Fidelity Pacific Fund. He spends much of his time speaking to management teams and competitors of companies in which he invests or may choose to invest, engaging with hundreds of companies each year.

Question

How has the Company performed in the year under review?

Answer

As already mentioned in the Chairman's Statement, a resurgence in COVID cases, fears over China's slowing growth and increased regulation caused the Company's Benchmark Index to give up the gains it had made during the previous twelve months, and produced a total return in UK sterling of -29.3%. In this context, the Company's NAV total return per share, weighed down by the Company's gearing, fell by 34.9%. During the same period, the share price total return was -39.2% as the discount widened to 7.5% from 1.1% as at the Company's last year end.

Question

Investment performance in the year under review has been challenging, especially compared with the previous year. What have been the main drivers?

Answer

Over the period under review, holdings in industries embroiled in regulatory changes detracted from relative performance. Of note, was the sharp sell-off in Chinese stocks triggered by heightened regulatory changes targeting the education, internet, healthcare and property sectors (related to the "Three Mountains" that need to be scaled to deliver China's policy of Common Prosperity). Analysing regulatory developments and the direction of travel is naturally a core part of our analysis of the operating environments of companies. While there have clearly been some surprises through this tightening cycle, in areas such as education, we had largely exited from this space and so the impact on the Company was not significant. Our impact on the healthcare sector was also limited as we had little exposure to the generics part of the market where we expect the most significant pricing pressure to be. The exposure to the property sector was also limited. The main impact was in the internet related area.

However, the position in carrier-neutral internet data centre ("IDC") operator **VNET Group** (previously 21Vianet Group) weighed down returns due to a number of factors including weaker demand from wholesale customers, increased competition, as well as regulatory concerns that have generally applied to US listed Chinese companies. Furthermore, sentiment was dampened by ongoing concerns relating to the pending share sale by Tuspark (a strategic shareholder) due to its debt restructuring. Whilst capacity addition expectations have been lowered, growth remains solid and valuations have fallen to extreme levels, with the stock trading at a significant discount to its net asset value. More broadly speaking, IDC demand remains a structural growth story in China driven by increasing data usage of the internet via mobile devices on the consumer side and increasing demand for cloud and IT services on the enterprise side and I believe VNET is well positioned to benefit from this growth.

Portfolio Manager's Review continued

Given headwinds such as COVID lockdowns and a weakening property market, it is no surprise that consumption-driven sectors have struggled to perform. This in turn has seen increased pressures on the large internet platforms that have been impacted by lower advertising spend. The regulatory impact on sectors such as education has also clearly played a part here.

As often happens in market downturns, some of the smaller holdings in the Company's portfolio with less liquidity have suffered more. Tencent-backed livestreaming platform **Kuaishou Technology** remained out of favour as leading social media and gaming companies faced higher regulatory scrutiny over user data collection and usage. Kuaishou is one of the most popular social platforms in China and one of the few internet companies that continues to have robust growth in users and time-spent-online. The company has undergone some major organisational restructuring which should lead to better operating efficiency over the mid-term. The company's monetisation of the platform is expected to increase as it shifts its focus to commercial activities, with advertising and e-commerce being two of its biggest growth opportunities.

The holding in online marketing technology company **iClick Interactive Asia Group**, e-commerce service provider **Baozun** and supply chain finance technology solution provider **Linklogis** were caught in the broader market sell-off. The weaker consumer and related advertising spend clearly weighed on iClick and Baozun, as did US delisting fears. The long-term growth story for Baozun remains intact in light of rising online penetration and category expansion including luxury and fast-moving consumer goods (FMCG). The company's close relationship with Alibaba and large client resources also enables it to get the best resources from Alibaba. In addition, the volume of customers it serves on other platforms, including the fast growing live-streaming platforms, continues to grow. Even factoring in the headwinds, these companies' shares look significantly oversold and are trading at significant discounts to where we see fair value.

On a positive note, an exposure to **SenseTime**, which we bought in 2018 while it was unlisted, added notable value as shares in the artificial intelligence ("AI") technology company rallied following its initial public offering (IPO). The company continues to capitalise on its lead in algorithm production efficiency and in its commercialisation in comparison to other AI start-ups, along with access to a large addressable market backed by strong capabilities in core areas such as computer vision.

The holding in one of our other unlisted investments, autonomous vehicle technology company **Pony.ai**, also performed well as subsequent investment rounds were announced at significantly higher than expected valuations (the company is also backed by Toyota). The company's plans of commercialising autonomous driving for all vehicle sizes remain on track and we are closely monitoring its operations regarding both ride-sharing and delivery service networks. It already operates taxi fleets in cities such as Beijing, and I believe the company remains well-positioned as a leading player in this new and emerging market.

Elsewhere, a leading manufacturer of gas equipment and liquid tanks **CIMC Enric** continues to benefit from solid gas demand growth trends in China over the mid-term, with the shift away from more harmful fossil fuels. As a leader in the business for gas related equipment, the company is well placed to play a role in the innovation required for China to reach its environmental goals. The company is also well positioned in China's nascent hydrogen supply chain.

Question

COVID cases in China are rising again. Is China likely to continue with its zero-COVID policy and what are the implications for the Company's portfolio?

Answer

Slowing economic growth - notably slowing consumer activity highlighted in data points such as retail sales – has been exacerbated by the recent COVID lockdowns that we have seen in large cities such as Shanghai. The feedback from consumer related businesses in the region indicate that the impact will be significant in the short-term. Despite the severity of these lockdowns, and while the direction of policy is not always easy to predict, I do believe that we will see a shift towards a loosening of restrictions relatively soon. I believe that recent commentary from certain officials, the approval of foreign antiviral drugs, as well as the evident social strain the policy is having, are all factors that support this view.

There is also a clear impact on supply chains. We are already seeing impact of the recent lockdowns in Shenzhen given the huge productive capacity that was affected there; limits of ports in places like Shanghai are also clearly having a major impact. In terms of implications for the portfolio, as there is a focus on domestic consumption, we are focused on ensuring the fundamentals (such as earnings visibility) of companies we own in the portfolio remain intact.

I do not think that we should underestimate the risks from the zero-COVID policy and I expect the short-term outlook for the consumer sector will be difficult; and this is partly reflected in the portfolio's current underweight to consumer discretionary positions. However, I remain positive on the long-term potential of the Chinese consumption theme and believe that there is good potential for the unleashing of spending power as the country comes out of the pandemic.

Question

The US has indicated it will delist some Chinese companies from its exchanges – have any of your investments been directly impacted, and will the trend continue?

Answer

While there are liquidity perspectives to consider, I believe this will clearly improve over time and the vast majority of Chinese companies have the capacity to be listed in other markets such as

Hong Kong. Most crucial for me is the underlying value of a company, and not where that company is listed. With this in mind, I have been adding to positions over this period, given the opportunities created by some of the sell-offs which took some stock valuations to extreme levels, presenting attractive opportunities. Examples include **VNET**, **Autohome** and **Lufax**.

Question

There has been a lot of talk about how Russia's invasion of Ukraine will affect Chinese relations with the West and China's markets – is this of concern?

Answer

Geopolitics is definitely something we all need to be mindful of. Some of the significant economic concerns we held prior to the Russia and Ukraine conflict have indeed been accentuated by the crisis. For example, there is now a greater risk of global stagflation – with greater risks to growth, and ongoing supply chain disruptions increasing costs for everyone.

It seems likely that China will continue its more 'neutral' stance towards the conflict, in keeping with the policy actions taken by other large countries in Emerging Markets. The base case would be that we do not see a further deterioration in what is already a strained relationship with the US. While geopolitics often dominates headline news, what I concentrate and focus on is the potential direct impact this can have on the companies I invest in and their earnings, which in most cases, is negligible.

As in previous years, the sales of the companies in which we invest are predominantly domestic. Of the overall portfolio, sales exposure to China is over 90%.

Regarding cost pressures, while these trends and their short-term impact on earnings need to be monitored, we are very focused on companies that have pricing power that will allow them to pass on these costs over time.

Question

Are people in China domestically experiencing inflation in the same way as in the West and across Europe?

Answer

Inflationary pressures in China have been relatively benign and less of a risk compared to trends seen in many Developed Markets. China's headline Consumer Prices Index ("CPI") inflation has maintained relatively moderate levels in the past few months and we will need to watch how this trend evolves. Although the year-on-year CPI could be pushed up by higher-than-normal vegetable prices due to weather conditions and COVID restrictions (which have already been partially offset by widening pork deflation), as well as rising fuel costs due to geopolitical tensions on the supply side, we expect such increases to be moderate as Chinese consumer demand remains weak and domestic supply chain disruptions lessen over time. However, this does need to be monitored given volatile commodity prices.

In contrast, the headline CPI inflation in major Developed Market ("DM") economies hit decade highs in early 2022. The divergence is partially technical, reflecting relatively high weights of pork but low weights of fuels, as highly regulated prices in China somewhat shield inflationary pressures from the global spike in oil prices. In addition, the difference in labour markets may also contribute to the divergence. Service inflation in China was still muted with the labour market deteriorating due to the zero-COVID Policy and tightened restrictions, while the elevated inflation in DM economies like the US had broadened from goods to services with tight labour markets driving strong wage growth.

Question

There is obviously a lot of macro uncertainty at the moment, which has led to volatility. What does that mean for valuations? Are there reasons to be optimistic?

Answer

The graphs on the next page show the extent of the de-rating that we have experienced in the Chinese markets in the last year. Valuations in China, both on a historical basis and compared to global peers, have become increasingly more attractive. Given the concerns discussed, investor sentiment remains quite negative.

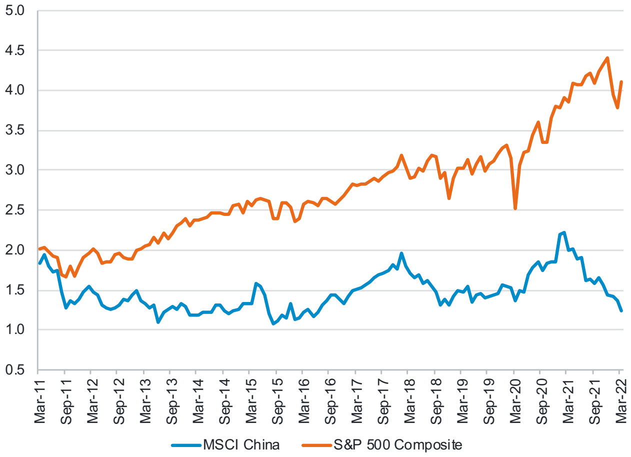
I believe there is good potential for less "negative news" going forward. One key factor will be developments in the property sector – a sector whose correction has also been a major drag on the country's economy from late 2021. At this point, we are already seeing signs of easing measures from purchasing restrictions being lifted to easing mortgage lending in certain cities. I believe this has good potential to continue and expand.

The regulatory wave has good potential to ebb, with a shift more on the implementation of announced policies versus policy surprises. A key example of this is the government's messaging at the end of April after their Politburo meeting where it was indicated that policy would shift to support economic growth via increased infrastructure spending, more supportive property measures (albeit the policy that housing is for 'living not speculating' remains) and the healthy development of internet platforms in order to help underpin consumption and enable pent up demand and spending once lockdowns are lifted.

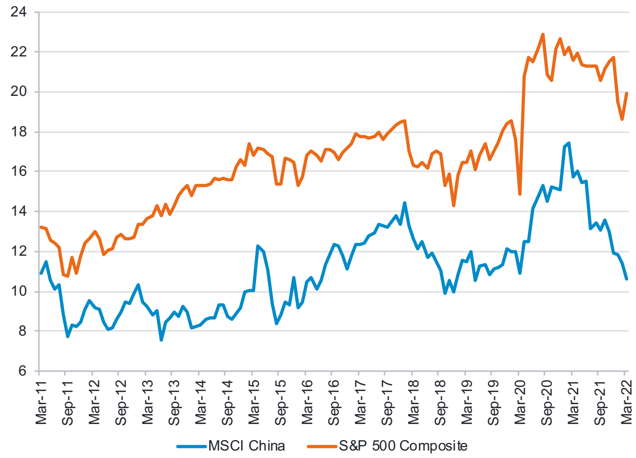
Finally, I feel we can expect more actions to be taken on both the monetary and fiscal side to support economic growth. This contrasts significantly with the monetary tightening we are seeing in other markets such as the US. These levers, combined with easier comparisons relative to the slowdown from the first half of 2021, have considerable scope to drive faster earnings growth in the market from the second half of 2022.

Portfolio Manager's Review continued

Attractive valuations offer opportunity
12 Month Forward Price-to-Book



12 Month Forward Price-to-Earnings



Source: Refinitiv DataStream, 31 March 2022. RHS stands for Right hand side.

Question

In which companies and sectors are you finding the most exciting opportunities?

Answer

In terms of opportunities and ideas, the Company remains focused on stocks and sectors that appear well positioned to benefit from China's long-term structural growth drivers. Indeed, despite recent uncertainties, powerful trends like the expansion of the middle class provide a long runway for growth.

Following the significant recent falls in technology-related names, we feel that the risk/reward pay-off has tipped much more in our favour in these companies. For example, **Alibaba Group Holding,** factoring out the value of cash and investments, is trading at a single digit price/earnings ratio. Although it does face some competitive challenges, it remains the dominant platform in China and generates very high returns on capital. As is often the case with broad-based corrections, some stocks with lower regulatory risk have also sold-off, presenting some very appealing investment opportunities. Interestingly, this includes some smaller companies that could actually be beneficiaries of regulatory changes since many of the new reforms focus more on larger companies.

We have also moved to build-up a sizeable position in industrials which now stands as the largest sector overweight position in the Company. The core thesis around industry consolidation remains very much in place as areas such as building materials in China are very fragmented relative to what one sees in the more mature markets. Some of the Company's paint holdings, for example, have underperformed due to property sector concerns and raw materials cost pressure, but I maintain a high level of conviction in the long-term story and see significant potential for future upside as sentiment and fundamentals start to improve. For many of these companies, the exposure to residential property is relatively low and any direct impacts are well managed. Additionally, they should benefit from increased infrastructure investment which I think is likely.

Elsewhere, within financials, I continue to favour insurers, given the industry's structural growth prospects driven by the country's demographic trends and rising incomes, particularly for protection-type life insurance products given relatively low levels of penetration. Thus, the portfolio continues to hold an exposure to **China Life** and China's third largest insurance group **China Pacific Insurance Group** ("CPIC"), which covers life as well as property and casualty segments. Both companies are very attractively valued in both absolute terms, versus peer and versus their historic levels. CPIC will implement its so-called "long-journey" reform in 2022, with more focus on productivity and persistency. I am still cautious on mainstream banks in general, but I built a new position in China's fifth largest state-owned bank, **Postal Savings Bank of China**. The relatively new management team is focused on leveraging a strong branch network to grow in retail and small to medium enterprise (SME) lending. Its wealth management division is also rapidly ramping up and offers outstanding growth potential. ESG factors are also important – as highlighted below. This all comes at a very attractive valuation.

Another new position was initiated in a leading digital textile printer maker – **Hangzhou Honghua Digital Technology**. The company's position is supported by evolving industry trends including increasing the need to shorten production and delivery times, reduction of production batches and rising demand for individualised products. In addition, digital textile printing offers profound environmental benefits in the form of low emissions, wastewater production, energy consumption and waste-material production. Thus, demand push in the form of government policy adoption of digital textile printing also supports what is a long runway for growth. In addition to the building materials examples discussed above, this is a good example of the emergence of companies I would put in the "quality industrial" category. These companies are building real competitive advantages through strong investment in R&D; many of them are seeing strong market share gains, in many cases replacing foreign imports which have dominated these categories.

I also purchased a new holding in China's second largest pipe company by market share, **Yonggao**. The company is expected to continue posting solid topline growth amid market consolidation as it continues to take market share from smaller players. The company is building up its distribution channels, warehouses and optimising product flow in weak regions in an effort to improve its utilisation and efficiency. The company also trades at a significant discount to the market and peers.

Within healthcare, I purchased a new position in **Zhaoke Ophthalmology**, a biotech company focused on ophthalmological products. The company has a comprehensive ophthalmic drug pipeline which is expected to benefit from what is currently an under penetrated market. China's aging population and increasing use of IT products leads to an increasing prevalence of eye diseases. As such, increasing disease awareness and affordability of treatment coupled with technological advancement for treatment supports strong industry growth trends.

Question

What is your approach to gearing in the Company's portfolio?

Answer

Whilst the period under review has seen a sell-off in Chinese equities, given current undemanding valuations and the expected tailwind of policy response, I remain increasingly positive and this is reflected in current gearing levels. Towards the end of the period, net gearing was increased to current levels of around 24%. This is due to a combination of adding to areas where we see significant value and closing the majority of our short positions in the wake of the market corrections.

Question

What is your approach to ESG? How do corporates in China address ESG issues, and does this differ from Western markets?

Answer

Our analyst survey, which is based on the findings of engagements with companies, shows that Chinese companies are embracing ESG challenges. As highlighted previously, improvements are often coming from low bases but the pace of improvement is impressive, and this is the most important thing.

In 2021, both the Shanghai and the Shenzhen bourses revised their listing rules which now include a provision for companies to publish a corporate social responsibility (CSR) report (albeit non-mandatory). China also saw progress in ESG ratings overall, specifically, companies with a BBB or above rating in the MSCI Index increasing when compared to 2020, together with the successful inclusion of a carbon footprint for most companies. In addition, there were a number of developments relating to climate change from the government and regulators. The most notable one is the launch of the national carbon trading market in July 2021 which covers 40% of China's emissions and around 10% of global total emissions.

In recent years, I have witnessed a notable increased focus on ESG from investee companies. I have found separate ESG focused engagement sessions to be incredibly valuable as these have been comprehensive "deep-dives" into understanding a company's ESG mindset, strategy and capabilities. It is also encouraging that investee companies seek Fidelity's advice on how to better represent and report on their credentials in this area.

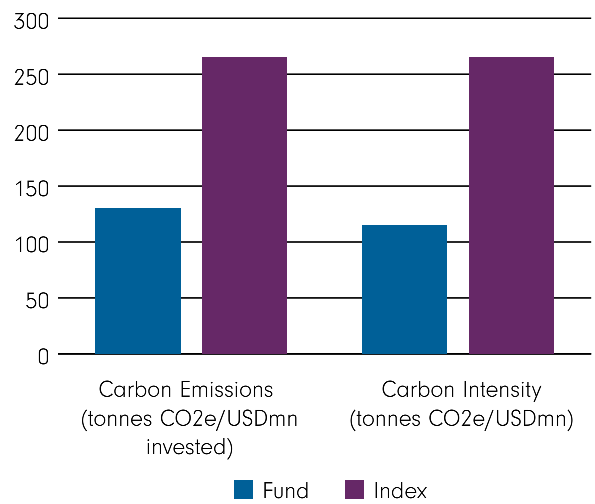
An interesting area of development that we have been monitoring closely is that of green financing. Two companies that are making strong advancements in the financials space are **Lufax Holding** and **Postal Savings Bank of China**. We have engaged with both companies extensively. Lufax differentiates itself by targeting small business owners underserved by the country's banks by providing them with large ticket-size/long tenor funding. It was encouraging to see the company release its first ESG report last year, committing to adhere to the nation's guidelines on green finance and inclusive finance by executing their mission of providing inclusive and compassionate financial services.

Postal Savings Bank of China ("PSBC") was upgraded by MSCI from BBB to A in November 2021, mainly due to the bank's strong ESG incorporation in both its business practices and its rapid expansion in green loans. PSBC's targeted agricultural loans and green loans are more resilient through cycles which enables it to post superior loan growth. Aside from over 30% growth in green loans, PSBC set up its A-Share ESG Index on the Deutsche Boerse over the past year, to promote ESG investment into A-Share companies from a global perspective. The bank also facilitated over 450 corporate customers in conducting their carbon accounting last year.

On the next page, are two examples of our company engagements. **Zhejiang Weixing** which has a good ESG rating but we engaged with to improve further and **Lenovo Group** which has excellent practices on gender diversity.

The chart below demonstrates that the Company's portfolio has a significantly lower carbon footprint than that of the Benchmark Index.

Fidelity China Special Situations PLC – Carbon Footprint



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Portfolio Manager's Review continued

Zhejiang Weixing

VASEN 伟星

1:1 Engagement

- Engagement background: this new buildings material company is already rated "A" by MSCI, due in large part to its environmental focus.
- Fidelity's engagement goals: to understand its current environmental practices and strategy, as well as discuss other broader social and governance issues.

Board secretary

Fidelity's Equity & ESG Analysts

GHG Emission
- Its business is carbon light in terms of scope 1 emissions.
- Disclosed total GHG emissions and GHG emission intensity reporting in 2021.
- Plans to introduce solar energy.

Employee Management
- Offers training and development program to employees, (averaging 27.7 training hours per year).
- Staff turnover rate is lower than many other building material companies because most employees begin their careers with the company as school leavers.

Water Management
- Limited water usage.
- Good water recycling system.

Corporate Governance
- 3 out of 9 directors are independent directors.
- Intention to align management's KPIs with ESG targets.

Outcomes
- Meetings have been positive. Fidelity suggested that it further expand the scope of its GHG emissions reporting, and the company has confirmed it will hire an external consultant this year to assist in this regard.
- The company has confirmed its intention to link ESG performance to management's KPIs after setting specific ESG targets or goals.

Source: Fidelity International. Third party logos, trademark, copyright and other intellectual property rights are and remain the property of their respective owners

Lenovo Group

Lenovo

1:1 Engagement

Background & Objectives: Through engagement this consumer electronics company has done extremely well in promoting gender diversity and featured in Fidelity's inaugural China Gender Diversity Report (February 2022)

Investor Relationship Representatives, Directors/Chief Officers/Senior Managers of each ESG function

Fidelity Fixed Income & Sustainable Investing Team

Initial conversation regarding Gender Diversity

Gender Diversity topics covered:
- Gender governance
- Female leadership targets
- Supporting programs that the company might wish to consider adopting

September 2021 — December 2021

- The company was very responsive to our request to engage and we met with **10 members of staff,** covering a number of areas and of varying seniority.
- Other ESG issues covered: Climate change; Waste management / product end of life handling; Supply chain management; Cyber security/data privacy; etc.

The company has done well in promoting diversity
- Diversity governance: a Diversity and Inclusion (D&I) committee has been established, with gender being its top focus.
- Target setting: the company is working toward having 27% women in leadership roles by 2026.
- Supporting programs adopted:
  - Women's Leadership and Development
  - Women in Learning and Leadership

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Question

How much of the portfolio is made up of unlisted investments and how do you feel about these holdings?

Answer

The portfolio's unlisted positions span a wide range of industries and collectively account for 13.2% of the overall portfolio. These holdings represent some of the most interesting companies in the world. For example, ByteDance, the internet technology company, remains a major holding in this space and the company continues to deliver very strong revenue and profit growth through Douyin in China and TikTok internationally.

However, investing in pre-IPO companies is not without complication as recent experience with ride hailing company Xiaoju Kuaizhi (Didi Chuxing) has reminded us. Didi remains under investigation by the Cyberspace Administration of China (CAC) and is on a path to delist from US Exchanges. This has led to a significant decline in the value of its shares post IPO. Even after taking into account the uncertainty around these factors, I believe Didi's shares look oversold given its still dominant market position.

Investing in this space is a key differentiating factor for the Company and while it takes some time to find the right opportunities, on balance, it is clear to me that these efforts are worthwhile. We seek to capitalise on the widest set of investment opportunities in China. The fact that world leading companies such as ByteDance and DJI International are still private, illustrates the importance of looking beyond the listed universe.. Notably, two of the unlisted positions – HR management software provider Beisen and auto maintenance platform Tuhu Car – have applied for listings in Hong Kong.

Further details of the Company's unlisted investments are on pages 20 to 22.

Question

Can you explain your choice of your five largest holdings?

Answer

Each of my top five holdings are at least 2.5% of the Company's asset exposure and comprise 29% in total in the portfolio. Generally, this is justified by their strong risk/reward characteristics – scoring well on the core framework by factoring in growth, returns, management and valuations. Below are details of the five holdings.

Tencent Holdings – Tencent's monopolistic position in social networking in China and the attendant benefits of powerful network effects are reasons why this is my largest holding. Tencent has carefully nurtured and enriched the user experience and benefits from a sizeable user base. As China's internet user growth slows down, Tencent's enviable user base gives it a strong competitive advantage. The entire internet industry focus has shifted towards monetisation and Tencent's position in such an environment remains favourable given its highly loyal user base and strong ecosystem. Tencent remains highly competitive in its core business despite the recent regulatory and macro headwinds. We also expect that the recent resumption in game approvals will eventually extend to games published by Tencent. Valuations are now much more compelling versus both history and peers given the market's recent correction.

Alibaba Group Holding – Alibaba holds a dominant position in the e-commerce market. The company has built a comprehensive ecosystem that has superior breadth and depth and is the foundation of its loyal merchants and consumers base, which ultimately supports its pricing power. Furthermore, the company is nurtured in an environment of continuous innovation, customer focus and pursuit of excellence which has enabled it to expand beyond its comfort zone and increase the addressable market.

Weak consumption trends and rising competition in e-commerce raise downside risk. Nevertheless, the company's clear refocus and reprioritisation in its businesses will aid growth. The company's China commerce division will be focusing on optimising returns whereas its cloud and international business will focus on growth. While we still await regulatory clarity around areas like the Ant financial business, in general regulatory risks are likely close to or past peak in my view. Similar to Tencent or even more so, Alibaba's valuations are very compelling versus history and peers.

WuXi AppTec – The company is a long-term beneficiary from increasing pharmaceutical and biotech contract research and manufacturing (CDMO/CMO) demand globally. China's CDMO/CMO business has significant investment potential, supported by a structural shift from generic to innovative drugs in the country's pharmaceutical market. WuXi has established a talent pool with strong technical skills, which has helped drive a loyal client base. It is well positioned to deliver solid earnings growth broadly supported by its WuXi Chemistry business. Looking ahead, there is exciting potential upside from growing areas such as cell/gene therapy.

Pony.ai – The Toyota backed autonomous vehicle technology company presents significant growth potential as a market leader in an emerging new industry that will transform traditional ways of transportation. The company plans to commercialise autonomous driving for all sizes of vehicles and to operate on both ridesharing and delivery service networks.

SenseTime – The company is a leading artificial intelligence ("AI") technology company specialising in computer vision. The company has access to a large addressable market backed by strong algorithm capabilities. It has a leading market position in its four key business lines and serves a wide range of industries across commercial space management, urban management, manufacturing, transportation, automobiles, etc. SenseTime is a prime example of a research-oriented company and its culture is deeply rooted in academic excellence. SenseTime was purchased on 7 June 2018 and had its IPO on 6 December 2021 with an uplift of 18.5% per annum. However, our shareholding post IPO has been subject to a 180 day lock-up period.

Question

Does the long-term case for investing in China remain strong?

Answer

Despite recent challenges and ongoing uncertainty, we remain positive on the long-term investment opportunities on offer in China. We believe a lot of the negative news flow is reflected in current valuations, which look very attractive relative to other markets and to China's own history. As discussed above, we are seeing increased messaging from authorities around measures to support growth and address challenges such as those posed by the property market slowdown. Our ongoing analysis highlights that we should be past the worst of the regulatory headwinds we experienced during 2021. Adding to this is the likely looser policy stance which is in direct contrast to what we are seeing across other major economies - this backdrop supports the case for China to outperform on a relative basis moving forward.

Finally, investor sentiment towards China has been very weak and therefore any alleviation of the factors depressing sentiment could be the catalyst for a share price recovery. The combination of weak sentiment and low valuations has created a number of opportunities and we continue to put money to work in areas where we see long-term value. This is reflected in the increased gearing in the portfolio which stood at 124% at the time of writing, and is a relatively high level versus history. I have also increased my personal holding in the Company to 113,042 shares.

Dale Nicholls
Portfolio Manager
30 May 2022

The Chinese Paradox

Environmental, Social, and Governance (ESG) considerations when investing in China
In China, the focus on ESG reporting is growing rapidly (already an emerging global trend) as the country seeks to "green" its economy and improve social equality. However, viewed through a western lens some of the policy objectives of the state may sit at odds with what investors consider to be desirable outcomes.

The Chinese Paradox
There can be little doubt that China has continued to develop state policy with a firm eye on all three constituents of ESG – and expects its businesses to play a major role in delivering its aims:

Environment: China has set three major carbon milestones for 2025, 2030, and 2060 (by which time the country is aiming for 80% non-fossil fuel energy consumption, and to achieve carbon neutrality).

However, the targets set out by China, although ambitious, do not align exactly with the Paris Accords working towards a slower reduction in carbon use in the next few years followed by a more aggressive reduction beyond 2030. It is clear, however, that combating rising global temperatures will require China's engagement, and there is little doubt that the targets they have set themselves will be impactful if achieved.

Social: China has made "Common Prosperity" a central policy objective, with a focus on the rising costs to Chinese households of education, healthcare and housing and has implemented significant regulatory programs impacting on these sectors.

Many of these changes are well received by outside observers, but the speed with which they were implemented proved disruptive to many Chinese firms and their investors. China is also often criticised by western commentators for its surveillance practices and treatment of ethnic minority groups.

Governance: In December 2021, China published a draft revision to the Company Law of China, roughly coinciding with The China Banking and Insurance Regulatory Commission (CBIRC) publicly rebuking banks and insurance firms which are failing to meet corporate governance guidelines, including shareholders governance, risk control and board governance. With the onshoring of companies and the closures of American Depositary Receipts written for Chinese Companies, improvements to Corporate Governance are sharply in focus.

At the same time the Chinese Communist Party is also strengthening the presence and powers of internal Party organizations located within Chinese companies to ensure greater oversight and influence over China's commercial sector, challenging Western views of corporate autonomy.

While Corporate Governance and disclosure is definitely improving within China, it is based on Chinese, rather than Western, views of what good governance and best practice look like.

The Challenges for Rating Agencies
Rating agencies use both qualitative and quantitative data to inform their ratings; for instance, a company's carbon emissions, cyber-security readiness and instances of questionable social conduct all factor into their overall score. MSCI, Institutional Shareholder Services (ISS), Sustainalytics and S&P are among the most prominent third-party ESG rating agencies. It should be noted that these third-party rating agencies use different methodologies to come up with their ratings and therefore a company's rating can vary between rating agencies. What's even more challenging, is that these ratings are also not aligned with the disclosure frameworks being promoted by institutional investors (i.e. SASB and TCFD).

A Large Universe of Companies Under-Researched by Commercial Rating Agencies
With roughly 1,000 companies in the MSCI China Investible Market Index alone (and more than 4,000 companies listed domestically in China), there is an abundance of potential investment opportunities. But the size of the investment universe also presents a challenge in terms of coverage by mainstream commercial agencies – indeed, there tend to be far fewer sell-side analysts covering each stock, and the information and earnings forecasts that are published often focus solely on the shorter-term. While this lack of coverage speaks to the challenge of investing in Chinese companies (particularly smaller ones) more broadly, it also translates into less comprehensive coverage of ESG factors.

Compounding this, ESG data from third-party providers can vary widely. While there is a greater amount of information on governance and environmental factors, data on social issues, while improving, remains relatively scarce. Even so, because ESG is not a straightforward topic, a one-size-fits-all approach rarely works – meaning third party data, even when it does exist, is often more helpful as an input for consideration rather than as a comprehensive measure of a company's ESG profile. Fidelity International has developed its own proprietary ratings in response to this and this is set out on page 17.

Fewer Resources Dedicated to ESG

Many Chinese companies also face challenges when communicating and addressing ESG issues where best market practice is still developing. Smaller companies will tend to have more limited resources available to assess, disclose and report on ESG and sustainability issues, compared to their large cap counterparts. When the required disclosures and ESG regulations are rapidly developing and being enhanced, for all companies irrespective of size, smaller companies may face disproportionate burdens. As a consequence, smaller companies, particularly those without a large or dedicated team covering sustainability issues, may struggle to produce supplemental or more in-depth ESG data, and may report fewer disclosures meaning much of the Fidelity China Special Situations' portfolio still has limited mainstream ESG coverage.

The EU taxonomy for sustainable activities, a proposed classification aimed at helping to identify sustainable investments, is another example. While this will have the positive impact of helping to prevent greenwashing and should assist investors in making more sustainable or ESG-oriented investment decisions, the time and resources required of companies to provide the appropriate data where the regulations do not apply directly, and the more limited access to policymakers and regulators, may adversely affect Chinese companies' positioning under the developing Taxonomy rules. As a result, some Chinese companies may end up having apparently weaker ESG profiles than are warranted.

The Challenge

Investing in Chinese companies, where disclosure is limited, especially when investing in companies that would benefit from improvements moving forward, will nearly always result in investing in companies with an average ESG rating or coverage which is "worse" than the aggregate of a comparable western large cap index, where the mainstream ratings agencies are focused on larger companies where disclosure is better.

The impact of improvements in governance and reporting of Chinese companies may lead to an improvement in ESG ratings, resulting in a re-rating of the share prices of those companies to reflect their positive social and environmental impact. At which point the Manager may choose to replace them with new under-researched companies with poorer disclosure where there is the opportunity to improve ESG reporting by means of shareholder engagement.

The Opportunity

While these challenges should not be underestimated, due to the information gaps that exist within China they can also present opportunities to identify unrecognised growth or undervalued companies.

Given the relatively slower adoption of standardised disclosure within China, there is a perception that they have been slower to adopt ESG metrics relative to their western counterparts. But in reality, many Chinese companies are doing much more when it comes to sustainability and ESG than meets the eye. And again, we believe these unrecognized or overlooked efforts often create strong potential for longer-term growth. Fidelity, as an active Manager, with significant breadth and resources, and its own proprietary ESG rating system, is particularly well-positioned to uncover overlooked opportunities and help companies progress in their ESG journeys.

ESG in the portfolio – the role of the Board

The Board recognises the importance of ESG factors to many Western investors, and believes that a proper consideration of ESG issues aligns with the investment objective – i.e., to deliver long-term capital growth. The Board firmly believes that it is in shareholders' best interests that the Company does not invest in companies which wilfully disregard their impact on the environment or the social consequences of their activities.

In this light, the Board endorses the capabilities and approach of Fidelity to ESG in portfolios and its own investment operations and finds itself closely aligned to them.

The Board continually reviews how Fidelity International applies ESG factors in the investment process, as set out below. The Fidelity group of companies also sets out its commitment to responsible investing and provides a copy of its detailed "Responsible Investing" report at **www.fidelity.co.uk/responsible-investing**.

ESG in the Investment Process

Fidelity International ("Fidelity") has embedded Environmental, Social and Governance ("ESG") factors in its investment decision making for a number of years. Fidelity has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis. As a founding signatory to the Net Zero Asset Managers Initiative, Fidelity has committed to halving the carbon footprint of its investment portfolios by 2030, from a 2020 baseline, starting with equity and corporate bond holdings; and to reach net zero for holdings by 2050.

ESG integration at Fidelity is carried out at the fundamental research analyst level within its investment teams, primarily through the implementation of the Fidelity Proprietary Sustainability Rating. This rating was established in 2019 and is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on sector specific key performance indicators across 127 individual and unique sub-sectors. A breakdown of the ratings of the companies in the portfolio using MSCI and Fidelity's own proprietary ratings is on the next page. In addition, Fidelity's portfolio managers are also active in analysing the effects of ESG factors when making investment decisions. ESG analysis complements financial analysis to provide a complete view of every company that is researched and monitored.

Fidelity's approach to integrating ESG factors into its investment analysis includes the following activities:

- In-depth research
- Company engagement
- Active ownership
- Collaboration within the investment industry

In addition to Fidelity's Sustainability Ratings, Fidelity has developed a proprietary Climate Rating, which is an important part of its plans to reach net zero emissions across its portfolios. It utilises its fundamental research capabilities to identify climate related risks, net zero investments and targets for transition engagement within the Fidelity investment universe. It assesses which companies are in the best position to transition to net zero, or have a positive trajectory towards transition. The Climate Rating is designed to complement the broader Sustainability Ratings, which score companies across a range of environmental, social and governance criteria.

Although Fidelity's analysts have overall responsibility for analysing the environmental, social and governance performance of the companies in which it invests, it has a dedicated Sustainable Investing Team working closely with the investment teams and is responsible for consolidating Fidelity's approach to stewardship, engagement, including thematic engagement, ESG integration and the exercise of its votes at general meetings.

The Sustainable Investing Team have a key role in assisting the investment teams with ESG integration which includes:

- Implementing Fidelity's proxy voting guidelines.
- Engagement with investee companies on ESG issues, utilising Fidelity's corporate access research capabilities and investment scale to improve corporate behaviour, including at company meetings.
- Working closely with the investment team globally across all asset classes in integrating ESG into analysis and decision-making.
- Providing internal ESG reporting including analyst reports, portfolio manager reviews and industry analysis.
- Co-ordinating and responding to specific client queries on ESG topics.
- Publishing client reporting on ESG integration and proxy voting.
- Maintaining a thorough understanding of current ESG themes and trends around the world.
- Attending external seminars and conferences focusing on trending ESG issues and ESG integration.
- Providing ESG training to the investment team and across the business.

During 2021, Fidelity introduced its sustainable investing voting principles and guidelines. These seek to provide a clear overview of Fidelity's voting approach, promote improved corporate behaviours and reduce risk, include environmental and social factors, increase clarity of votes to issuers and clients and meet current market best practices and stewardship expectations. Examples of the policy include voting against companies not meeting key criteria on climate change and against management in developed markets with less than 30% female representation at board level.

Fidelity's investment approach involves bottom-up research. As well as studying financial results, the portfolio managers and analysts carry out additional qualitative analysis of potential investments. They examine the business, customers and suppliers and often visit the companies in person to develop a view of every company in which Fidelity invests and ESG factors are embedded in this research process.

Examples of ESG factors that Fidelity's investment teams may consider as part of its company and industry analysis include:

- Corporate governance (e.g. Board structure, executive remuneration)
- Shareholder rights (e.g. election of directors, capital amendments)

- Changes to regulation (e.g. greenhouse gas emissions restrictions, governance codes)
- Physical threats (e.g. extreme weather, climate change, water shortages)
- Brand and reputational issues (e.g. poor health and safety record, cyber security breaches)
- Supply chain management (e.g. increase in fatalities, lost time injury rates, labour relations)
- Work practices (e.g. observation of health, safety and human rights provisions and compliance with the provisions of the Modern Slavery Act)

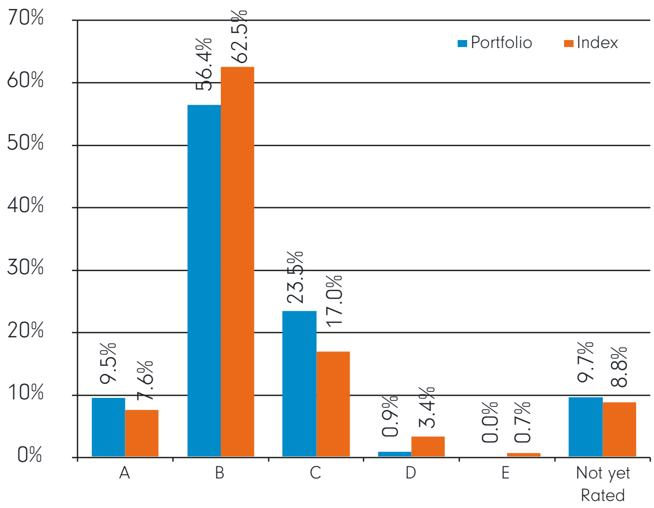
Fidelity operates analyst training and development programmes which include modules on ESG themes, topics and strategies and attendance at external seminars on the trending ESG issues in the market globally as well as conferences to explore new ways of integrating ESG into the investment process across all asset classes.

Fidelity uses a number of external research sources around the world that provide ESG-themed reports and it subscribes to an external ESG research provider and rating agency to supplement its organic analysis. Fidelity receives reports that include company specific and industry specific research as well as ad hoc thematic research looking at particular topics. The ESG ratings are industry specific and are calculated relative to industry peers and Fidelity uses these ratings in conjunction with its wider analysis. Fidelity's sources of ESG research are reviewed on a regular basis.

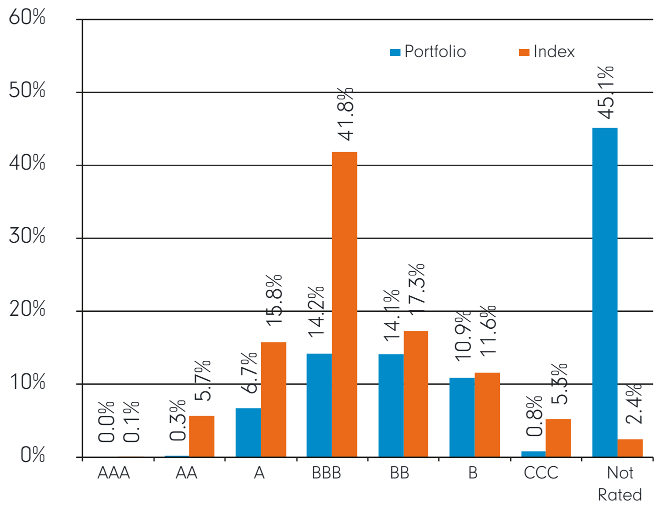
The ESG ratings and associated company reports are included on Fidelity's centralised research management system. This is an integrated desktop database, so that each analyst has a first-hand view of how each company under their coverage is rated according to ESG factors. In addition, ESG ratings are included in the analyst research notes which are published internally and form part of the investment decision. The external research vendor also provides controversy alerts which include information on companies within its coverage which have been identified to have been involved in a high-risk controversy that may have a material impact on the company's business or its reputation.

The charts below show a breakdown of the stocks in the Company's portfolio using MSCI and Fidelity International's own ESG ratings.

FIL proprietary ESG ratings



MSCI ESG ratings



ESG and Sustainable Investing at Fidelity ("FIL")

Fidelity's core beliefs set it apart

01

Long term approach to fundamental analysis

FIL believes that the market can be inefficient at valuing companies in the long term. The research process and compensation structure are designed to promote long term thinking.

Engagement and Sustainability

FIL believes that the assessment of sustainability is part of fundamental investing, and its analytical process drives better returns for clients. Its corporate access enables genuine engagement with corporates to foster change.

Global coverage, local expertise

A true understanding of a company requires a global team of locally-based analysts that can fully analyse the entire value chain.

Collaboration

FIL's investment team works together across industries, geographies and asset classes to leverage each other's insights.

Constant evolution

Delivering outstanding results for clients requires FIL to constantly evolve our research and technology to deliver excellence.

Fidelity's Sustainable Investing Approach

02

Sustainability Ratings
Proprietary sustainability rating constructed by fundamental research analysts

Sustainable Solutions
Deliver solutions to FIL's clients in order to achieve their sustainability

Investment Management
Integration across asset classes backed by dedicated and globally distributed specialists

Corporate Sustainability
Improving FIL's own sustainability footprint

Active Stewardship
FIL engages with companies to improve its sustainable footprint and create societal value

Engagement

03

Using FIL's corporate access, research capabilities and investment scale to improve corporate behaviour

FIL's fundamental research process allows it to identify material climate-related risks and opportunities

FIL's access to senior management gives it the opportunity to engage directly with decision-makers

FIL engages over the long term and target meaningful carbon emission reduction and net zero characteristics, which it expects to lead to improved financial and non-financial outcomes

Fidelity has developed an approach to sustainable investing that is built on integrated ESG analysis, engagement and collaboration. It believes that each of these elements complements each other and increases the likelihood of success and enhances the returns for the Company's shareholders.

04

Components of Fidelity's Net Zero Investment Strategy

Moving towards cleaner portfolios

Climate-focused investment process*
- Governance
- Targets and objectives
- Asset allocation
- Asset class alignment
- Stewardship

Client requirements
- Return objectives
- Risk appetite
- Organisation-specific restrictions
- Alignment with environmental values

Proprietary quantitative & qualitative analysis
- ESG ratings v2
- Net zero issuer assessments (Climate Rating)
- Engagement
- Voting policy
- Industry/government collaboration

IIGCC

Source: Fidelity International. * Aligned with IIGCC

05

Companies are rated across three core areas, each with underlying factors

Net zero ambitions	
Current emissions	Emissions targets
Emissions target credibility	Sector-specific criteria
Climate governance	
Climate lobbying	Accounts & audit
Capital allocation	
Transitioning business models	Climate solutions

06

Climate assessment scale

Integration of the assessment within Fidelity's broader climate change strategy

Achieving or enabling net zero	Aligning to a net zero path	High transition potential to net zero	Low transition potential to net zero	No evidence of transition potential to net zero
Issuers already have current emissions intensity performance at, or close to, net zero emissions or issuers are critical enablers to the transition to net zero through the products they provide	Issuers have committed to robust targets in line with a net zero emissions trajectory with an appropriate governance and investment plan to achieve that goal	Issuers have demonstrated a commitment towards achieving net zero and are proposing or implementing credible plans to achieve this goal	Issuers demonstrate some level of climate awareness but fall short of credible commitments to achieve carbon reduction objectives	Issuers show no indication or willingness to align emissions and business model to a global net zero world
Eligible to a Net Zero portfolio	Eligible to a Net Zero portfolio	Continued investment and engagement/voting	Continued investment and engagement/voting	No additional purchases and ultimately divestment

Unlisted Investments

The Company can invest up to 15% of its Net Assets plus Borrowings in unlisted securities which carry on business, or have significant interests, in China. The limit is applied at the time of purchase.

The Directors believe that the ability to invest in unlisted securities is a differentiating factor for the Company and will continue to be a source of additional investment performance.

During the year, two unlisted investments (SenseTime and Full Truck Alliance) achieved a listing through an IPO. These are shown below. The annualised rate of return for SenseTime was 18.5% (71.3% from date of purchase to IPO). Full Truck Alliance was not held for a full year in the Company's portfolio and the return from date of purchase to IPO was 71.2%.

Also during the year, a further three new investments (Beisen, Tuhu Car and Cutia Therapeutics) were made in unlisted securities.

At the year end, the Company had ten unlisted investments valued at £194,650,000 being 13.2% of its Net Assets plus Borrowing.

The valuation of each unlisted investment is set by the AIFM's Fair Value Committee ("FVC") and advised upon by third party valuers, Kroll. During the year, the Board receives regular updates from the FVC, enabling the Board to have confidence in Fidelity's process of valuation and allowing valuations to be updated when new information becomes available. Each year, just before the year end, the Company's Audit and Risk Committee has a detailed presentation from the FVC and Kroll, with the external Auditor present, to satisfy itself that the investments are carried at a suitable value as at the balance sheet date.

The work done by the Audit and Risk Committee on the unlisted investments is set out in its report on page 55.

The basis of valuation is set out in Notes 2 (e) and (l) of the Accounting Policies on pages 69 to 72.

Set out below are descriptions of the two previously unlisted investments which became listed during the year. Details of the unlisted investments held as at 31 March 2022, are set out on the next two pages.

Unlisted companies which reached IPO in the reporting year.

SenseTime

(Purchased: June 2018) (listed in December 2021 but subject to 180 day lock-up period)

SenseTime is an artificial intelligence company which focuses on computer vision and deep-learning technologies. Founded in 2014 it is best known for its image recognition work, but it also develops autonomous driving technology. The company listed in December 2021.

Full Truck Alliance

(Purchased: November 2020)

Full Truck Alliance has built a dominant position in China's vast and fragmented full truckload market by taking on the role of an aggregator, an information provider and a referee through its marketplace platform. Its apps (branded as Yunmanman and Huochebang) are used by 80-90% of truckers in China and enable users to maximise efficiency. The company listed in June 2021.

Unlisted investments held in the Company's portfolio as at 31 March 2022

Xiaoju Kuaizhi (Didi Chuxing)

(Purchased: August 2015)

Xiaoju Kuaizhi, popularly known as 'Didi Chuxing' is a major Chinese ride-sharing, artificial intelligence and autonomous technology conglomerate, providing transportation services to more than 550 million users in around 400 cities. It provides services including taxi hailing, private car hailing, bike and e-bike sharing and food delivery to users in China via a smartphone application.

On 30 June 2021, Didi's American Depositary Shares (ADS) listed on the New York Stock Exchange. The preference shares held by the Company remained unlisted as at 31 March 2022.

Subsequent to the year ended 31 March 2022, the preference shares held in the company were converted to American Depositary Shares (ADS). See Note 22 on page 94 for further details.

DJI International

(Purchased: May 2018)

DJI International's platforms empower talented creators to capture images that were once out of reach. Its flying and camera stabilisation systems redefine camera placement and motion through an unparalleled commitment to R&D, a culture of constant innovation and curiosity, and a focus on transforming complex technology into easy-to-use devices. Building on the ethos of "form follows function", today DJI's drone related products are redefining industries (such as filmmaking, agriculture, conservation, search and rescue, energy infrastructure) by combining advanced technology with dynamic designs.

ByteDance

(Purchased: November 2018)

ByteDance is a leading internet entertainment and social media company with hundreds of millions of users in China. Despite the threat of Baidu, Alibaba and Tencent, ByteDance is one of the few contenders able to capture significant time-spent and advertisement revenue in China. Among its best-known products are TikTok, Toutiao, BuzzVideo and Vigo Video. With products available in over 150 markets, the company has offices in 126 cities and has more than 60,000 employees and 15 research and development centres around the globe.

Pony.ai

(Purchased: March 2020)

Pony.ai aims to deliver autonomous mobility everywhere by building safe and reliable autonomous driving technology. It has pioneered autonomous vehicle technology, launching and offering a public-facing robotaxi service in California and China. The outbreak of COVID-19 saw the company respond by launching a self-driving delivery service in Irvine, California, shipping packages and groceries during lockdown. An electric robotaxi fleet was repurposed as an autonomous delivery service for purchases made on the Los Angeles-based e-commerce platform Yamibuy.

Venturous Holdings

(Purchased: December 2020)

Venturous Holdings' mission is to make cities smart – more liveable, sustainable and productive, contributing to the buildout of an All-Digital Urban Economy in China. Venturous' focus is the four 'must-have' areas of Smart Energy, Smart Buildings, Smart Computing and Smart City Management. It also provides strategic advice to CEOs and their management teams, which covers corporate architecture designs, strategies, market expansions, capital plans, business model expansions, partnerships and ecosystems.

Unlisted Investments continued

Chime Biologics

(Purchased: March 2021)

Chime Biologics is a biologics Contract Development and Manufacturing Organization (CDMO) company. The company used to be part of JHL Biotech, which was founded by a group of industry veterans. It supports its clients from early-stage biopharmaceutical development through late-stage clinical and commercial manufacturing, catering to the needs of the biopharmaceutical industry.

Beisen

(Purchased April 2021)

Beisen is a cloud-based recruitment and HR company. Its talent platform provides corporate clients with wide-ranging human resource services including talent assessment, recruitment, performance management and staff feedback. The company is a beneficiary as firms are speeding up investment in cloud and AI services for human resources management and growing demand for digital transformation.

Tuhu Car

(Purchased June 2021)

Tuhu provides car repair and maintenance services and has become a key player in China's highly fragmented automotive aftermarket sector. The company, founded in Shanghai ten years ago, runs an asset-light business model, but tightly controls the operation of its franchisees. Its online platform allows car owners to purchase services and parts that can be installed at physical stores. It collaborates with more than 13,000 partner centres across China.

Cutia Therapeutics

(Purchased September 2021)

Cutia Therapeutics is an emerging leader in the dermatology and medical aesthetics space in China, an area of great growth potential due to rising awareness of beauty management and the improved purchasing power of Chinese residents. The company has a strong pipeline of products as well as a robust business development plan and a growing base of patients/clients. It is among the few market players to offer both aspects of beauty management (i.e. dermatological treatments for conditions such as alopecia and injectables such as Botox), giving it a strong competitive advantage.

Shanghai Yiguo, purchased in December 2016 as an unlisted company in the portfolio, has not performed as expected. It is in liquidation and valued at nil.

Spotlight on the Top 10 Holdings

as at 31 March 2022

Based on Asset Exposure expressed as a percentage of Net Assets. Asset Exposure comprises the value of direct equity investments plus market exposure to derivative instruments.

Industry Communication Services

Tencent Holdings

% of Net Assets **11.2%**

Tencent Holdings is a world-leading internet and technology company that develops innovative products and services to improve the quality of life of people around the world. Its business spans social network, music, web portals, e-commerce, mobile games, internet services, payment systems, smartphones, and multiplayer online games, which are all among the world's biggest and most successful in their respective categories. In 2021, the company launched its Carbon Neutrality initiative, becoming one of the first internet companies in China to publish a carbon neutrality plan.

Industry Consumer Discretionary

Alibaba Group Holding

% of Net Assets **8.8%**

Alibaba Group Holding enables businesses to transform the way they market, sell and operate and improve their efficiencies by providing the technology infrastructure and marketing reach. Ant Group, an unconsolidated related party, provides digital payment services and digital financial services to consumers and merchants on its platforms. An ecosystem has developed around its platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses. At the end of 2021, the Alibaba Ecosystem had 979 million consumers in China and 301 million consumers outside of China.

Industry Healthcare

Wuxi AppTec

% of Net Assets **3.5%**

WuXi AppTec provides a broad portfolio of Research & Development (R&D) and manufacturing services that enable global pharmaceutical and healthcare industries to advance discoveries and deliver ground-breaking treatments to patients. Its end-to-end services include chemistry drug CRDMO (Contract Research, Development and Manufacturing Organization), biology discovery, preclinical testing and clinical research services, cell and gene therapies CTDMO (Contract Testing, Development and Manufacturing Organization). It received an AA ESG rating from the MSCI in 2021.

Industry Consumer Discretionary

Pony.ai (unlisted)

% of Net Assets **2.9%**

Pony.ai aims to deliver autonomous mobility everywhere by building safe and reliable autonomous driving technology. It has pioneered autonomous vehicle technology, launching and offering a public-facing robotaxi service in California and China. The outbreak of COVID-19 saw the company respond by launching a self-driving delivery service in Irvine, California, shipping packages and groceries during lockdown. An electric robotaxi fleet was repurposed as an autonomous delivery service for purchases made on the Los Angeles-based e-commerce platform Yamibuy.

Industry Information Technology

SenseTime

% of Net Assets **2.6%**

SenseTime is a leading artificial intelligence (AI) software company focused on creating a better AI-empowered future through innovation. Upholding a vision of advancing the interconnection of physical and digital worlds with AI, driving sustainable productivity growth and seamless interactive experiences, SenseTime is committed to advancing AI research, developing scalable and affordable AI software platforms that benefit businesses, people and society, as well as attract and nurture top talents to shape its future.

Spotlight on the Top 10 Holdings continued

Industry Information Technology

DJI International (unlisted)

% of Net Assets **2.3%**

DJI International's platforms empower talented creators to capture images that were once out of reach. Its flying and camera stabilisation systems redefine camera placement and motion through an unparalleled commitment to R&D, a culture of constant innovation and curiosity, and a focus on transforming complex technology into easy-to-use devices. Building on the ethos of "form follows function", today DJI's drone related products are redefining industries (such as filmmaking, agriculture, conservation, search and rescue, energy infrastructure) by combining advanced technology with dynamic designs.

Industry Financials

Noah Holdings

% of Net Assets **2.2%**

Noah Holdings is a leading and pioneer wealth management service provider in China offering comprehensive one-stop advisory services on global investment and asset allocation primarily for high net worth investors. In the full year 2021, Noah distributed RMB97.2 billion (US$15.3 billion) of investment products. Through Gopher Asset Management, Noah had assets under management of RMB156.0 billion (US$24.5 billion) as of 31 December, 2021.

Industry Consumer Discretionary

Crystal International Group

% of Net Assets **2.2%**

Crystal International Group is a clothing manufacturer and has around 20 self-operating manufacturing facilities spanning across five countries. It delivers over 470 million pieces of apparel a year to the best-in-class apparel brands in the world, offering the right product at the right time at the right cost. Its corporate culture of caring for customers, colleagues, society and the global environment are its priorities and takes a holistic approach to sustainability using the five pillars of Environment, Innovation, Product Integrity, Employee Care, and Community Engagement.

Industry Financials

China Pacific Insurance Group

% of Net Assets **2.0%**

China Pacific Insurance is a leading comprehensive insurance group in China, covering licences of property and casualty insurance, life insurance, health insurance, agricultural insurance, pension insurance and asset management. It provides a broad range of risk solutions to about 115 million customers via its worldwide agents.

Industry Financials

Venturous Holdings (unlisted)

% of Net Assets **2.0%**

Venturous Holdings mission is to make cities smart – more liveable, sustainable and productive, contributing to the buildout of an All-Digital Urban Economy in China. Venturous' focus is the four 'must-have' areas of Smart Energy, Smart Buildings, Smart Computing and Smart City Management. It also provides strategic advice to CEOs and their management teams, which covers corporate architecture designs, strategies, market expansions, capital plans, business model expansions, partnerships and ecosystems.

Forty Largest Holdings
as at 31 March 2022

The Asset Exposures shown below measure the exposure of the Company's portfolio to market price movements in the shares, equity linked notes and convertible bonds owned or in the shares underlying the derivative instruments. The Fair Value is the value the portfolio could be sold for and is the value shown on the Balance Sheet. Where a contract for difference ("CFD") is held, the fair value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying shares has moved.

	Asset Exposure		Fair Value
	£'000	%[1]	£'000
Long Exposures – shares unless otherwise stated			
Tencent Holdings (shares and long CFDs) Internet, mobile and telecommunications service provider	156,805	11.2	81,825
Alibaba Group Holding (shares, long CFDs and call option) e-commerce group	122,646	8.8	37,024
WuXi AppTec (long CFDs) Pharmaceutical, biopharmaceutical and medical device outsourcing provider	48,403	3.5	1,070
Pony.ai (unlisted) Developer of artificial intelligence and autonomous driving technology solutions	41,134	2.9	41,134
SenseTime Artificial intelligence software company	36,700	2.6	36,700
DJI International (unlisted) Manufacturer of drones	32,363	2.3	32,363
Noah Holdings Asset managers	30,975	2.2	30,975
Crystal International Group Clothing manufacturer	30,482	2.2	30,482
China Pacific Insurance Group (long CFDs) Insurance company	28,671	2.0	(1,659)
Venturous Holdings (unlisted) Investment company	27,831	2.0	27,831
China Life Insurance (long CFDs and call option) Insurance company	27,290	1.9	(72)
Chime Biologics Convertible Bond (unlisted) Contract Development and Manufacturing Organization (CDMO)	27,081	1.9	27,081
SKSHU Paint Company Paint manufacturing company	26,514	1.9	26,514
ByteDance (unlisted) Technology company	25,773	1.8	25,773
Lufax Holding Technology empowered personal financial services platform	25,537	1.8	25,537
Postal Savings Bank of China Commercial retail bank	25,261	1.8	25,261
Tongdao Liepin Group Provider of technology and data driven intellectual talent services platform	23,463	1.7	23,463
VNET Group (shares and call option) Internet and data center service provider	22,877	1.6	22,477
HollySys Automation Technologies Provider of automation control system solutions	22,759	1.6	22,759
Trip.com Group (long CFD and call option) Travel services provider	21,915	1.6	3,501

Forty Largest Holdings continued

	Asset Exposure £'000	Asset Exposure %[1]	Fair Value £'000
RS Technologies Silicon wafer manufacturer	21,571	1.6	21,571
Hutchison China MediTech Pharmaceutical and healthcare group	21,493	1.5	21,493
Yonggao (shares and equity linked notes) Manufacturer of plastic valves and fittings	21,454	1.5	21,454
China Lesso Group Holdings (long CFD) Manufacturer of building materials and interior decoration products	20,767	1.5	(5,585)
China Foods Processor and distributor of food and beverages	20,478	1.5	20,478
NetEase (long CFDs) Internet technology company providing online services	19,930	1.4	(45)
Hangzhou Honghua Digital Technology (shares and equity linked notes) Developer and distributor of digital printing equipment	19,624	1.4	19,624
Sinotrans (shares and long CFDs) Logistics, storage and terminal services provider	19,506	1.4	10,226
Hisense Home Appliances Group Manufacturer and distributor of household appliances	18,037	1.3	18,037
COSCO SHIPPING Energy Transportation (long CFD) Oil tanker shipping company	17,402	1.2	(729)
Luk Fook Holdings International (long CFD) Jewellery company	17,359	1.2	73
China International Capital (long CFD) Investment bank	17,090	1.2	489
Asia Cuanon Technology (shares and equity linked notes) Development, manufacturing and sales of decorated insulation products	16,750	1.2	16,750
Zhejiang Dahua Technology Provider of video surveillance products and services	16,321	1.2	16,321
China Merchants Energy Shipping Company Shipping company	16,233	1.2	16,233
Lenovo Group (long CFD) Multinational technology company	16,035	1.2	19
Autohome Online portal for automobile buyers	15,340	1.1	15,340
Shenzhen Yuto Packaging Technology High-end brand packaging solutions provider	15,326	1.1	15,326
Galaxy Entertainment Group (long CFD) Developer and operator of integrated entertainment and resort facilities	14,734	1.1	1,223
Precision Tsugami (China) High precision machine tool manufacturer	14,596	1.1	14,596
Forty largest long exposures (2021: 80.0%)	**1,164,526**	**83.2**	**742,933**
Other long exposures (2021: 51.7%)	771,931	55.1	628,837
Total long exposures before hedges (156 companies)	**1,936,457**	**138.3**	**1,371,770**

	Asset Exposure £'000	%[1]	Fair Value £'000
Less: hedging exposures			
Hang Seng Index (future)	(119,825)	(8.5)	(701)
Hang Seng China Enterprises Index (future)	(56,921)	(4.1)	(1,690)
iShares China Large-Cap ETF (put option)	(12,395)	(0.9)	1,528
Total hedging exposures	**(189,141)**	**(13.5)**	**(863)**
Total long exposures after the netting of hedges	**1,747,316**	**124.8**	**1,370,907**
Short exposures			
Short CFDs (2 holdings)	14,149	1.0	(80)
Put options (3 holdings)	4,096	0.3	1,128
Total short exposures	**18,245**	**1.3**	**1,048**
Gross Asset Exposure[2]	**1,765,561**	**126.1**	
Portfolio Fair Value[3]			**1,371,955**
Net current assets (excluding derivative instruments)			28,666
Net Assets			**1,400,621**

1 Asset Exposure expressed as a percentage of Net Assets.
2 Gross Asset Exposure comprises market exposure to investments of £1,365,485,000 plus market exposure to derivative instruments of £400,076,000.
3 Portfolio Fair Value comprises investments of £1,365,485,000 plus derivative assets of £23,994,000 less derivative liabilities of £17,524,000.

A full list of the Company's holdings at 31 March 2022 will be available on the Company's pages of the Manager's website at **www.fidelity.co.uk/china** from the day of the AGM on 20 July 2022.

Distribution of the Portfolio
as at 31 March 2022

Sector	% of Net Assets %[1]	Benchmark Index £'000
Consumer Discretionary	34.0	28.1
Communication Services	21.0	17.6
Information Technology	19.4	6.2
Industrials	18.4	5.8
Financials	15.8	17.1
Healthcare	12.9	6.2
Materials	8.2	3.9
Consumer Staples	3.4	5.6
Energy	3.1	2.4
Utilities	1.8	2.7
Real Estate	1.6	4.4
Total excluding hedging	**139.6**	**100.0**
Hedging	(13.5)	–
Total including hedging	**126.1**	**100.0**
Share Type		
Listed in Hong Kong	37.5	45.3
China "A" Shares	23.9	16.8
Listed in US	19.8	9.4
China "H" Shares	18.3	22.8
Unlisted	13.9	–
Red Chips	5.6	5.4
Listed in Japan	2.4	–
Listed in United Kingdom	1.6	–
Listed in Singapore	1.1	–
Listed in Taiwan	0.9	–
Listed in Germany	0.8	0.3
China "B" Shares	0.3	–
Total	**126.1**	**100.0**
Size of Company (Market Cap)		
Large – above £5bn	41.7	87.5
Medium – between £1bn – £5bn	34.9	12.4
Small – below £1bn	35.6	0.1
Unlisted	13.9	–
Total	**126.1**	**100.0**

1 Asset Exposure expressed as a percentage of Net Assets.

Attribution Analysis

Analysis of NAV total return for the year ended 31 March 2022	%
Impact of:	
MSCI China Index (in Hong Kong dollar terms)	-32.1
Stock Selection (in Hong Kong dollar terms)	+6.6
Gearing (in Hong Kong dollar terms)	-10.9
Currency translation into sterling	+2.1
Share Repurchases	+0.3
Other Costs	-1.0
Cash	+0.1
NAV total return for the year ended 31 March 2022	**-34.9**

Ten Highest Contributors to NAV total return	%
Xtep International	+1.1
CIMC Enric	+0.8
SenseTime	+0.8
Pony.ai (unlisted)	+0.6
Titan Wind Energy Suzhou	+0.5
ByteDance (unlisted)	+0.5
Li Ning	+0.5
DJI International (unlisted)	+0.4
Chailease Holding	+0.4
HollySys Automation Technologies	+0.3

Ten Highest Detractors to NAV total return	%
Alibaba Group Holding	-5.4
Tencent Holdings	-4.2
VNET Group	-2.7
Kuaishou Technology	-1.4
iClick Interactive Asia Group	-1.3
Noah Holdings	-1.1
Asia Cuanon Technology	-1.0
Baozun	-0.9
Autohome	-0.9
Vipshop Holdings	-0.8

Note: Derivative positions are included in the above investment positions.
Source: Fidelity International.

Ten Year Record

For the year ended 31 March	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Investment Performance										
Net Asset Value per Share total return (%)[1]	**-34.9**	+81.9	-5.9	-5.3	+22.2	+38.8	+0.0	+45.3	+19.5	+15.7
Share Price total return (%)[1]	**-39.2**	+97.2	-6.5	-0.3	+23.6	+45.8	-4.5	+39.9	+14.1	+15.0
MSCI China Index total return (in UK sterling terms) (%)	**-29.3**	+29.1	-1.0	+0.9	+23.8	+37.6	-16.2	+39.3	-6.9	+12.2
Assets										
Gross Asset Exposure (£m)	**1,765.6**	2,754.9	1,594.2	1,767.1	1,806.6	1,586.9	1,155.3	1,189.1	806.6	774.2
Net Assets (£m)	**1,400.6**	2,183.0	1,273.0	1,401.6	1,502.9	1,243.8	908.5	944.1	656.2	634.2
Gross Gearing (%)[1]	**26.1**	26.2	25.2	26.1	20.2	27.6	27.2	25.9	22.9	22.1
Net Gearing (%)[1]	**23.5**	18.4	23.2	20.9	14.2	22.4	27.2	21.1	18.9	18.6
Net Asset Value per Share (pence)[1]	**272.52**	423.50	236.27	255.03	272.55	225.36	164.18	165.27	114.84	97.09
Share Price data at year end										
Share Price (pence)	**252.00**	419.00	216.00	235.00	239.00	195.70	136.00	143.60	103.80	92.00
Discount (%)[1]	**7.5**	1.1	8.6	7.9	12.3	13.2	17.2	13.1	9.6	5.2
Earnings and Dividends paid										
Revenue Earnings per Share (pence)[1]	**6.42**	4.70	4.51	4.06	3.80	2.92	2.07	1.41	1.18	1.25
Capital (Loss)/Earnings per Share (pence)[1]	**(152.81)**	186.11	(19.67)	(18.21)	45.86	60.01	(2.24)	50.17	16.39	11.76
Total (Loss)/Earnings per Share (pence)[1]	**(146.39)**	190.81	(15.16)	(14.15)	49.66	62.93	(0.17)	51.58	17.57	13.01
Dividend per Share (pence)	**5.50**	4.68	4.25	3.85	3.50	2.50	1.80	1.30	1.15	1.00
Ongoing Charges										
Ongoing Charges (excluding variable element of the management fee) (%)[1]	**0.94**	0.97	0.99	1.02	1.11	1.16	1.20	1.29	1.45	1.80
Variable Management Fee	**0.20**	0.12	(0.20)	(0.09)	0.00	n/a	n/a	n/a	n/a	n/a
Ongoing Charges (including variable management fee)[1]	**1.14**	1.09	0.79	0.93	1.11	1.16	1.20	1.29	1.45	1.80

1 Alternative Performance Measures.

Sources: Fidelity International and Datastream.
Past performance is not a guide to future returns.

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and Portfolio Manager's Review on pages 2 to 13 form part of the Strategic Report.

Business and Status

The Company carries on business as an investment company and has been accepted as an approved investment trust by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and its ordinary shares are listed and traded on the London Stock Exchange. It is not a close company and it has no employees.

Purpose

The purpose of the Company is to offer investors who are building a diversified portfolio a direct exposure to China, recognising the size and growing importance of the country within the world economy and its weighting within global stock market indices.

Investment Objective

The Company's investment objective is to achieve long-term capital growth from an actively managed portfolio made up primarily of securities issued by companies in China, both listed and unlisted, as well as Chinese companies listed elsewhere. The Company may also invest in companies with significant interests in China.

Strategy

In order to achieve the investment objective, the Company operates as an investment company which has an actively managed portfolio of investments. As an investment company, it is able to gear the portfolio and the Board takes the view that long-term returns for shareholders can be enhanced by the use of gearing.

As part of the strategy, the Board has delegated the management of the portfolio and certain other services to the Manager (FIL Investment Services (UK) Limited). The Manager delegates the investment management to FIL Investment Management (Hong Kong) Limited and the company secretariat function to FIL Investments International. The Portfolio Manager aims to achieve a total return on the Company's Net Assets over the long-term in excess of the equivalent return on the MSCI China Index (the Benchmark Index), as expressed in UK sterling. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving the objective. The Board recognises that investing in equities is a long-term process and that the Company's returns will vary from year to year.

The Company's current investment objective was adopted by shareholders at the AGM on 20 July 2021. The Company's strategy and principal activity have remained unchanged throughout the year ended 31 March 2022.

Investment Management Philosophy, Style and Process

The Portfolio Manager makes full use of Fidelity International's extensive investment research presence and investment licenses in China. He focuses on undervalued companies which have good long-term growth prospects and which have been underestimated by the wider market. Company visits and management meetings comprise an important part of the investment process. He has a bias to small and medium-sized companies, where lower levels of research by competitors leads to greater opportunities for mispricing – but he is not constrained and may invest in large or mega cap companies such as State Owned Enterprises where mispricing appears.

The Portfolio Manager may invest in companies listed in China and Chinese companies listed elsewhere. He may also invest in companies with significant interests in China. The Company is also able to invest up to 15% of the portfolio in unlisted companies with a view to their Initial Public Offering, thereby providing investors in the Company with some of the broadest access to investment opportunities in China.

Investment Policy

The Company invests in a diversified portfolio consisting primarily of securities issued by companies in China, both listed and unlisted, as well as Chinese companies listed elsewhere. The Company may also obtain exposure to other listed companies which have significant interests in China.

The Company may invest through equities, index linked, equity linked and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions, equity related securities, forward transactions and other interests including derivative instruments. Forward transactions and derivatives, including futures, options and contracts for difference, may be used to enhance portfolio performance as well as for efficient portfolio management and hedging. The Company's interest in any single investment will not, on acquisition, exceed 15% of Net Assets plus Borrowings.

The Investment Manager is not required to ensure that the Company's cash resources are fully invested at all times. Accordingly, there may be times when the Company holds cash or money market instruments pending investment.

The Company may invest in China "A" Shares both directly through the Investment Manager's Qualified Foreign Institutional Investor ("QFII") license and indirectly through third parties who have a QFII facility.

Unlisted Investments

At the AGM on 20 July 2021, the Board was granted shareholder approval for the Company to invest up to 15% of Net Assets plus Borrowings in unlisted securities which carry on business, or have significant interests, in China. Previously this limit was 10% of Net Assets plus Borrowings.

As at 31 March 2022, the Company held ten (2021: nine) unlisted investments with a fair value of £194,650,000 (2021: £166,464,000) representing 13.2% (2021: 7.4%) of Net Assets plus Borrowings.

Strategic Report continued

Derivative Instruments
The Company may use derivative instruments for efficient portfolio management, gearing and hedging purposes. They may also be used to achieve the investment objective (i.e. to enhance portfolio performance).

The Board has adopted a policy that the Gross Asset Exposure of short positions held by the Company will not in aggregate exceed 15% of Net Assets plus Borrowings.

As at 31 March 2022, the Company's exposure to short derivative instruments represented 14.0% (2021: 13.0%) of Net Assets plus Borrowings.

It is the Board's policy that total exposure to any single counterparty from all activities, including, but not limited to, the management of cash and the use of derivatives should not exceed 15% of Net Assets plus Borrowings. Derivative exposures are included after the netting off of off-setting positions and allowing for any collateral placed by the counterparty with the Company.

As at 31 March 2022, the Company's largest exposure to any single counterparty from all derivative activities was 1.0% (2021: 0.5%) of Net Assets plus Borrowings.

Investment in Other Listed Investment Companies
The Company may invest no more than 10%, in aggregate, of its Net Assets plus Borrowings at the time of acquisition in other listed investment companies (including listed investment trusts), but this restriction will not apply to investments in investment companies or investment trusts which themselves have stated investment policies to invest no more than 15% of their Net Assets plus Borrowings in other listed investment companies (including listed investment trusts).

As at 31 March 2022, the Company held no investments in other listed investment companies (2021: nil).

Borrowing and Gearing Policy
The Board considers that long-term capital growth can be enhanced by the judicious use of borrowing. The Board is responsible for the Company's gearing strategy with day-to-day decisions being made by the Investment Manager within the remit set by the Board in line with the Company's Prospectus.

The Company may borrow up to 25% of Net Assets and the Gross Asset Exposure of the Company, whether from borrowing or the use of derivatives, may not exceed the Net Assets of the Company by more than 30%. The Portfolio Manager is responsible for operating within these limits.

During the year, the Gross Asset Exposure of the Company did not exceed the Net Assets of the Company by more than 30%. As at 31 March 2022, Gross Asset Exposure in excess of Net Assets was 26.1% (2021: 26.2%).

Foreign Exchange Hedging Policy
The Company's Financial Statements are denominated in UK sterling, while investments are made and realised in currencies other than UK sterling, including Chinese renminbi, Hong Kong dollars and US dollars. It is the Company's policy not to hedge the underlying currencies of the holdings in the portfolio but rather to take the currency risk into consideration when making investment decisions.

Performance
The Company's performance for the year ended 31 March 2022, including a summary of the year's activities, and details on trends and factors that may impact future performance, are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 13. The Forty Largest Holdings, the Distribution of the Portfolio, the Attribution Analysis and the Ten Year Record are on pages 25 to 30.

Results and Dividends
The Company's results for the year ended 31 March 2022 are set out in the Income Statement on page 65. The revenue earnings per share was 6.42 pence and the capital loss was 152.81 pence, giving a total loss of 146.39 pence per ordinary share.

Under Section 1159 of the Corporation Tax Act 2010, the Company is not able to retain more than 15% of its net income in any reporting year to qualify as an investment company. The Directors recommend that a final dividend of 5.50 pence (2021: 4.68 pence) per ordinary share be paid on 27 July 2022 to shareholders who appear on the register as at close of business on 17 June 2022 (ex-dividend date 16 June 2022).

Key Performance Indicators
The Board's intention is for the NAV and share price to outperform the Benchmark Index over the longer-term and that the discount should be maintained in single digits in normal market conditions. It regularly considers the costs of running the Company with the aim of keeping the Ongoing Charge as low as possible. The Board deems these to be the Company's key performance indicators ("KPIs") and they are also comparable to those reported by other investment companies. The Company's KPIs for the current and prior year are set out in the table below.

	Year ended 31 March 2022 %	Year ended 31 March 2021 %
Net Asset Value per Share total return[1]	**-34.9**	+81.9
Share Price total return[1]	**-39.2**	+97.2
MSCI China Index total return	**-29.3**	+29.1
Discount to Net Asset Value	**7.5**	1.1
Ongoing Charges[1]	**0.94**	0.97

1 Alternative Performance Measures. See pages 95 and 96.

The Board also monitors the factors contributing to investment results, as set out in the NAV Attribution Analysis table on page 29. Long-term performance is also monitored and is set out in the Ten Year Record on page 30.

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 continues 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 and emerging risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

A key emerging issue that the Board has identified is climate change. It is one of the most critical emerging issues confronting asset managers and their investors. The Board notes that the Manager has integrated ESG considerations, including climate change, into the Company's investment process. Further details are on pages 16 to 19. The Board will continue to monitor how this may impact the Company as a risk, the main risk being the impact on investment valuations. Another emerging risk that the Board has identified is regulatory risk and the ability of China's centralised goverment to enact regulation swiftly that may impact the stock markets negatively and its knock on impact on the Company's portfolio and net asset value.

The Board considers the following as the principal risks and uncertainties faced by the Company.

Principal Risks	Risk Description and Impact	Risk Mitigation	Trend
Geopolitical Risk	• The continuing tensions between China and US, e.g. China encouraging Chinese companies to de-list from the US. • Recurrence of disruptive protests in Hong Kong. • US imposed Executive Orders prohibiting US investments in certain Chinese Companies and the passing of the Holding Foreign Companies Accountable Act (HFCAA). • The Ukraine/Russia crisis escalates international tensions. Increasing tension over other countries sovereignty. • Significant new Western sanctions placed on capital or trade flows with China. • Alteration to the rights of foreign entities to have legal title over Chinese enterprises.	• China's increasing integration into the global financial system and into global supply chains. • Greater than 90% of revenues of the Company's investee companies are within China. • Companies that were solely listed in the US are listing on the HK or mainland markets.	**Increasing**

Strategic Report continued

Principal Risks	Risk Description and Impact	Risk Mitigation	Trend
Regulatory and Capital Market Risks	• The ability of China's centralised government system to enact regulation rapidly that can adversely affect sectors or individual companies and therefore their stock market prices negatively. For example, education-for -profit. • The role played by capital markets is reduced as the CPC increases its centralised economic decision making. • Non-market/centralised allocation of capital dislocates and diminishes the efficient allocation and pricing of capital.	• The Portfolio Manager and Manager's ability to understand and predict events in China. • The Company holds a diversified portfolio emphasising sectors of strategic importance to China. • Fidelity's investment process typically underweights State-Owned Enterprises (SOEs) or areas of the market with excess competition or excess capital.	**Stable**
Economic Risk (including Pandemic Risk)	• The growth rate of China's GDP falls below the global average and/or its longer-term expectations. • The momentum from the growth in size and wealth of the middle class is tempered by the reduction in size of the working population. • China's policy of zero COVID may prevent Chinese companies from operating as efficiently as planned, reducing or eliminating profitability.	• Current projections are for China's GDP to continue to grow at above the global average. • To date China has been successful in containing the pandemic and there is likely adoption of more effective vaccines in time.	**Increasing**
Business Continuity Risk	• Cybersecurity risk to the functioning of global markets and to the Manager's own business model, including its and the Company's outsourced suppliers. • Risk from COVID or successor pandemics affecting the functioning of business and global markets.	• The risk is monitored by the Board with the help of the extensive Fidelity global cybersecurity team and assurances from outsourced suppliers. • Development of systems and procedures by the AIFM resulting from the experience of the COVID pandemic.	**Stable**
Investment Performance Risk (including Gearing)	• That the Portfolio Manager fails to outperform the Benchmark Index over the longer-term. • Having high gearing levels in a falling market accentuates share price weakness. NAV performance can be affected by selling stock in a falling market to keep the gearing level within pre-agreed limits.	• An investment strategy overseen by the Board to optimise returns from investing in China. • A well-resourced team of experienced analysts covering the market. • Board scrutiny of the Manager and the ability in extreme circumstances to change the Manager. • Limit on gearing and oversight of the Manager's use of gearing by the Board.	**Stable**

Principal Risks	Risk Description and Impact	Risk Mitigation	Trend
Unlisted Securities Risk	• Market conditions may not permit unlisted companies to come to IPO and achieve marketability. • Potential for less stringent standards of governance compared with those of listed entities. • The valuation of unlisted shares relies on third-party judgements.	• The Company has a limit on the extent of the investment in unlisted companies and the Manger has a track record of identifying profitable opportunities. • Scrutiny by the Board's Audit and Risk Committee of the carrying value of unlisted investments is supported by the AIFM and outside advisors.	**Increasing**
Market and Currency Risk	• The value of Chinese stocks falls as a result of reduced demand from both domestic and international investors. • The functional currency in which the Company reports its results is sterling and its shares are traded in sterling, whilst the underlying investments are in different currencies. The Company does not hedge currencies.	• While stocks listed in the US are not typically investable by Chinese investors, the Stock Connect programme enables them to invest in Hong Kong listed stocks. • Growth in size of equity mutual funds in China provides support for underlying demand for equities.	**Increasing**
Discount Risk (including Investor Perception of China)	• The Board fails to implement its discount management policy. This could be due to greater than 15% of the Company's shareholders wanting an exit (exceeding the buyback authority) or excessive market volatility causing issues with accurate NAV calculation. • If investor perception is negative towards China, then the shares in the Company may trade at an increasing discount to its underlying NAV.	• The Company's record since the implementation of the discount policy has maintained the discount in single digits during periods of considerable market volatility. • Continuing scrutiny by the Board, the AIFM and the Company's Broker. • Maintaining a reputation for standing in the market-place when required in order to keep the discount in single digits. • Maintaining close communications with major shareholders. • The Company's communication programme with investors aims to present the facts in an analytical rather than emotional framework.	**Stable**
Environmental, Social and Governance ("ESG") and Climate Risk	• The adoption of international standards may adversely impact the profitability of Chinese companies; and increasing scrutiny of China's own standards may deter investors from buying or holding shares in the Company.	• Fidelity has adopted a sophisticated and comprehensive system for analysing ESG and Climate risks in investee companies. See pages 16 to 19 for further details.	**Stable**
People Risk	• Loss of the Portfolio Manager or other key individuals could lead to potential performance and/or operational issues.	• Succession planning for key dependencies. • Depth of the team within Fidelity. • Experience of the analysts covering China.	**Stable**

Strategic Report continued

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 level of gearing;
- The Company's NAV and share price performance;
- The principal and emerging 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 for the five year reporting period to 31 March 2022 is well ahead of the Benchmark Index, with a NAV total return of 28.9%, a share price total return of 38.3% compared to the Benchmark Index total return of 12.9%. 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 Manager's 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; and
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets.

In preparing the Financial Statements, the Directors have considered the impact of climate change, particularly in the context of the climate change risk identified within the ESG Risk on page 35. The Board has also considered the impact of regulatory changes and how this may affect the Company.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement which is included in the Directors' Report on page 40.

PROMOTING THE SUCCESS OF THE COMPANY
Under Section 172(1) of the Companies Act 2006, the Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long-term; the need to foster relationships with the Company's suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As an externally managed Investment Trust, the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services by the Manager, but other professional service providers support the Company by providing administration, custodial, banking and audit services. The Board considers the Company's key stakeholders to be the existing and potential shareholders, the external appointed Manager (Fidelity), the providers of debt facilities and other third party professional service providers. The Board considers that the interest of these stakeholders is aligned with the Company's objective of delivering long-term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the 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 use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out on pages 31 and 32.

The Board places great importance on communication with shareholders. The Annual General Meeting provides the key forum for the Board and the Portfolio Manager to present to the shareholders on the Company's performance and future plans and the Board encourages all shareholders to attend in person or virtually, and raise questions and concerns. The Chairman and other Board members are available to meet shareholders as appropriate. Shareholders may also communicate with Board members at any time by writing to them at the Company's registered office at FIL Investments International, Beech Gate, Millfield Lane, Tadworth, Surrey KT20 6RP or via the Company Secretary in writing at the same address or by email at **investmenttrusts@fil.com**. The Portfolio Manager meets with major shareholders, potential investors, stock market analysts, journalists and other commentators during the year. These communication opportunities help inform the Board in considering how best to promote the success of the company over the long-term.

The Board seeks to engage with the Manager and other service providers and advisers in a constructive and collaborative way, promoting a culture of strong governance, while encouraging open and constructive debate, in order to ensure appropriate and regular challenge and evaluation. This aims to enhance service levels and strengthen relationships with service providers, with a view to ensuring shareholders' interests are best served, by maintaining the highest standards of commercial conduct while keeping cost levels competitive.

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance ("ESG") issues aligns with the investment objective to deliver long-term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail on pages 16 to 19.

In addition to ensuring that the Company's investment objective was being pursued, key decisions and actions taken by the Directors during the reporting year, and up to the date of this report, have included:

- Seeking shareholder approval at the AGM on 20 July 2021 to change the Investment Policy to increase the unlisted securities limit from 10% to 15% of Net Assets plus Borrowings in order to recognise the growing importance of unlisted investments within the Company;
- As a result of the above change in the limit on unlisted investments, seeking shareholder approval at the AGM on 20 July 2021 to amend the Company's Investment Objective to give more clarity;
- Authorising the repurchase of 1,506,074 ordinary shares when the Company's discount widened, in line with the Board's intention that the ordinary share price should trade at a level close to the underlying NAV;
- The decision to pay a final dividend of 5.50 pence per ordinary share, the highest rate since the Company was launched; and
- As part of the Board's succession plan, the appointment of Georgina Field to the Board with effect from 1 July 2022.

Board Diversity

The Board's overriding intention is to ensure that it is made up of the best combination of people in order to achieve long-term capital growth for the Company's shareholders from an actively managed portfolio of investments. To this effect, the Board, as part of its succession plan, will continue to appoint individuals who, together as a Board, will aim to ensure the continued optimal promotion of the Company in the marketplace. In terms of diversity, there were two female and three male Directors on the Board as at 31 March 2022. The Board's composition exceeds the target of 33% of women on FTSE 350 company boards set by the Hampton-Alexander Review which aims to increase the number of women on FTSE 350 boards. The Board also meets the recommendations of the Parker Review Committee for each FTSE 250 company to have at least one director from an ethnic minority background by 2024 so as to improve the ethnic and cultural diversity of UK company boards. The Board also meets the recently published FCA targets on diversity which are effective for accounting periods commencing 1 April 2022 that at least 40% of the Board are women, one of the senior Board positions is a woman and at least one Director is from an ethnic minority background.

Board Apprentice Scheme

Due to restrictions as a result of COVID, the Board Apprentice, Kal Foley-Khalique, appointed under the Board Apprentice Scheme (the "Scheme") on 14 December 2020 was not able to have the proper opportunity to observe the workings of the Board and its Committees as face to face meetings could not take place for much of her appointed year. The Board has therefore extended her time as a Board Apprentice until 20 July 2022. The objective of the Scheme is to increase diversity on boards. The Board Apprentice does not receive a fee but it is intended that the experience gained will assist her ambition to become a non-executive director elsewhere at a point in the future.

Strategic Report continued

Environmental, Social and Governance ("ESG") in the Investment Process

The Board has contracted with the Manager to provide the Company with investment management and administrative services. The Board believes that ESG considerations are an important input into the assessment of the value of its investments. The investment universe is undergoing significant structural change and is likely to be impacted by increasing regulation as a result of climate change and other social and governance factors. The Board is committed to reviewing how the Manager applies ESG factors in the investment process. The Fidelity group of companies (including the Manager and Investment Manager) sets out its commitment to responsible investing, and provides a copy of its detailed Responsible Investing at **www.fidelity.co.uk/responsible-investing**. Further information on Fidelity International's approach to ESG in the investment process and sustainable investing can be found on pages 16 to 19 and are part of this Strategic Report.

Socially Responsible Investment

The Manager's primary objective is to produce superior financial returns for the Company's shareholders. It believes that high standards of corporate social responsibility (CSR) make good business sense and have the potential to protect and enhance investment returns.

Corporate Engagement

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. It delegates the responsibility for corporate engagement and shareholder voting to the Investment Manager who updates the Board on any issues and activities. These activities are reviewed regularly by the Manager's corporate governance team.

Streamlined Energy and Carbon Reporting (SECR)

As an investment company with all its activities outsourced to third parties, the Company's own direct environmental impact is minimal. The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. The Company is categorised as a low energy user (less than 40MWH) under the Streamlined Energy & Carbon Reporting regulations and therefore is not required to disclose any energy and carbon information in this Annual Report.

Future Developments

Some trends likely to affect the Company in the future are common to many investment companies together with the impact of regulatory change and emerging risks. The factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 13.

By Order of the Board
FIL Investments International
Secretary
30 May 2022

Board of Directors

Nicholas Bull FCA
Chairman (since 22 July 2016)
Appointed 4 February 2010
Retiring 20 July 2022

M N

Mr Bull is the Senior Independent Director of Coats Group plc and Deputy Chairman of Conran Holdings Limited. He is a Trustee of the Design Museum, Camborne School of Mines Trust, the Creative Education Trust and the Conran Foundation. He is a member of the Advisory Panel of the charity INTO University. He was a Member of Council of the University of Exeter from 2009 until 2018 and a Director, then Chairman, of hotels group De Vere from 2010 until the completion of its asset disposal programme in 2015. He was also Chairman of the Advisory Board of City stockbroker, Westhouse Securities. Previously Mr Bull worked for 30 years as a corporate finance practitioner with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO in London, Sydney, Singapore and Hong Kong. He is a qualified Chartered Accountant.

Linda Yueh
Senior Independent Director (since 20 July 2021)
Appointed 1 June 2019

A M N

Dr Yueh is a Fellow in Economics at St Edmund Hall, Oxford University and Adjunct Professor of Economics at London Business School. She is also Visiting Professor at LSE IDEAS, the foreign policy research centre at the London School of Economics. She is a non-executive Director of Rentokil Initial plc and SEGRO plc, Chair of Baillie Gifford's The Schiehallion Fund Ltd and an Adviser to the UK Board of Trade. She was a Member of the Independent Review Panel on Ring-fencing and Proprietary Trading. She is a past non-executive Director of JPMorgan Asia Growth & Income plc, Baillie Gifford's Scottish Mortgage Investment Trust plc, and was Visiting Professor of Economics at Peking University. She has written numerous books and served as editor for several series of books. She is an attorney called to the Bar of New York.

Mike Balfour
Director
Appointed 1 October 2018

A M N

Mr Balfour is a non-executive Director of Standard Life Investment Property Income Trust plc and Schroder BSC Social Impact Trust plc. He is also Chairman of the Investment Committee of TPT Retirement Solutions and sits on its Management Oversight Board. He is a member of the Investment Advisory Board of The Institute of Chartered Accountants of Scotland. He was chief executive of Thomas Miller Investment Ltd until 2016 and was previously chief executive at Glasgow Investment Managers and chief investment officer at Edinburgh Fund Managers Limited. His early investment management career was focused on the nascent equity markets of Asia. He is a qualified Chartered Accountant.

Vanessa Donegan
Director
Appointed 1 September 2020

A M N

Mrs Donegan is a non-executive Director of Herald Investment Management Ltd., the JP Morgan Indian Investment Trust plc, the Invesco Asia Trust plc and State Street Global Advisors Luxembourg SICAV. She has 37 years of Asian fund management experience, including managing dedicated China portfolios. She was Head of the Asia Pacific desk at Columbia Threadneedle Investments Ltd. (formerly Threadneedle Investments Ltd.) for twenty-one years and has extensive experience of marketing funds to retail and institutional clients across the globe.

Alastair Bruce
Director
Appointed 1 July 2021

A M N

Mr Bruce is a non-executive Director and Chairman of the Audit Committee of ICG Enterprise Trust PLC. He was Managing Partner of Pantheon Ventures between 2006 and 2013, having joined the firm in 1996. At Pantheon Ventures, he was involved in all aspects of the firm's business, particularly the management of Pantheon International PLC, the expansion of Pantheon Ventures global platform and the creation of a co-investment business. He has over twenty-five years of private equity, investment management and financial experience. He is a qualified Chartered Accountant.

Georgina Field
Director
To be appointed 1 July 2022

A M N

Ms Field is the founder and CEO of White Marble Consulting, a business that specialises in investment marketing. She was previously a non-executive Director of the Perpetual Income Growth Investment Trust plc, overseeing its merger into the Murray Income Trust plc. She has over twenty years' experience in the investment industry, including two senior roles leading marketing teams at asset management companies.

All the Directors are non-executive Directors and all are considered to be independent by the Board.

Committee membership key

A Audit and Risk   M Management Engagement   N Nomination and Remuneration   ■ Committee Chair

Directors' Report

The Directors have pleasure in presenting their report and the audited Financial Statements of the Company for the year ended 31 March 2022.

The Company was incorporated in England and Wales as a public limited company on 22 January 2010 under the registered number 7133583 and was launched as an investment trust on the London Stock Exchange on 19 April 2010.

Management Company

FIL Investment Services (UK) Limited ("FISL") is the Company's appointed Alternative Investment Fund Manager (the "AIFM"/"Manager". FISL, as the Manager, has delegated the investment management of the Company to FIL Investment Management (Hong Kong) Limited and the role of Company Secretary to FIL Investments International.

The Management Agreement will continue unless and until terminated by either party giving to the other not less than six months' notice in writing. However, they may be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the Agreement or on the insolvency of the Investment Manager or the Company. In addition, the Company may terminate the Agreement by not less than two months' notice if the Investment Manager ceases to be a subsidiary of FIL Limited.

FIL Limited has no beneficial interest in the shares of the Company (2021: nil).

The Board reviews the Management Agreement at least annually and details are included in the Corporate Governance Statement on page 46.

Management Fee

The Board adopted a new management fee with the Manager from 1 April 2021. The revised fee structure is on a tiered basis of 0.90% on the first £1.5 billion of net assets reducing to 0.70% on net assets over £1.5 billion. The variable element of +/- 0.20% from the previous fee structure remains unchanged. At the same time, the fixed annual fee of £100,000 for services other than portfolio management was removed. There is no change to the investment process as a result of the revised fee.

The variable management fee ("VMF") of +/-0.20% is based on the Company's NAV per share performance relative to the MSCI China Index (in UK sterling terms) (the Company's Benchmark Index). In the event of outperformance against the MSCI China Index , the maximum fee that the Company would pay on net assets up to £1.5 billion is 1.10%, but if the Company underperforms, then the overall fee can fall as low as 0.70% of net assets. For net assets over £1.5 billion, the maximum fee payable would be 0.90% if the Company outperforms the MSCI China Index and in the event of underperformance this could fall as low as 0.50% of net assets. The VMF element is calculated daily by referencing the performance of the Company's NAV to the performance of the MSCI China Index on a three year rolling basis. The variable element of the fee increases or decreases 0.033% for each percentage point of the three year NAV per ordinary share outperformance or underperformance over the MSCI China Index to a maximum of +0.20% or a minimum of -0.20%.

The variable management fee charge for the year ended 31 March 2022 was 0.20% (2021: 0.12%).

The total management fee for the year ended 31 March 2022 was £19,643,000 (2021: £18,591,000) as detailed in Note 4 on page 74. This was made up of a base fee of £15,937,000 (2021: £16,475,000) and a charge of £3,706,000 (2021: £2,116,000) on the variable element based on the performance of the NAV against the MSCI China Index.

The Board

All Directors served on the Board throughout the year ended 31 March 2022 and up to the date of this report with the exception of Georgina Field who will be appointed to the Board on 1 July 2022. A brief description of all serving Directors as at the date of this report is shown on page 39 and indicates their qualifications for Board membership.

In line with the Board's succession plan, Nicholas Bull will not be seeking re-election at the AGM on 20 July 2022.

Directors' and Officers' Liability Insurance

The Company maintains insurance cover for its Directors under its own policy as permitted by the Companies Act 2006. This is in addition to benefits under the Manager's global Directors' and Officers' liability insurance arrangements.

Going Concern Statement

The Financial Statements of the Company have been prepared on a going concern basis.

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 and its expenditure and cash flow projections. The Directors, having considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable), the projected income and expenditure and the loan facility agreement, are satisfied that the Company is financially sound and has adequate resources to meet all of its liabilities and ongoing expenses and continue in operational existence for the foreseeable future. The Board has therefore concluded that the Company has adequate resources to continue to adopt the going concern basis for the period to 31 May 2023 which is at least twelve months from the date of approval of the Financial Statements. This conclusion also takes into account the Board's assessment of the ongoing risks from COVID as set out in the Business Continuity Risk in the Strategic Report on page 34. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement on page 36.

Auditor's Appointment

A resolution to reappoint Ernst & Young LLP as Auditor to the Company will be proposed at the AGM on 20 July 2022.

Disclosure of Information to the Company's Auditor
As required by Section 418 of the Companies Act 2006, each Director in office as at the date of this Annual Report confirms that:

a) so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

b) each Director has taken all the steps that ought to have been taken as a Director to make himself/herself aware of any audit information, and to establish that the Company's Auditor is aware of that information.

Corporate Governance
The Corporate Governance Statement forms part of this report and can be found on pages 44 to 48.

Registrar, Custodian and Depositary Arrangements
The Company has appointed Link Group as its Registrar to manage the Company's share register, JPMorgan Chase Bank as its Custodian, which is primarily responsible for safeguarding the Company's assets, and J.P. Morgan Europe Limited as its Depositary, which is primarily responsible for the oversight of the custody of investment funds and the protection of investors' interests. Fees paid to these service providers are disclosed in Note 5 on page 75.

Share Capital
The Company's share capital comprises ordinary shares of 1 pence each which are fully listed on the London Stock Exchange. As at 31 March 2022, the issued share capital was 571,054,480 (2021: 571,054,480) of which 57,097,071 (2021: 55,590,997) shares were held in Treasury. Shares in Treasury do not have voting rights, therefore the total number of shares with voting rights was 513,957,409 (2021: 515,463,483).

Premium/Discount Management: Enhancing Shareholder Value
The Board recognises the importance of the relationship between the Company's share price and the NAV per share and monitors this closely. It seeks authority from shareholders each year to issue shares at a premium or to repurchase shares at a discount to the NAV, either for cancellation or holding in Treasury. The Board will exercise these authorities to endeavour to keep the discount in single digits in normal market circumstances and as mentioned in the Chairman's Statement on page 4.

Share Issues
No shares were issued during the year ended 31 March 2022 (2021: nil) and none have been issued since the year end and as at the date of this report.

The authorities to issue shares and to disapply pre-emption rights expire at the AGM on 20 July 2022 and resolutions to renew these authorities will be put to shareholders at this AGM.

Share Repurchases
The Company repurchased 1,506,074 (2021: 23,345,560) shares into Treasury during the year ended 31 March 2022. Since the year end and as at the date of this report, the Company has repurchased a further 511,450 ordinary shares into Treasury. No shares have been repurchased for cancellation.

The authority to repurchase shares expires at the AGM on 20 July 2022 and a resolution to renew the authority to repurchase shares, either for cancellation or to buy into Treasury, will be put to shareholders at this AGM.

Substantial Share Interests
As at 31 March and 30 April 2022, notification had been received that the shareholders listed in the table below held more than 3% of the voting share capital of the Company.

Shareholders	**31 March 2022 %**	30 April 2022 %
Fidelity Platform Investors	**22.28**	22.17
Hargreaves Lansdown	**13.12**	13.06
Lazard Asset Management	**9.93**	10.04
Allan & Gill Gray Foundation	**7.18**	7.18
City of London Investment Management	**6.18**	6.17
Interactive Investor	**4.61**	4.59

An analysis of shareholders as at 31 March 2022 is detailed in the table below.

Shareholders as at 31 March 2022	**% of voting share capital**
Retail Investors[1]	**66.44**
Mutual Funds	**12.55**
Pension Funds	**11.04**
Charities	**7.18**
Insurance Funds	**2.60**
Other	**0.19**
Total	**100.00**

1 Includes Fidelity Platform Investors (22.28%).

Additional Information required in the Directors' Report
Information on proposed dividends, financial instruments and disclosure on Streamlined Energy and Carbon Reporting (SECR) is set out in the Strategic Report on pages 31 to 38.

Directors' Report continued

ANNUAL GENERAL MEETING

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

The AGM of the Company will be held at **11.00 am on Wednesday, 20 July 2022** at 155 Bishopsgate, London EC2M 3YD and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Notice of Meeting on pages 97 to 100.

Appropriate social distancing and hygiene measures will be in place for those shareholders attending the AGM in person. For those shareholders who would prefer not to attend in person or for whom travel is not convenient, we will live-stream the formal business and presentations of the meeting online.

Dale Nicholls, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. He and the Board will be very happy to answer any questions that shareholders may have. Copies of his 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.

Properly registered shareholders joining the AGM virtually will be able to vote on the proposed resolutions. Please see Note 8 to the Notes to the Notice of Meeting on page 99 for details on how to vote virtually. Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and we will answer as many as possible at an appropriate juncture during the meeting.

Further information and links to the Lumi platform may be found on the Company's website **www.fidelity.co.uk/china**. On the day of the AGM, in order to join electronically and ask questions via the Lumi platform, shareholders will need to connect to the website **https://web.lumiagm.com**.

We urge shareholders to vote and make use of the proxy form provided. Please note that investors on platforms such as Fidelity Personal Investing, Hargreaves Lansdown, Interactive Investor or AJ Bell Youinvest will need to request attendance at the AGM in accordance with the policies of your chosen platform. They may request that you submit electronic votes in advance of the meeting. If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed https://web.lumiagm.com from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **152-195-444**. You should then select the 'Guest Access' option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

Fidelity Platform Investors – Voting at AGMs
If you hold your shares in the Company through the Fidelity Platform, then Fidelity passes on to you the right to vote on the proposed resolutions at the Company's AGM. Fidelity Platform Investors are advised to vote online via the Broadridge Service (a company that specialises in investor voting facilities). Investors can sign up to this facility via their Fidelity Investor Account.

Proxy Voting
Link Group, the Registrar, introduced a paperless proxy voting process in 2018. However, for ease of voting this year, we are sending a paper Proxy Form to all shareholders who hold shares on the main share register. This will assist shareholders to vote in advance of the meeting should they decide not to attend in person.

If you have sold, transferred or otherwise disposed of all your shares in the Company, you should pass this document, together with any accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

At the AGM on 20 July 2022, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on pages 97 and 98, including the items of special business summarised below.

Authority to Allot Shares
Resolution 12 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £571,054. If passed, this resolution will enable the Directors to allot a maximum of 57,105,448 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company (including Treasury Shares) as at 30 May 2022, and to impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so. Any shares issued would be at NAV per ordinary share or at a premium to NAV per ordinary share.

Authority to Disapply Pre-Emption Rights
Resolution 13 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash up to an aggregate nominal value of £571,054 (including Treasury shares) (approximately 10% of the issued ordinary share capital of the Company as at 30 May 2022 and equivalent to 57,105,448 ordinary shares).

Authority to Repurchase Shares
Resolution 14 is a special resolution which renews the Company's authority to purchase up to 14.99% (76,965,549) of the ordinary shares in issue (excluding Treasury shares) on 30 May 2022, either for immediate cancellation or for retention as Treasury shares at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be made at the discretion of the Directors and within guidelines set from time to time by them in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per ordinary share.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

By Order of the Board
FIL Investments International
Secretary
30 May 2022

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report. The Company is committed to maintaining high standards of corporate governance. Accordingly, the Board has put in place a framework for corporate governance which it believes is appropriate for an investment company.

Corporate Governance Code

The Board follows the principles and provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC") in July 2018 and the AIC Code of Corporate Governance (the "AIC Code") issued by the Association of Investment Companies (the "AIC") in February 2019. The AIC Code addresses the principles and provisions of the UK Code. The FRC has confirmed that investment companies which report against the AIC Code will meet their obligations under the UK Code and paragraph 9.8.6 of the Listing Rules. This Statement, together with the Statement of Directors' Responsibilities on page 52, set out how the principles have been applied.

The AIC Code can be found on the AIC's website at **www.theaic.co.uk** and the UK Code on the FRC's website at **www.frc.org.uk**.

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code for the year under review and up to the date of this report, except in relation to the UK Code provisions relating to the role of the chief executive, executive directors' remuneration, and the need for an internal audit function. The Board considers that these provisions are not relevant to the position of the Company, as it is an externally managed investment company and has no executive directors, employees or internal operations. All of its day to day management and administrative functions are delegated to the Manager.

THE BOARD

Board Composition

As at the date of this report, the Board, chaired by Nicholas Bull, consists of five non-executive Directors. The Directors believe that, between them, they have good knowledge and wide experience of business in China, the Asia region and of investment companies, and that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company and length of service to discharge its duties and provide effective strategic leadership and proper governance of the Company.

Linda Yueh is the Senior Independent Director and fulfils the role as a sounding board for the Chairman, intermediary for the other Directors as necessary and acts as a channel of communication for shareholders in the event that contact through the Chairman is inappropriate.

Biographical details of all Directors are on page 39.

Board's Succession Plan

The Board has had a clearly defined succession plan in place since 2019 as at the time three of the Directors had been on the Board since the Company's launch on 19 April 2010. This was to avoid losing valuable corporate history knowledge and specific skillsets simultaneously. Nicholas Bull, the last remaining Director from when the Company launched, will step down at the conclusion of the AGM on 20 July 2022 when he will have served six years as a Director and six years as Chairman. The Board consider that Mr Bull will continue to be independent until he steps down from the Board. He will be replaced as Chairman by Mike Balfour and Alastair Bruce will take over as Chairman of the Audit and Risk Committee from Mr Balfour. As Mr Bull's successor as a non-executive Director, Georgina Field will be appointed to the Board on 1 July 2022.

Tenure Policy

Directors appointed to the Board are subject to election and subsequent annual re-election by shareholders at Annual General Meetings and normally serve a term of up to nine years from election.

Board Responsibilities

The Board has overall responsibility for the Company's affairs and for promoting the long-term success of the Company. All matters which are not delegated to the Company's Investment Manager under the Management Agreement are reserved for the Board's decision. Matters reserved for the Board and considered at meetings include decisions on strategy, management, structure, capital, share issues, share repurchases, gearing, financial reporting, risk management, investment performance, share price discount, corporate governance, Board appointments, and the appointment of the Investment Manager and Company Secretary. The Board also considers shareholder issues including communication and investor relations.

All Directors are independent of the Investment Manager and considered to be free from any relationship which could materially interfere with the exercise of their independent judgement. The Board follows a procedure of notification of other interests that may arise as part of considering any potential conflicts and is satisfied that none has arisen in the year under review.

All Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively. Each Director is entitled to take independent professional advice, at the Company's expense, in the furtherance of their duties.

Board Meetings

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table on the next page gives the attendance record for the meetings held during the reporting year. The Portfolio Manager and key representatives of the Investment Manager are in attendance at these meetings.

Board's Attendance Record for the Reporting Year

	Regular Board Meetings	Audit and Risk Committee Meetings	Investment Committee Meetings[1]	Management Engagement Committee Meetings	Nomination and Remuneration Committee Meetings
Nicholas Bull	5/5	n/a	1/1	1/1	2/2
Mike Balfour	5/5	4/4	1/1	1/1	2/2
Alastair Bruce[2]	4/4	3/3	n/a	n/a	2/2
Vanessa Donegan	5/5	4/4	1/1	1/1	2/2
Elisabeth Scott[3]	2/2	1/1	1/1	1/1	n/a
Linda Yueh	5/5	4/4	n/a	1/1	2/2

1 Disbanded on 1 June 2021.
2 Appointed on 1 July 2021.
3 Retired on 20 July 2021.

Figures in the table above indicate those meetings for which each Director was eligible to attend and attended in the year. Regular Board meetings exclude ad hoc meetings for formal approvals as well as due diligence meetings.

Between these meetings there is regular contact with the Investment Manager and other meetings are arranged as necessary. Additionally, Board Committees and sub-groups meet to pursue matters referred to them by the Board and the Chairman is in contact with the other Directors regularly without representatives of the Investment Manager being present.

In addition to the formal Board and Committee meetings, the Board normally undertakes an annual due diligence trip to China in order to meet with the management of existing and potential investee companies and also meet with Fidelity's research and analysts teams. However, because of continuing travel restrictions due to the ongoing global pandemic, the due diligence trip to China was, yet again, unable to go ahead and instead the Board carried out a series of due diligence sessions virtually.

Company Secretary
The Board has access to the advice and services of the Company Secretary. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Changes to the Board
Changes to the Board take place in accordance with the Companies Act 2006, the Company's Articles of Association and the AIC Code. The Nomination and Remuneration Committee is responsible for identifying possible candidates. However, any proposal for the appointment of a new Director is discussed and approved by the entire Board.

Director Training
Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction on the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities to the Company. Directors also receive regular briefings from, amongst others, the AIC, the Company's Independent Auditor and the Company Secretary, regarding any proposed developments or changes in law or regulations that affect the Company and/or the Directors. External consultants who have no connection with the Company are used to identify potential candidates. Sapphire Partners was hired for the search that led to the appointment of Georgina Field with effect from 1 July 2022.

Election and Re-Election of Directors
All newly appointed Directors stand for election by the shareholders at the AGM following their appointment by the Board. As the Company is a constituent member of the FTSE 350 Index, all other Directors are subject to annual re-election. Directors standing for election and re-election at this year's AGM are listed with their details on page 39. The terms and letters of appointment of Directors are available for inspection at the registered office of the Company.

Board Evaluation
An annual evaluation of the Board, its Directors and its Committees is undertaken ahead of each AGM. It takes the form of written questionnaires and discussions, except for every third year when an external evaluation is undertaken. The process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees and action is taken on the basis of the results.

For the year under review, the performance and contribution to the Company of each Director was considered using a written questionnaire. The performance of the Chairman is evaluated by the other Directors in the Chairman's absence. It was concluded that the Chairman and each Director have been effective and that they continue to demonstrate commitment to their roles. The process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees and action is taken on the basis of the results. The Board considers the tenure of individual Directors during the evaluation process.

Corporate Governance Statement continued

As a FTSE 350 Company and in accordance with provision 21 of the 2018 UK Corporate Governance Code, the Board carries out an externally facilitated evaluation every third year. The last external evaluation was carried out in 2021, therefore, the next external evaluation will be for the year ending 31 March 2024.

Directors' Remuneration and Share Interests
Details of the Directors' remuneration and share interests are disclosed in the Directors' Remuneration Report on pages 50 and 51.

BOARD COMMITTEES

The Board has three Committees through which it discharges certain of its corporate governance responsibilities. These are the Audit and Risk Committee, the Management Engagement Committee and the Nomination and Remuneration Committee. Terms of reference of each Committee can be found on the Company's pages of the Manager's website at **www.fidelity.co.uk/china**.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mike Balfour and consists of all of the Directors, except for Nicholas Bull which is in line with the recommendation of the 2018 UK Corporate Governance Code that a chairman of a board should not be a member of an audit committee. Mr Bull will generally be invited to attend the Audit and Risk Committee meetings. The Committee will be chaired by Alastair Bruce when Mr Balfour will take over as Chairman of the Board on 20 July 2022.

Full details of the Audit and Risk Committee are disclosed in the Report of the Audit and Risk Committee on pages 53 to 56.

Management Engagement Committee

Composition
The Management Engagement Committee (the "Committee") is chaired by Nicholas Bull and consists of all of the Directors. The Committee will be chaired by Mike Balfour when Mr Bull steps down from the Board on 20 July 2022.

Role and Responsibilities
The Committee is charged with reviewing and monitoring the performance of the Investment Manager and for ensuring that the terms of the Management Agreement remains competitive and reasonable for shareholders. It meets at least once a year and reports to the Board, making recommendations as appropriate.

Manager's Reappointment
Ahead of the forthcoming AGM, the Committee has reviewed the performance of the Manager and the fee basis and concluded that it is in the interests of shareholders that the appointment of the Manager should continue. Details of the fee arrangements for the reporting year are in the Directors' Report on page 40.

Nomination and Remuneration Committee

Composition
The Nomination and Remuneration Committee (the "Committee") is chaired by Linda Yueh and consists of all of the Directors because the Board deems them all to be independent.

Role and Responsibilities
The Committee is charged with reviewing the composition, size and structure of the Board and makes recommendations to the Board as appropriate. It is charged with nominating new Directors for consideration by the Board, and in turn for approval by shareholders. The search for a candidate is carried out against a set of objective criteria, with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds and cognitive strengths. New Directors are appointed on the basis of merit. Sapphire Partners, who have no connection with the Company, were engaged to assist the Board in recruiting a new independent non-executive director to replace Nicholas Bull when he steps down from the Board on 20 July 2022. As a result of this process, Georgina Field has been appointed on the Board from 1 July 2022.

The Committee also considers the election and re-election of Directors ahead of each AGM. For the forthcoming AGM, it has considered the performance and contribution to the Company of each Director and concluded that each Director has been effective and continues to demonstrate commitment to their role. Accordingly, the Committee has recommended their continued service to the Board with the exception of Nicholas Bull, who will not seek re-election at the forthcoming AGM.

The Committee also considers the remuneration of the Directors, and takes into account their roles, their responsibilities and the time involved in carrying out their duties effectively. It also makes itself aware of Directors' fees of other comparable investment trust companies. Further details can be found in The Remuneration Policy on page 49.

Succession Planning
The Committee is responsible for succession planning and for Directors' appointments. Details of the Board's succession plan can be found on page 44.

ACCOUNTABILITY AND AUDIT

Financial Reporting
Set out on page 52 is a statement by the Directors of their responsibilities in respect of the preparation of the Annual Report and Financial Statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report to the Members on pages 57 to 64.

The Board has a responsibility to present fair, balanced and understandable annual and half-yearly financial statements. All financial statements are reviewed by the Audit and Risk Committee and approved by the Board prior to their issue to ensure that this responsibility is fulfilled.

Risk Management and Internal Controls
The Board is responsible for the Company's systems of risk management and of internal controls and for reviewing their effectiveness. The review takes place at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. It is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company although these tasks have been delegated on a day-to-day basis to the Manager. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the Board and the Manager. The Manager provides regular reports on controls and compliance issues to the Audit and Risk Committee and the Board. In carrying out its review, the Audit and Risk Committee has regard to the activities of the Manager, the Manager's compliance and risk functions and the work carried out by the Company's Auditor and also includes consideration of internal controls of similar reports issued by the other service providers.

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. This process also assists in identifying any new emerging risks and the action necessary to mitigate their potential impact. The Board confirms that this is an effective robust ongoing process in order to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 March 2022 and up to the date of this report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial Business Reporting" guidance.

The Board has reviewed the need for an internal audit function and has determined that the systems and procedures employed by the Manager, which are subject to inspection by the Manager's internal and external audit processes, provide sufficient assurance that a sound system of internal controls is maintained to safeguard shareholders' investments and the Company's assets. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit and Risk Committee meets the Manager's internal audit representative at least once a year. It receives a summary of the Manager's externally audited internal controls report on an annual basis.

Whistle-Blowing Procedure

Part of the Manager's role in ensuring the provision of a good service, pursuant to the Management Agreement, includes the ability for employees of FIL Limited and each of its subsidiaries ("FIL") to raise concerns through a workplace concerns escalation policy ("whistle-blowing procedure"). FIL has advised the Board that it is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for FIL to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy has been endorsed accordingly by the Board.

Bribery Act 2020

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has to reputation and business confidence. The Board, the Manager, the Manager's employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing action as appropriate. The Board has adopted a zero tolerance policy in this regard.

Criminal Finances Act 2017

The Company is subject to the Criminal Finances Act 2017 and follows a zero tolerance policy to tax evasion and its facilitation. The Directors are fully committed to complying with all legislation and appropriate guidelines which are designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Company, its service providers, counterparties and business partners operate.

Responsibility as an Institutional Shareholder

The Board has adopted the Manager's Principles of Ownership in relation to investments. These Principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. Fidelity International is a signatory to the UK Stewardship Code which sets out the responsibilities of institutional shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at **www.fidelity.co.uk**.

Relations with Shareholders

Communication with shareholders is given a high priority by the Board and it liaises with the Manager and the Company's Broker who are in regular contact with the Company's major institutional investors to canvass shareholder opinion and to communicate its views to shareholders. All Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and, where appropriate, other Board Directors, are available to meet with shareholders to discuss strategy and governance. The Board regularly monitors the shareholder profile of the Company and receives regular reports from the Manager on meetings attended with shareholders and any concerns raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and shareholders. If any shareholder wishes to contact a member of the Board directly, they should either email the Company Secretary at **investmenttrusts@fil.com** or in writing at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT2 6RP. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, the Senior Independent Director or the Board as a whole, as appropriate.

The Board encourages all shareholders to attend the Company's AGM on 20 July 2022 at which they will have the opportunity to meet and address questions to the Chairman, other members of the Board, the Portfolio Manager and representatives of the Manager.

Dale Nicholls, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. For those shareholders who would prefer not to attend in

Corporate Governance Statement continued

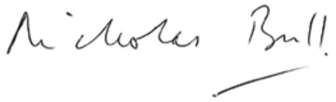
person, we will live-stream the formal business and presentations of the meeting online. Further details of how to join virtually are in Note 8 in the Notes to the Notice of Meeting on page 99.

The Notice of Meeting on pages 97 to 100 sets out the business of the AGM and the special business resolutions are explained more fully on pages 42 and 43 of the Directors' Report. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Notice of Meeting and related papers are sent to shareholders at least 20 working days before the AGM.

Voting Rights in the Company's Shares
Every person entitled to vote on a show of hands has one vote. On a poll, every shareholder who is present in person or by proxy or representative has one vote for every ordinary share held. At general meetings, all proxy votes are counted and, except where a poll is called, proxy voting is reported for each resolution after it has been dealt with on a show of hands. The proxy voting results are disclosed on the Company's pages of the Manager's website at **www.fidelity.co.uk/china**.

Articles of Association
Any changes to the Company's Articles of Association must be made by special resolution.

On behalf of the Board



Nicholas Bull
Chairman
30 May 2022

Directors' Remuneration Report

Chairman's Statement
The Directors' Remuneration Report for the year ended 31 March 2022 has been prepared in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of non-executive Directors and has no employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore not disclosed in this report.

Ordinary resolutions to approve both the Directors' Remuneration Report and the Remuneration Policy will be put to shareholders at the AGM on 20 July 2022. The Company's Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on pages 57 to 64.

Directors' Remuneration
The annual fee structure with effect from 1 April 2022 is as follows: Chairman – £48,000 (2021: £45,000); Senior Independent Director – £38,000 (2021: £36,000); Chairman of the Audit and Risk Committee – £40,000 (2021: £38,000); and Director – £31,650 (2021: £30,000). Directors' remuneration is reviewed on an annual basis to ensure that it remains competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

The Board has a Remuneration Policy which is subject to a binding vote, in the form of an ordinary resolution at every third AGM. A binding vote means that if it is not successful, the Board will be obliged to revise the policy and seek further shareholder approval at a General Meeting specially convened for that purpose. At last year's AGM, the Company's Articles of Association were updated to amend the individual cap of £50,000 per annum per Director to a new fee cap of £350,000 in aggregate per annum. As a result, the Remuneration Policy below has been updated to reflect this and will be put to shareholders for approval at the AGM on 20 July 2022. No other changes have been made.

The Remuneration Policy
The Company's Articles of Association limit the aggregate fees payable to the Directors to £350,000 per annum. Subject to this overall limit, and based on the recommendations of the Nomination and Remuneration Committee, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role individual Directors fulfil. Other than fees and reasonable travel expenses incurred in attending to the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long-term incentive schemes or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

The level of Directors' fees is determined by the whole Board. Directors do not vote on their own individual fees. The Nomination and Remuneration Committee reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Manager and research from third parties and it includes information on the fees of other similar investment trusts.

As a FTSE 350 company, and in accordance with provision 21 of the 2018 UK Corporate Governance Code, the Board is required to carry out an externally facilitated evaluation every third year of its performance and this also includes input into the appropriate level of Directors' fees from an independent source.

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's Annual General Meetings and can be obtained from the Company's registered office.

In common with most investment trusts there is no Chief Executive Officer and there are no employees.

The Company's Remuneration Policy will apply to new Board members, who will be paid at the same level of fees as current Board members.

Voting on the Remuneration Policy
The Remuneration Policy (the "Policy"), as set out in last year's Annual Report, was approved at the AGM on 23 July 2020 with 99.84% of votes cast in favour, 0.11% of votes cast against and 0.05% of votes withheld. The current Policy has been followed throughout the year ended 31 March 2022 and up to the date of this report. The next vote will be put to shareholders at the AGM on 20 July 2022 and the votes cast will be disclosed on the Company's pages of the Manager's website at: **www.fidelity.co.uk/china**.

Voting on the Directors' Remuneration Report
At the AGM held on 20 July 2021, 99.88% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 March 2021, 0.08% of votes were cast against and 0.04% of votes were withheld.

The Directors' Remuneration Report for the year ended 31 March 2022 will be put to shareholders at the AGM on 20 July 2022, and the votes cast will be disclosed on the Company's pages of the Manager's website at: **www.fidelity.co.uk/china**.

Single Total Figure of Directors' Remuneration
The single total aggregate Directors' remuneration for the year under review was £185,383 (2021: £161,496). This includes expenses incurred by Directors in attending to the affairs of the Company and are considered by HMRC to be a taxable expense.

Information on individual Directors' fees and taxable Directors' expenses are shown in the table on the next page. The fees for 2022 are higher than 2021 due to the crossover between Directors' retirement and appointment. This is part of the Board's succession planning.

Directors' Remuneration Report continued

	2023 Projected Total (£)	**2022 Fees (Audited) (£)**	**2022 Taxable Expenses* (Audited) (£)**	**2022 Total (Audited) (£)**	2021 Fees (Audited) (£)	2021 Taxable Expenses* (Audited) (£)	2021 Total (Audited) (£)
Remuneration of Directors							
Nicholas Bull[1]	14,597	**45,000**	**–**	**45,000**	42,000	–	42,000
Mike Balfour[2]	45,699	**38,000**	**3,722**	**41,722**	32,000	1,186	33,186
Alastair Bruce[3]	37,570	**22,500**	**–**	**22,500**	n/a	n/a	n/a
Vanessa Donegan[4]	31,650	**31,000**	**–**	**31,000**	18,375	–	18,375
Peter Pleydell-Bouverie[5]	n/a	**n/a**	**n/a**	**n/a**	9,935	–	9,935
Elisabeth Scott[6]	n/a	**10,938**	**–**	**10,938**	31,500	–	31,500
Linda Yueh[7]	38,000	**34,208**	**15**	**34,223**	26,500	–	26,500
Georgina Field[8]	23,759	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a
Total	191,275	**181,646**	**3,737**	**185,383**	160,310	1,186	161,496

* Travel expenses incurred in attending to the affairs of the Company.

1 Retiring on 20 July 2022.
2 To be appointed as Chairman on 20 July 2022.
3 Appointed on 1 July 2021. To be appointed as Chairman of the Audit and Risk Committee on 20 July 2022.
4 Chair of the Investment Committee until 31 May 2021.
5 Retired on 23 July 2020.
6 Retired on 20 July 2021.
7 Appointed as Senior Independent Director on 20 July 2021.
8 To be appointed on 1 July 2022.

Five Year Change Comparison in Directors' Remuneration
The table below sets out the change in Directors' fees over the last five years.

Director	2022	2017	Change (%)
Chairman	45,000	42,000	+7.1%
Senior Independent Director	36,000	31,500	+14.3%
Audit and Risk Committee Chairman	38,000	32,000	+18.8%
Director	30,000	26,500	+13.2%

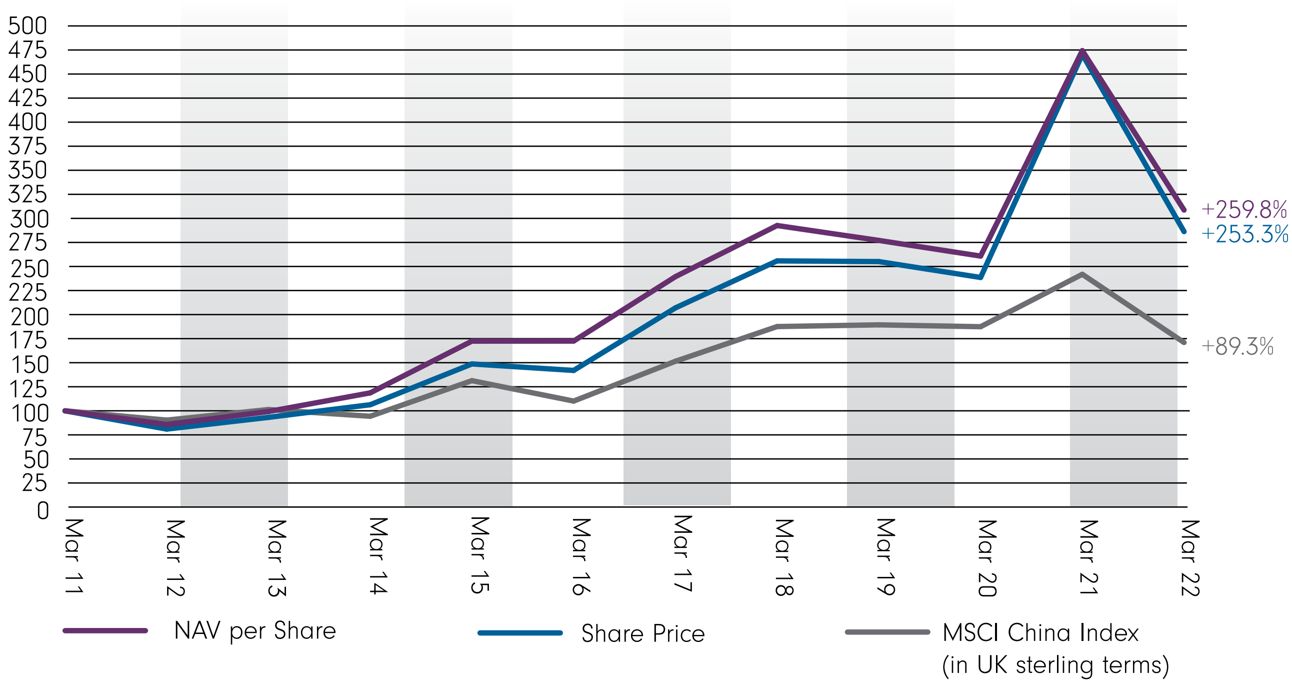
Expenditure on Remuneration and Distributions to Shareholders
The table below shows the total amount paid out on Directors' remuneration and in distributions to shareholders. The projected Directors' remuneration for the year ending 31 March 2023 is disclosed in the table above.

	31 March 2022 £	31 March 2021 £
Expenditure on Remuneration:		
Aggregate of Directors' Fees	**185,383**	161,496
Distribution to Shareholders:		
Dividend payments	**24,124,000**	22,127,000
Shares repurchased	**4,448,000**	58,558,000

Performance

The Company's NAV per share total return and share price total return performance are measured against the return of the MSCI China Index (in UK sterling terms) as this is the most appropriate Benchmark in respect of its asset allocation. The graph below shows performance for ten years to 31 March 2022.

Total Return Performance for Ten Years to 31 March 2022



Directors' Interest in Ordinary Shares

Although there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors are encouraged. The interests of the Directors in the shares of the Company are shown in the table below. All of the shareholdings are beneficial. The Portfolio Manager, Dale Nicholls, also holds shares in the Company.

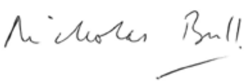
Directors' Shareholdings (Audited)

	31 March 2022	31 March 2021	Change during year
Nicholas Bull	**110,804**	110,804	–
Mike Balfour	**65,000**	65,000	–
Alastair Bruce[1]	**43,800**	n/a	43,800
Vanessa Donegan[2]	**10,000**	5,128	4,872
Elisabeth Scott[3]	**n/a**	19,819	–
Linda Yueh	**2,318**	2,318	–
Georgina Field[4]	**n/a**	n/a	n/a

1 Appointed on 1 July 2021. Purchase of shares.
2 Purchase of shares.
3 Retired on 20 July 2021.
4 To be appointed on 1 July 2022.

The above shareholdings remain unchanged as at the date of this report.

On behalf of the Board



Nicholas Bull
Chairman
30 May 2022

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom 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 UK-adopted International Accounting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006 and IFRIC interpretations. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they 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 in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state whether applicable IFRS and IFRIC interpretations 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.fidelity.co.uk/china**. 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 UK-adopted International Accounting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006 and IFRIC interpretations, give a true and fair view of the assets, liabilities, financial position and profit 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 30 May 2022 and signed on its behalf by:

Nicholas Bull

Nicholas Bull
Chairman

Report of the Audit and Risk Committee

I am pleased to present the formal report of the Audit and Risk Committee (the "Committee") to shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting, the appropriateness of the risk management and internal controls processes and the effectiveness of the independent audit process and how this has been assessed for the year ended 31 March 2022.

Composition of the Committee
The members of the Committee are myself as Chairman, and all of the other Directors, except for Nicholas Bull. This is in line with the recommendation in the 2018 UK Corporate Governance Code that the Chairman of the Board should not be a member of the Audit and Risk Committee. He will generally be invited to attend the Committee meetings as a guest. The Committee members are considered independent non-executive Directors and collectively have sufficient recent and relevant financial experience to discharge their responsibilities fully.

The Committee's performance is evaluated annually as part of the overall Board evaluation process.

Role and Responsibilities of the Committee
The Committee's authority and duties are clearly defined in its terms of reference which are available on the Company's pages of the Manager's website at **www.fidelity.co.uk/china**. These duties include:

- Establishing with the Auditor the nature and scope of the audit, reviewing the Auditor's quality control procedures and reporting, the effectiveness of the audit process and the Auditor's independence and objectivity with particular regard to the provision of non-audit services;
- Responsibility for making recommendations on the appointment, reappointment and removal of the Auditor;
- Reviewing the effectiveness of the Company's risk management and internal control systems (including financial, operational and compliance controls), considering the scope of the work undertaken by the Manager's Internal Audit department, including review of the work performed by Internal Audit, and reviewing the Company's procedures for detecting fraud;
- Monitoring the integrity of the Company's half-yearly and annual financial statements to ensure they are fair, balanced and understandable;
- Reviewing the existence and performance of all controls operating in the Company, including the review of internal controls reporting of its service providers; and
- Reviewing the relationship with and the performance of third party service providers (such as the Registrar, Custodian and Depositary).

Meetings and Business considered by the Committee
Since the date of the last Annual Report (7 June 2021), the Committee has met four times and the Auditor attended three of the meetings.

The following matters were reviewed at each Committee meeting:

- The Company's risk management and internal controls framework;
- The Company's compliance with its investment policy limits;
- The valuation of unlisted investments;
- The Depositary's Oversight Reporting;
- The Company's revenue and expenses forecasts and its Balance Sheet;
- The Company's Ongoing Charge;
- The management fee calculations; and
- The Committee's Terms of Reference.

Report of the Audit and Risk Committee continued

In addition, the following matters were considered at these meetings:

November 2021	• The Half-Yearly Report and Financial Statements and recommendation of its approval to the Board • The Going Concern Statement • The Manager's Risk Management Process Document
February 2022	• The Auditor's engagement letter and audit plan for the Company's year ending 31 March 2022, including the proposed audit fee • Review of the Company's operational resilience • Review of Fidelity's AAF Reports (assurance reports on internal control) • Review of Fidelity's Investment Trusts AAF Controls Report from PricewaterhouseCoopers LLP • Internal Audit reporting, including review of the internal audit plan • Cybersecurity update • Review of Variable Interest Entities Structures and its continued validity
March 2022	• Review and challenge of the valuations of the Company's unlisted investments with the Manager and the independent valuer, Kroll (previously Duff & Phelps). See further details on the next page.
May 2022	• The Auditor's findings from the audit of the Company • The Auditor's performance, independence and reappointment • Compliance with Corporate Governance and regulatory requirements • The Annual Report and Financial Statements and recommendation of its approval to the Board • The Viability, Fair, Balanced and Understandable and Going Concern Statements, including the ongoing impact of the pandemic on the Company's performance, prospects and operations • The final dividend payment to be recommended to the Board and shareholders for approval

Annual Report and Financial Statements
The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors' Responsibilities can be found on page 52. The Committee advises the Board on the form and content of the Annual Report and Financial Statements, any issues which may arise in relation to these and on any specific areas which require judgement. The Committee members apply their expertise and knowledge in reviewing disclosures made in order to ensure that the Financial Statements are fair, balanced and understandable.

Significant Issues considered by the Committee during the year
Summarised below and on the next page are the most significant issues considered by the Committee in respect of these Financial Statements and how these were addressed.

Recognition of Investment Income	Investment income is recognised in accordance with Accounting Policy Note 2 (f) on page 70. The Manager provided detailed revenue forecasts which the Committee reviewed and sought explanations for any significant variances to these forecasts. The Committee also considered the allocation of special dividends between revenue and capital and the reasons for classification of these special dividends. The Committee reviewed the internal audit and compliance monitoring reports received from the Manager, including an additional internal controls report ("AAF" report) prepared by PricewaterhouseCoopers LLP ("PwC") on behalf of the Manager, to satisfy itself that adequate systems were in place for properly recording the Company's investment income. The Committee also reviewed reports provided by the Auditor on its work on the recognition of investment income.

Valuation, existence and ownership of investments (including derivative instruments)	The valuation of investments (including derivative instruments) is in accordance with Accounting Policy Notes 2 (l) and 2 (m) on pages 71 and 72. The Committee took comfort from the Depositary's regular oversight reports that investment related activities are conducted in accordance with the Company's investment policy. The Committee received reports from the Manager, the Depositary and an additional AAF report prepared by PwC on behalf of the Manager which concluded that the controls around the valuation, existence and ownership of investments operate effectively. The Committee's review included the impact of the ongoing pandemic on the Company's portfolio from market volatility. The Committee also reviewed the reports provided by the Auditor on its work on the valuation, existence and ownership of the Company's investments, including the derivative and unlisted investments.
Valuation of the Unlisted Investments	Under the AIFMD, the Manager as the AIFM, is authorised for performing the valuation of the assets in the Company's portfolio, including the unlisted investments. The valuation of unlisted investments is in accordance with Accounting Policy Notes 2 (e) and (l) on pages 69 to 72. The Manager is responsible for valuing the Company's unlisted investments. The valuation of the unlisted investments is proposed by the Manager's Fair Value Committee ("FVC") to the Committee who in turn reports these to the Board to ensure that the Directors are satisfied that the process that the FVC adopts in recommending the valuation is rigorous, reasonable and independent. The Committee receives reporting from the FVC which includes recommendations from Kroll (previously Duff & Phelps), an external company that provides global financial information and services. The FVC report also includes detailed input from the Fidelity analysts covering the unlisted companies. The Committee reviews and challenges the proposed valuation methodologies for all of the unlisted investments. Ahead of the Company's year end, the Committee had a meeting to specifically review the valuation of the unlisted investments. The FVC and Kroll provided detailed analysis on the proposed valuation of each unlisted investment which the Committee reviewed and applied judgement to gain comfort on the proposed valuations. As part of this process, the Committee applied its judgement on estimates within the valuations proposed by the FVC and Kroll to ensure that any differences in valuations proposed were not thought to be material. In addition, the Auditor reviewed the valuations of the unlisted investments in the Company's portfolio and reported its findings at the May 2022 Audit and Risk Committee meeting.
Management fee calculation	The Company has a variable management fee structure in place. At each Committee meeting, the Manager reports on the accruals for the variable part of the fee that have been included in the Company's NAV and confirms that it has been calculated in accordance with the Management Agreement. These variable management fee accruals are reviewed by the Committee. It also receives reporting on the work carried out by the Auditor that the Company's variable management fee has been calculated in accordance with the terms of the Management Agreement.

The Company confirms that it has complied with the September 2014 Competition and Markets Authority Order in relation to the performance and appointment of the Auditor, as set out below.

Independence and Effectiveness of the Audit Process
Ernst & Young LLP acted as the Company's Auditor for the year ended 31 March 2022.

With regard to the independence of the Auditor, the Committee reviewed:

- The Auditor's arrangements for managing any conflicts of interest;
- The fact that no non-audit services were provided to the Company during the reporting year and as at the date of this report; and
- The statement by the Auditor that it remains independent within the meaning of the regulations and their professional standards.

With regard to the effectiveness of the audit process, the Committee reviewed:

- The fulfilment by the Auditor of the agreed audit plan, including the audit team's approach to significant risks;
- The audit findings report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ended 31 March 2022; and
- Feedback from the Manager on the audit of the Company.

The Committee concluded that the Auditor continues to remain independent and the audit process remains effective.

Report of the Audit and Risk Committee continued

Auditor's Appointment and Audit Tenure
Ernst & Young LLP was appointed as the Company's Auditor on 30 November 2015 following a formal audit tender process. The Committee has reviewed the Auditor's independence and the effectiveness of the audit process prior to recommending its reappointment for a further year. The Auditor is required to rotate audit partners every five years and this is the second year that the Audit Partner, Susan Dawe, has been in place. The Committee will continue to review the Auditor's appointment each year to ensure that the Company is receiving an optimal level of service. There are no contractual obligations that restrict the Company's choice of auditor.

Audit Fees
Fees paid to the Auditor for the audit of the Company's Financial Statements are disclosed in Note 5 on page 75. The audit fee for the reporting year was £52,500 (2021: £40,000).

Mike Balfour
Chairman of the Audit and Risk Committee
30 May 2022

Independent Auditor's Report to the Members of Fidelity China Special Situations PLC

Opinion
We have audited the Financial Statements of Fidelity China Special Situations PLC (the Company) for the year ended 31 March 2022 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related Notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the Financial Statements:

- give a true and fair view of the Company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Conclusions relating to going concern
In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the Company's going concern assessment process by engaging with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.
- Inspecting the Directors' assessment of going concern, including the revenue forecast, for the period to 30 May 2023 which is at least 12 months from the date the Financial Statements were authorised for issue. The Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- Reviewing the factors and assumptions, including the impact of the COVID-19 pandemic, as applied to the revenue forecast. Considered the appropriateness of the methods used to calculate the forecast and determined, through testing of the methodology and calculations, that the methods utilised were appropriate to be able to make an assessment for the Company.
- In relation to the Company's borrowing arrangements, inspecting the Directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Company's portfolio. Recalculating the Company's compliance with debt covenants in the scenarios assessed by the Directors and performing reverse stress testing in order to identify what factors would lead to the Company breaching the financial covenants.
- Considering the mitigating factors included in the revenue forecasts that are within the control of the Company, including a review of the Company's assessment of the liquidity of the investments held and evaluating the Company's ability to sell investments in order to cover the working capital requirements of the Company.
- Reviewing the Company's going concern disclosures included in the Annual Report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 30 May 2023 which is at least 12 months from when the Financial Statements are authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Independent Auditor's Report to the Members of Fidelity China Special Situations PLC continued

Overview of our audit approach

Key audit matters	• Risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement. • Risk of incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments. • Risk of incorrect valuation of the listed investments or ownership of the entire investment portfolio.
Materiality	• Overall materiality of £14.01m which represents 1% of the Company's net asset value as at 31 March 2022.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Company has determined that the impact of climate change could affect the Company's investments and their valuations and potentially shareholder returns. This is explained on page 33 in the principal and emerging risks section, which forms part of the "Other information," rather than the audited Financial Statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on the adequacy of the Company's disclosures in the Financial Statements as set out in Note 2(a) and conclusion that there was no further impact of climate change to be taken into account. In line with UK-adopted international accounting standards investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the balance sheet date. Investments which are unlisted are priced using market-based valuation approaches. All investments therefore reflect the market participants view of climate change risk on the investments held by the Company. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement *Refer to the Report of the Audit and Risk Committee (page 54); Accounting Policies (page 70); and Note 3 of the Financial Statements (page 74).* The Company has reported revenue of £41.3m (2021: £32.8m). During the year, the Company received special dividends amounting to £2.4m (2021: £30.0m), of which £2.4m (2021: £0.9m) was classified as revenue and £nil (2021: £29.1m) as capital. There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an appropriate accounting treatment. The Directors may be required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Income Statement.	We have performed the following procedures: We obtained an understanding of the processes and controls surrounding revenue recognition and classification of special dividends by performing our walkthrough procedures to evaluate the design and implementation of controls. For a sample of dividends and contracts for difference, we recalculated the dividend income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share, which was agreed to an independent data vendor. We agreed amounts to bank statements or broker statements and, where applicable, we agreed the exchange rates to an external source. For all dividends accrued, we agreed dividend entitlement to an independent data vendor and, where applicable, we agreed the amount receivable to post year-end bank statements. To test completeness of recorded income, we verified that expected dividends for a sample of investee companies held during the year had been recorded as income with reference to investee company announcements obtained from an independent data vendor. We performed a review of the income report and acquisition and disposal reports to evaluate all dividends received and accrued during the period that are above our testing threshold. We identified which of the dividends above our testing threshold are special dividends with reference to an external source. For each of the special dividends above our testing threshold, we recalculated the amount received and assessed the appropriateness of classification as revenue by reviewing the rationale for the underlying distribution.	The results of our procedures identified no material misstatement in relation to the risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement.

Independent Auditor's Report to the Members of Fidelity China Special Situations PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments *Refer to the Report of the Audit and Risk Committee (page 55); Accounting Policies (pages 71 and 72); and Note 19 of the Financial Statements (pages 91 to 93).* As at 31 March 2022 the Company had ten unlisted investments with a value of £194.7m (2021: nine unlisted investments with a value of £166.5m) and an unrealised gain of £17.8m (2021: unrealised losses of £1.6m). We considered that the degree of subjectivity, including the level of management judgement and the risk that the valuation does not reflect the most up to date information, results in a fraud risk over misstatement of the valuation of unlisted securities. The valuation of the unlisted investments is approved by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Manager's Fair Value Committee. The Manager engages Kroll (formerly Duff & Phelps) to perform a valuation which is then considered by the Manager's Fair Value Committee. The unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ("IPEV").	We have performed the following procedures: We obtained an understanding of the processes and controls surrounding unlisted investment pricing and by performing our walkthrough procedures to evaluate the design and implementation of controls. For all of the unlisted investments held at the year-end, our specialist Valuations and Business Modelling team reviewed and challenged the valuations. This included: • Reviewing the latest valuation papers by Kroll, a third party service provider; • Assessing whether the valuations have been performed in line with the IPEV guidelines; • Assessing the appropriateness of the data inputs and challenging the assumptions used to support the valuations; and • Assessing other facts and circumstances, such as market movement and comparative information, that could have an impact on the fair market value of the investments. We obtained and assessed the valuation papers including the assumptions and judgements in determining the fair value of the unlisted investments held by the Company at the year-end. Agreed the cost of the new unlisted investments to supporting share purchase agreements and traced the payments to bank statement. Agreed 100% of exchange rates to a relevant independent data vendor. We recalculated the total unrealised gains/losses on unlisted investments as at the year-end using the book-cost reconciliation.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incorrect valuation of the listed investments or ownership of the entire investment portfolio *Refer to the Report of the Audit and Risk Committee (page 55); Accounting Policies (pages 71 and 72); and Notes 10 and 11 of the Financial Statements (pages 78 and 79).* The valuation of the listed equity investments portfolio and listed derivatives as at the year-end was £1,177.3m (2021: £2,011.9m) comprising £1,170.8m (2021: £2,000.8m) of listed equity investments, and £6.5m of net listed derivatives (2021: £11.1m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title to the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of the listed investments and derivatives is determined using quoted market prices at close of business on the reporting date.	We have performed the following procedures: We obtained an understanding of the processes and controls surrounding investment pricing and legal title by performing our walkthrough procedures. For all listed equity investments in the portfolio, we compared the market prices and exchange rates applied to an independent data vendor and recalculated the investment and derivative valuations as at the year-end. For all derivatives, we compared the market prices of the underlying instrument to an independent pricing vendor and agreed cost price to the Brokers' confirmations. We inspected the stale pricing report produced by the Manager to identify prices that have not changed around the year-end and verified whether the listed price is a valid fair value through review of trading activity. We compared the Company's investment holdings at 31 March 2022 to the independent confirmation received directly from the Company's Custodian and Depositary. We agreed all year-end open derivative positions to confirmations received independently from the Company's brokers.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation of the listed investments or ownership of the entire investment portfolio.

Our key audit matters remain unchanged from the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £14.01m (2021: £21.8m), which is 1% (2021: 1%) of the Company's net asset value. We believe that net asset value provides us with materiality aligned to the key measure of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £10.5m (2021: £16.4m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2021: £1.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of Fidelity China Special Situations PLC continued

Given the importance of the distinction between revenue and capital for investment trusts, we have also applied a separate testing threshold for the revenue column of the Income Statement of £1.7m (2021: £1.3m), being 5% of the net return on ordinary activities before taxation (2021: 5% of the net return on ordinary activities before taxation)

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the Annual Report other than the Financial Statements and our Auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement
We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 40;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 36;
- Director's statement on whether it has a reasonable expectation that the Company will be able to continue in operation and meets its liabilities set out on page 40;
- Directors' statement on fair, balanced and understandable set out on page 52;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 33;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 46 and 47; and
- The section describing the work of the Audit and Risk Committee set out on page 53.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the UK-adopted international accounting standards, the Companies Act 2006, the Association of Investment Companies Code of Corporate Governance, the Association of Investment Companies' Statement of Recommended Practice, the Listing Rules, the Corporate Governance Code, Section 1158 of the Corporation Tax Act 2010 and the Companies (Miscellaneous Reporting) Regulations 2018.

- We understood how the Company is complying with those frameworks through discussions with the Audit and Risk Committee and Company Secretary and review of Board minutes and the Company's documented policies and procedures.

- We assessed the susceptibility of the Company's Financial Statements to material misstatement, including how fraud might occur by considering the key risks impacting the Financial Statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital items in the Income Statement and the incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments. Further discussion of our approach is set out in the section on key audit matters above.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the Financial Statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our Auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit and Risk Committee, we were appointed by the Company on 30 November 2015 to audit the Financial Statements for the year ending 31 March 2016 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 March 2016 to 31 March 2022.

- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Independent Auditor's Report to the Members of Fidelity China Special Situations PLC continued

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Susan Dawe
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
30 May 2022

Income Statement
for the year ended 31 March 2022

	Notes	**Year ended 31 March 2022**			Year ended 31 March 2021		
		Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Investment income	3	**29,638**	**–**	**29,638**	21,012	–	21,012
Derivative income	3	**11,595**	**–**	**11,595**	11,689	–	11,689
Other income	3	**42**	**–**	**42**	80	–	80
Total income		**41,275**	**–**	**41,275**	32,781	–	32,781
(Losses)/gains on investments at fair value through profit or loss	10	**–**	**(603,831)**	**(603,831)**	–	725,388	725,388
(Losses)/gains on derivative instruments	11	**–**	**(160,189)**	**(160,189)**	–	266,752	266,752
Foreign exchange gains/(losses) on other net assets		**–**	**1,429**	**1,429**	–	(12,401)	(12,401)
Foreign exchange (losses)/gains on bank loan		**–**	**(3,569)**	**(3,569)**	–	7,825	7,825
Total income and (losses)/gains		**41,275**	**(766,160)**	**(724,885)**	32,781	987,564	1,020,345
Expenses							
Investment management fees	4	**(3,984)**	**(15,659)**	**(19,643)**	(4,119)	(14,472)	(18,591)
Other expenses	5	**(1,393)**	**(25)**	**(1,418)**	(1,260)	(108)	(1,368)
Profit/(loss) before finance costs and taxation		**35,898**	**(781,844)**	**(745,946)**	27,402	972,984	1,000,386
Finance costs	6	**(1,663)**	**(4,989)**	**(6,652)**	(2,253)	(6,758)	(9,011)
Profit/(loss) before taxation		**34,235**	**(786,833)**	**(752,598)**	25,149	966,226	991,375
Taxation	7	**(1,186)**	**–**	**(1,186)**	(760)	–	(760)
Profit/(loss) after taxation for the year		**33,049**	**(786,833)**	**(753,784)**	24,389	966,226	990,615
Earnings/(loss) per ordinary share	8	**6.42p**	**(152.81p)**	**(146.39p)**	4.70p	186.11p	190.81p

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. 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 on pages 69 to 94 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 March 2022

	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 2021		**5,710**	**211,569**	**917**	**248,491**	**1,676,791**	**39,499**	**2,182,977**
Repurchase of ordinary shares	16	**–**	**–**	**–**	**(4,448)**	**–**	**–**	**(4,448)**
(Loss)/profit after taxation for the year		**–**	**–**	**–**	**–**	**(786,833)**	**33,049**	**(753,784)**
Dividend paid to shareholders	9	**–**	**–**	**–**	**–**	**–**	**(24,124)**	**(24,124)**
Total equity at 31 March 2022		**5,710**	**211,569**	**917**	**244,043**	**889,958**	**48,424**	**1,400,621**
Total equity at 31 March 2020		5,713	211,569	914	307,049	710,565	37,237	1,273,047
Repurchase of ordinary shares	16	–	–	–	(58,558)	–	–	(58,558)
Cancellation of ordinary shares from Treasury	16	(3)	–	3	–	–	–	–
Profit after taxation for the year		–	–	–	–	966,226	24,389	990,615
Dividend paid to shareholders	9	–	–	–	–	–	(22,127)	(22,127)
Total equity at 31 March 2021		5,710	211,569	917	248,491	1,676,791	39,499	2,182,977

The Notes on pages 69 to 94 form an integral part of these Financial Statements.

Balance Sheet

as at 31 March 2022
Company number 7133583

	Notes	31 March 2022 £'000	31 March 2021 £'000
Non-current assets			
Investments at fair value through profit or loss	10	**1,365,485**	2,167,275
Current assets			
Derivative instruments	11	**23,994**	33,296
Amounts held at futures clearing houses and brokers		**32,220**	19,872
Other receivables	12	**14,204**	22,749
Cash at bank		**73,673**	66,404
		144,091	142,321
Current liabilities			
Derivative instruments	11	**(17,524)**	(22,208)
Bank loan	13	**(76,043)**	–
Other payables	14	**(15,388)**	(31,937)
		(108,955)	(54,145)
Net current assets		**35,136**	88,176
Total assets less current liabilities		**1,400,621**	2,255,451
Non-current liabilities			
Bank loan	15	**–**	(72,474)
Net assets		**1,400,621**	2,182,977
Equity attributable to equity shareholders			
Share capital	16	**5,710**	5,710
Share premium account	17	**211,569**	211,569
Capital redemption reserve	17	**917**	917
Other reserve	17	**244,043**	248,491
Capital reserve	17	**889,958**	1,676,791
Revenue reserve	17	**48,424**	39,499
Total equity		**1,400,621**	2,182,977
Net asset value per ordinary share	18	**272.52p**	423.50p

The Financial Statements on pages 65 to 94 were approved by the Board of Directors on 30 May 2022 and were signed on its behalf by:

Nicholas Bull

Nicholas Bull
Chairman

The Notes on pages 69 to 94 form an integral part of these Financial Statements.

STRATEGY GOVERNANCE FINANCIAL INFORMATION FOR SHAREHOLDERS

Cash Flow Statement

for the year ended 31 March 2022

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Operating activities		
Cash inflow from investment income	**26,752**	20,241
Cash inflow from derivative income	**11,481**	11,794
Cash inflow from other income	**42**	80
Cash outflow from Directors' fees	**(181)**	(201)
Cash outflow from other payments	**(21,626)**	(18,580)
Cash outflow from the purchase of investments	**(733,693)**	(1,159,050)
Cash outflow from the purchase of derivatives	**(4,095)**	(23,789)
Cash outflow from the settlement of derivatives	**(549,387)**	(258,808)
Cash inflow from the sale of investments	**936,723**	998,888
Cash inflow from the settlement of derivatives	**387,497**	539,536
Cash (outflow)/inflow from amounts held at futures clearing houses and brokers	**(12,348)**	19,623
Net cash inflow from operating activities before servicing of finance	**41,165**	129,734
Financing activities		
Cash outflow from loan interest paid	**(2,009)**	(2,140)
Cash outflow from CFD interest paid	**(3,037)**	(5,924)
Cash outflow from short CFD dividends paid	**(1,707)**	(703)
Cash outflow from the repurchase of ordinary shares	**(4,448)**	(58,558)
Cash outflow from dividends paid to shareholders	**(24,124)**	(22,127)
Cash outflow from financing activities	**(35,325)**	(89,452)
Increase in cash at bank	**5,840**	40,282
Cash at bank at the start of the year	**66,404**	38,523
Effect of foreign exchange movements	**1,429**	(12,401)
Cash at bank at the end of the year	**73,673**	66,404

The Notes on pages 69 to 94 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 UK-adopted International Accounting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006, IFRIC 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 April 2021. 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 instruments. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence up to 31 May 2023 which is at least twelve months from the date of approval of these Financial Statements. In making their assessment the Directors have reviewed income and expense projections, reviewed the liquidity of the investment portfolio and considered the Company's ability to meet liabilities as they fall due. This conclusion also takes into account the Director's assessment of the continuing risks arising from COVID-19.

In preparing these Financial Statements the Directors have considered the impact of climate change risk as a principal and as an emerging risk as set out on pages 33 and 35, and have concluded that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing. In line with IFRS 13 investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the balance sheet date. Investments which are unlisted are priced using market-based valuation approaches. All investments therefore reflect the market participants view of climate change risk on the investments held by the Company.

The Company's Going Concern Statement in the Directors' Report on page 40 takes account of all events and conditions up to 31 May 2023 which is at least twelve months from the date of approval of these Financial Statements.

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. Their adoption has not had any material impact on the disclosures or the amounts reported in these Financial Statements.

- COVID-19-Related Rent Concessions (amendments to IFRS 16); and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark reform – Phase 2.

At the date of authorisation of these Financial Statements, the following revised IAS 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); and
- IAS 12 Income Taxes (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 theses estimates.

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

Notes to the Financial Statements continued

2 Accounting Policies continued

Judgements

The Directors consider whether each fair value is appropriate following detailed review and challenge of the pricing methodology. 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"), with support from the external valuer, for detailed review and appropriate challenge 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 may 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 (either historical or forecast);

(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 and future cash flows (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 techniques 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. Overseas dividends are accounted for gross of any tax deducted at source. 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 and credited to the revenue column of the Income Statement. Interest received on CFDs represent the finance costs calculated by reference to the notional value of the CFDs.

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.

2 Accounting Policies continued

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 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 on the bank loan, collateral and overdrafts and finance costs 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 the best estimate of fair value. The Manager's Fair Value Committee ("FVC"), which is independent of the Portfolio Manager's team, and with support from the external valuer, provides recommended 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 following a detailed review and appropriate challenge by the Directors of the pricing methodology used 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.

Notes to the Financial Statements continued

2 Accounting Policies continued
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 and future cash flows are 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 International analyst that covers the company and from 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 month 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)/gains 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)/gains 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)/gains 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 amounts receivable on settlement of derivatives, securities sold for future settlement, accrued income, taxation recoverable 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) 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.

2 Accounting Policies continued

q) Other payables – Other payables include amounts payable on settlement of derivatives, securities purchased for future settlement, investment management, secretarial and administration fees payable, loan interest payable, finance costs 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.

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

s) 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;
- Taxation charged or credited relating to items which are capital in nature: and
- Other expenses which are capital in nature.

Technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL, guidance on 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, the portfolio of the Company consisted of investments listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of the level 3 investments which had unrealised investment holding gains of £17,794,000 (2021: unrealised investment holding losses of £1,569,000). See Note 19 on pages 90 to 93 for further details on the level 3 investments.

Notes to the Financial Statements continued

3 Income

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Investment income		
Overseas dividends	**28,632**	20,257
Overseas scrip dividends	**1,006**	755
	29,638	21,012
Derivative income		
Dividends received on long CFDs	**11,483**	11,444
Interest received on CFDs	**112**	245
	11,595	11,689
Other income		
Interest received on collateral and deposits	**42**	80
Total income	**41,275**	32,781

Special dividends of £nil (2021: £29,083,000) have been recognised in capital.

4 Investment Management Fees

	Year ended 31 March 2022			Year ended 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee – base	**3,984**	**11,953**	**15,937**	4,119	12,356	16,475
Investment management fee – variable	**–**	**3,706**	**3,706**	–	2,116	2,116
	3,984	**15,659**	**19,643**	4,119	14,472	18,591

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 ("the Investment Manager").

From 1 April 2021, the base investment management fee is charged at an annual rate of 0.90% on the first £1.5 billion of net assets, reducing to 0.70% of net assets over £1.5 billion. Prior to this date, the investment management fee was charged at an annual rate of 0.90% of net assets. In addition, 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.

The base investment management fee has been allocated 75% to capital reserve in accordance with the Company's accounting policies.

Further details of the terms of the Management Agreement are given in the Directors' Report on page 40.

5 Other Expenses

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Allocated to revenue:		
AIC fees	**21**	21
Custody fees	**352**	323
Depositary fees	**73**	69
Directors' expenses	**5**	1
Directors' fees[1]	**182**	160
Legal and professional fees	**207**	145
Marketing expenses	**264**	195
Printing and publication expenses	**50**	48
Registrars' fees	**55**	63
Secretarial and administration fees payable to the Investment Manager[2]	**–**	100
Other expenses	**131**	95
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	**53**	40
	1,393	1,260
Allocated to capital:		
Legal and professional fees	**25**	108
Other expenses	**1,418**	1,368

1 Details of the breakdown of Directors' fees are provided within the Directors' Remuneration Report on page 50.
2 From 1 April 2021, the fixed annual fee for services other than portfolio management is no longer charged.

6 Finance Costs

	Year ended 31 March 2022			Year ended 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest paid on bank loan, collateral and overdrafts	**505**	**1,516**	**2,021**	529	1,585	2,114
Interest paid on CFDs	**731**	**2,193**	**2,924**	1,548	4,646	6,194
Dividends paid on short CFDs	**427**	**1,280**	**1,707**	176	527	703
	1,663	**4,989**	**6,652**	2,253	6,758	9,011

Finance costs have been allocated 75% to capital reserve in accordance with the Company's accounting policies.

Notes to the Financial Statements continued

7 Taxation

	Year ended 31 March 2022			Year ended 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
a) Analysis of the taxation charge for the year						
Overseas taxation	**1,186**	**–**	**1,186**	760	–	760
Taxation charge for the year (see Note 7b)	**1,186**	**–**	**1,186**	760	–	760

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% (2021: 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 2022			Year ended 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before taxation	**34,235**	**(786,833)**	**(752,598)**	25,149	966,226	991,375
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19% (2021: 19%)	**6,505**	**(149,498)**	**(142,993)**	4,778	183,583	188,361
Effects of:						
Capital losses/(gains) not taxable*	**–**	**145,570**	**145,570**	–	(187,637)	(187,637)
Income not taxable	**(5,560)**	**–**	**(5,560)**	(3,992)	–	(3,992)
Expenses not deductible	**–**	**666**	**666**	–	995	995
Excess expenses	**(945)**	**3,262**	**2,317**	(786)	3,059	2,273
Overseas taxation	**1,186**	**–**	**1,186**	760	–	760
Taxation charge (Note 7a)	**1,186**	**–**	**1,186**	760	–	760

* 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 £35,407,000 (2021: £24,593,000), in respect of excess expenses of £141,629,000 (2021: £129,434,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. This rate has been substantively enacted at the balance sheet date and has therefore been applied to calculate the unrecognised deferred tax asset for the current year (2021: 19%).

8 Earnings/(Loss) per Ordinary Share

	Year ended 31 March 2022	Year ended 31 March 2021
Revenue earnings per ordinary share	**6.42p**	4.70p
Capital (loss)/earnings per ordinary share	**(152.81p)**	186.11p
Total (loss)/earnings per ordinary share	**(146.39p)**	190.81p

The earnings/(loss) per ordinary share is based on the profit/(loss) after taxation for the year divided by the weighted average number of ordinary shares held outside Treasury during the year, as shown below:

	£'000	£'000
Revenue profit after taxation for the year	**33,049**	24,389
Capital (loss)/profit after taxation for the year	**(786,833)**	966,226
Total (loss)/profit after taxation for the year	**(753,784)**	990,615

	Number	Number
Weighted average number of ordinary shares held outside Treasury	**514,922,357**	519,159,905

9 Dividends Paid to Shareholders

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Dividend paid		
Dividend of 4.68 pence per ordinary share paid for the year ended 31 March 2021	**24,124**	–
Dividend of 4.25 pence per ordinary share paid for the year ended 31 March 2020	**–**	22,127
	24,124	22,127
Dividend proposed		
Dividend proposed of 5.50 pence per ordinary share for the year ended 31 March 2022	**28,240**	–
Dividend proposed of 4.68 pence per ordinary share for the year ended 31 March 2021	**–**	24,124
Total dividends paid	**28,240**	24,124

The Directors have proposed the payment of a dividend for the year ended 31 March 2022 of 5.50 pence per ordinary share which is subject to approval by shareholders at the Annual General Meeting on 20 July 2022 and has not been included as a liability in these Financial Statements. The dividend will be paid on 27 July 2022 to shareholders on the register at the close of business on 17 June 2022 (ex-dividend date 16 June 2022).

Notes to the Financial Statements continued

10 Investments at Fair Value through Profit or Loss

	2022 £'000	2021 £'000
Total investments*	**1,365,485**	2,167,275
Opening book cost	**1,701,567**	1,188,495
Opening investment holding gains	**465,708**	101,312
Opening fair value of investments	**2,167,275**	1,289,807
Movements in the year		
Purchases at cost	**728,039**	1,161,499
Sales – proceeds	**(925,998)**	(1,009,419)
(Losses)/gains on investments	**(603,831)**	725,388
Closing fair value	**1,365,485**	2,167,275
Closing book cost	**1,630,492**	1,701,567
Closing investment holding (losses)/gains	**(265,007)**	465,708
Closing fair value of investments	**1,365,485**	2,167,275

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

The Company received £925,998,000 (2021: £1,009,419,000) from investments sold in the year. The book cost of these investments when they were purchased was £799,114,000 (2021: £648,403,000). 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)/gains on investments were as follows:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Purchases transaction costs	**1,501**	2,343
Sales transaction costs	**1,478**	1,157
	2,979	3,500

The portfolio turnover rate for the year was 45.2% (2021: 59.8%). 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 fair value of investments.

11 Derivative Instruments

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Net (losses)/gains on derivative instruments		
Realised (losses)/gains on CFDs	**(206,340)**	291,953
Realised gains/(losses) on futures	**39,391**	(20,269)
Realised gains/(losses) on options	**4,656**	(13,449)
Movement in investment holding gains on CFDs	**379**	13,146
Movement in investment holding gains/(losses) on futures	**1,814**	(1,032)
Movement in investment holding losses on options	**(89)**	(3,597)
	(160,189)	266,752

	2022 Fair value £'000	2021 Fair value £'000
Fair value of derivative instruments recognised on the Balance Sheet*		
Derivative instrument assets	**23,994**	33,296
Derivative instrument liabilities	**(17,524)**	(22,208)
	6,470	11,088

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

	2022 Fair value £'000	**2022 Asset exposure £'000**	2021 Fair value £'000	2021 Asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	**5,898**	**568,330**	(4,021)	707,808
Short CFDs	**(80)**	**14,149**	9,398	82,102
Short CFD (hedging exposure)	**–**	**–**	62	(9,287)
Futures (hedging exposure)	**(2,391)**	**(176,746)**	(4,205)	(118,125)
Call options	**387**	**2,642**	–	–
Put options	**1,128**	**4,096**	1,098	4,132
Put options (hedging exposure)	**1,528**	**(12,395)**	8,756	(79,040)
	6,470	**400,076**	11,088	587,590

Notes to the Financial Statements continued

12 Other Receivables

	2022 £'000	2021 £'000
Amounts receivable on settlement of derivatives	**12,924**	11,627
Securities sold for future settlement	**80**	10,805
Accrued income	**794**	188
Taxation recoverable	**202**	–
Other receivables	**204**	129
	14,204	22,749

13 Bank Loan – repayable within one year

	2022 £'000	2021 £'000
Fixed rate unsecured US dollar loan		
US dollar 100,000,000 fixed at a rate of 2.606%	**76,043**	–

The current loan agreement with Scotiabank Europe PLC is due to be repaid on 14 February 2023 (see Note 15 below).

14 Other Payables

	2022 £'000	2021 £'000
Amounts payable on settlement of derivatives	**10,994**	20,111
Securities purchased for future settlement	**2,206**	8,866
Investment management, secretarial and administration fees	**1,307**	2,103
Finance costs payable	**157**	270
Accrued expenses	**724**	587
	15,388	31,937

15 Bank Loan – repayable after more than one year

	2022 £'000	2021 £'000
Fixed rate unsecured US dollar loan		
US dollar 100,000,000 fixed at a rate of 2.606%	**–**	72,474

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	**2022 £'000**	Number of shares	2021 £'000
Issued, allotted and fully paid				
Ordinary shares of 1 pence each held outside Treasury				
Beginning of the year	**515,463,483**	**5,155**	538,809,043	5,388
Ordinary shares repurchased into Treasury	**(1,506,074)**	**(15)**	(23,345,560)	(233)
End of the year	**513,957,409**	**5,140**	515,463,483	5,155
Ordinary shares of 1 pence each held in Treasury*				
Beginning of the year	**55,590,997**	**555**	32,545,437	325
Ordinary shares repurchased into Treasury	**1,506,074**	**15**	23,345,560	233
Ordinary shares cancelled from Treasury	**–**	**–**	(300,000)	(3)
End of the year	**57,097,071**	**570**	55,590,997	555
Total share capital		**5,710**		5,710

* 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.

During the year, the Company repurchased 1,506,074 (2021: 23,345,560) ordinary shares and held them in Treasury. The cost of repurchasing these shares of £4,448,000 (2021: £58,558,000) was charged to the other reserve.

Notes to the Financial Statements continued

17 Capital and Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total equity £'000
At 1 April 2021	**5,710**	**211,569**	**917**	**248,491**	**1,676,791**	**39,499**	**2,182,977**
Losses on investments (see Note 10)	–	–	–	–	**(603,831)**	–	**(603,831)**
Losses on derivative instruments (see Note 11)	–	–	–	–	**(160,189)**	–	**(160,189)**
Foreign exchange gains on other net assets	–	–	–	–	**1,429**	–	**1,429**
Foreign exchange losses on bank loan	–	–	–	–	**(3,569)**	–	**(3,569)**
Investment management fees (see Note 4)	–	–	–	–	**(15,659)**	–	**(15,659)**
Other expenses (see Note 5)	–	–	–	–	**(25)**	–	**(25)**
Finance costs (see Note 6)	–	–	–	–	**(4,989)**	–	**(4,989)**
Revenue profit on ordinary activities after taxation for the year	–	–	–	–	–	**33,049**	**33,049**
Dividend paid to shareholders (see Note 9)	–	–	–	–	–	**(24,124)**	**(24,124)**
Repurchase of ordinary shares (see Note 16)	–	–	–	**(4,448)**	–	–	**(4,448)**
At 31 March 2022	**5,710**	**211,569**	**917**	**244,043**	**889,958**	**48,424**	**1,400,621**

The capital reserve balance at 31 March 2022 includes investment holding losses on investments of £265,007,000 (2021: gains of £465,708,000) as detailed in Note 10 above. See Note 2 (s) above for further details.The revenue, capital and other reserves are distributable by way of dividend.

18 Net Asset Value per Ordinary Share

	2022	2021
Net assets	**£1,400,621,000**	£2,182,977,000
Ordinary shares held outside of Treasury at year end	**513,957,409**	515,463,483
Net asset value per ordinary share	**272.52p**	423.50p

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per share or at a premium to net asset value per 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 Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are geopolitical, regulatory and capital market, economic (including pandemic), business continuity, investment performance (including gearing), unlisted securities, market and currency, discount (including investor perception of China), environmental, social and governance ("ESG") and climate and people 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 on pages 33 to 36.

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, convertible bonds and rights issues;
- 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 13 above.

Interest rate risk exposure

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

	2022 £'000	2021 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	**562,432**	711,829
Bank loan	**76,043**	72,474
	638,475	784,303
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	**14,069**	100,849
Amounts held at futures clearing houses and brokers	**32,220**	19,872
Cash at bank	**73,673**	66,404
	119,962	187,125
Net exposure to financial instruments that bear interest	**518,513**	597,178

Notes to the Financial Statements continued

19 Financial Instruments continued

Foreign currency risk

The Company's profit/(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 loan;
- 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 investments, long positions on derivative instruments, short-term debtors and cash at bank. The currency exposure profile of these financial assets is shown below:

Currency	Investments held at fair value through profit or loss £'000	Asset exposure of long derivative instruments[1] £'000	Other receivables[2] £'000	Cash at bank £'000	2022 Total £'000
Chinese renminbi	287,250	–	–	48	287,298
Euro	10,977	–	–	–	10,977
Hong Kong dollar	553,457	313,964	40,791	71,767	979,979
Japanese yen	32,796	–	–	–	32,796
Singapore dollar	14,421	–	–	–	14,421
South Korean won	–	–	–	1	1
Taiwan dollar	18,452	–	208	8	18,668
UK sterling	21,493	–	204	–	21,697
US dollar	426,639	67,867	5,221	1,849	501,576
	1,365,485	381,831	46,424	73,673	1,867,413

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

19 Financial Instruments continued

Currency	Investments held at fair value through profit or loss £'000	Asset exposure of long derivative instruments[1] £'000	Other receivables[2] £'000	Cash at bank £'000	2021 Total £'000
Chinese renminbi	385,710	–	–	5,557	391,267
Hong Kong dollar	951,030	538,050	26,182	46,748	1,562,010
Japanese yen	21,049	–	–	–	21,049
South Korean won	–	–	–	6	6
Taiwan dollar	36,951	–	82	23	37,056
UK sterling	38,571	–	129	–	38,700
US dollar	733,964	(36,694)	16,228	14,070	727,568
	2,167,275	501,356	42,621	66,404	2,777,656

1 The 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	**Asset exposure of short derivative instruments* £'000**	**US dollar bank loan £'000**	**Other payables £'000**	**2022 Total £'000**
Hong Kong dollar	**8,403**	**–**	**12,064**	**20,467**
UK sterling	**–**	**–**	**1,773**	**1,773**
US dollar	**9,842**	**76,043**	**1,551**	**87,436**
	18,245	**76,043**	**15,388**	**109,676**

Currency	Asset exposure of short derivative instruments* £'000	US dollar bank loan £'000	Other payables £'000	2021 Total £'000
Hong Kong dollar	54,606	–	22,915	77,521
Japanese yen	–	–	366	366
UK sterling	–	–	2,443	2,443
US dollar	31,628	72,474	6,213	110,315
	86,234	72,474	31,937	190,645

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

Notes to the Financial Statements continued

19 Financial Instruments continued

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 Manager is 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 Manager's 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 (2021: US$100,000,000) until 14 February 2023. The current borrowing is shown in Note 13 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 Manager employs, 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 2022, £21,395,000 (2021: £15,589,000) was held by the brokers in cash denominated in US dollars in a segregated collateral account, on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised: J.P. Morgan Securities plc £15,836,000 (2021: £2,058,000), Goldman Sachs International Ltd £5,559,000 (2021: £4,153,000), UBS AG £nil (2021: £6,639,000) and Morgan Stanley & Co. International Ltd £nil (2021: £2,739,000). As at 31 March 2022, £32,220,000 (2021: £19,872,000), 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: UBS AG £27,437,000 (2021: £14,117,000) in cash, Morgan Stanley & Co. International Ltd £3,977,000 (2021: £nil) in cash and HSBC Bank plc £806,000 (2021: £5,755,000) 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 Company 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:

19 Financial Instruments continued

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**	**Related amounts not set off on balance sheet: Margin account received as collateral £'000**	**2022 Net amount £'000**
CFDs	**20,951**	**–**	**20,951**	**(7,240)**	**(13,711)**	**–**
Options	**3,043**	**–**	**3,043**	**–**	**(3,043)**	**–**
	23,994	**–**	**23,994**	**(7,240)**	**(16,754)**	**–**

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**	**Related amounts not set off on balance sheet: Margin account pledged as collateral £'000**	**2022 Net amount £'000**
CFDs	**(15,133)**	**–**	**(15,133)**	**7,240**	**4,950**	**(2,943)**
Futures (exchange traded)	**(2,391)**	**–**	**(2,391)**	**–**	**2,391**	**–**
	(17,524)	**–**	**(17,524)**	**7,240**	**7,341**	**(2,943)**

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	Related amounts not set off on balance sheet: Margin account received as collateral £'000	2021 Net amount £'000
CFDs	23,442	–	23,442	(12,025)	(9,410)	2,007
Put options	9,854	–	9,854	–	(6,423)	3,431
	33,296	–	33,296	(12,025)	(15,833)	5,438

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	Related amounts not set off on balance sheet: Margin account pledged as collateral £'000	2021 Net amount £'000
CFDs	(18,003)	–	(18,003)	12,025	5,755	(223)
Futures (exchange traded)	(4,205)	–	(4,205)	–	4,205	–
	(22,208)	–	(22,208)	12,025	9,960	(223)

Notes to the Financial Statements continued

19 Financial Instruments continued

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 Manager 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 Manager. Exposure to credit risk arises on outstanding security transactions and 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 Manager. 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 Manager believes 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 Manager 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 £1,106,000 (2021: decreased the profit after taxation and decreased the net assets by £1,312,000). 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 (2021: decreased the profit after taxation and decreased the net assets) by the following amounts:

Currency	**2022 £'000**	2021 £'000
Chinese renminbi	**26,118**	35,570
Euro	**998**	–
Hong Kong dollar	**87,228**	134,953
Japanese yen	**2,982**	1,880
Singapore dollar	**1,311**	–
South Korean won	**–**	1
Taiwan dollar	**1,697**	3,369
US dollar	**37,649**	56,114
	157,983	231,887

19 Financial Instruments continued

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 (2021: increased the profit after taxation and increased the net assets) by the following amounts:

Currency	2022 £'000	2021 £'000
Chinese renminbi	**31,922**	43,474
Euro	**1,220**	–
Hong Kong dollar	**106,613**	164,943
Japanese yen	**3,644**	2,298
Singapore dollar	**1,602**	–
South Korean won	**–**	1
Taiwan dollar	**2,074**	4,117
US dollar	**46,015**	68,584
	193,090	283,417

Other price risk sensitivity analysis

Changes in market prices affect the profit/(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 on pages 31 to 38.

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 £117,084,000 (2021: increased the profit after taxation and increased the net assets by £200,081,000). 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 £19,465,000 (2021: increased the profit after taxation and increased the net assets by £16,646,000). 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 £36,359,000 (2021: increased the profit after taxation and increased the net assets by £41,512,000). 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 at bank, 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.

		2022		2021
	Fair value £'000	**Book value £'000**	Fair value £'000	Book value £'000
Fixed rate unsecured loan of US dollar 100,000,000	**75,897**	**76,043**	74,224	72,474

Fair Value Hierarchy

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

Notes to the Financial Statements continued

19 Financial Instruments continued

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
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:

Financial assets at fair value through profit or loss	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**2022 Total £'000**
Investments	**1,103,568**	**67,267**	**194,650**	**1,365,485**
Derivative instrument assets	**2,843**	**21,151**	**–**	**23,994**
	1,106,411	**88,418**	**194,650**	**1,389,479**
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	**(2,391)**	**(15,133)**	**–**	**(17,524)**
Financial liabilities at fair value				
Bank loan	**–**	**(75,897)**	**–**	**(75,897)**

Financial assets at fair value through profit or loss	Level 1 £'000	Level 2 £'000	Level 3 £'000	2021 Total £'000
Investments	1,954,626	46,185	166,464	2,167,275
Derivative instrument assets	1,098	32,198	–	33,296
	1,955,724	78,383	166,464	2,200,571
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(4,205)	(18,003)	–	(22,208)
Financial liabilities at fair value				
Bank loan	–	(74,224)	–	(74,224)

19 Financial Instruments continued

Level 3 Investments (unlisted and delisted investments)

	2022 £'000	2021 £'000
Pony.ai	**41,134**	28,939
DJI International	**32,363**	23,086
Venturous Holdings	**27,831**	25,366
Chime Biologics	**27,081**	25,366
ByteDance	**25,773**	15,204
Tuhu Car	**14,296**	–
Cutia Therapeutics	**10,720**	–
Beisen	**10,656**	–
Xiaoju Kuaizhi (Didi Chuxing)	**4,796**	17,203
SenseTime (moved to Level 2)	**–**	19,198
Full Truck Alliance (moved to Level 1)	**–**	12,102
Shanghai Yiguo	**–**	–
4 listed investments whose listings are currently suspended	**–**	–
	194,650	166,464

Pony.ai

Pony.ai develops artificial intelligence and autonomous driving technology solutions for transportation and is an unlisted company. The valuation at 31 March 2022 is based on a review of a funding round in January 2022 at a US$8.5 billion valuation, the company's financial performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £41,134,000 (book cost: £24,892,000).

DJI International

DJI International is a manufacturer of drones and is an unlisted company. The valuation at 31 March 2022 is as follows: the D shares valuation is based on the strike price of the put option in place and the B shares valuation is based on the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £32,363,000 (book cost: £22,416,000).

Venturous Holdings

Venturous Holdings is an investment company with a focus in smart city technology companies and is an unlisted company. The valuation at 31 March 2022 is based on a review of the company's portfolio including performance, the wider macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £27,831,000 (book cost: £26,029,000).

Chime Biologics

Chime Biologics is a China-based Contract Development and Manufacturing Organization (CDMO) that provides a solution supporting customers from early-stage biopharmaceutical development through late-stage clinical and commercial manufacturing and is an unlisted company. The valuation at 31 March 2022 is based on analysis of the company performance, the terms of the convertible note and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £27,081,000 (book cost: £25,227,000).

Notes to the Financial Statements continued

19 Financial Instruments continued

ByteDance

ByteDance develops application software and is an unlisted company. The valuation at 31 March 2022 is based on the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £25,773,000 (book cost: £7,361,000).

Tuhu Car

Tuhu Car is an online retailer of automobile spare parts and is an unlisted company. The valuation at 31 March 2022 is based on the cost of the investment when it was purchased in June 2021 with consideration given to the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £14,296,000 (book cost: £13,129,000).

Cutia Therapeutics

Cutia Therapeutics is a specialty pharmaceutical company and is an unlisted company. The valuation at 31 March 2022 is based on the cost of the investment when it was purchased in September 2021 with consideration given to the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £10,720,000 (book cost: £10,266,000).

Beisen

Beisen is a Chinese talent management company that offers talent management and measurement solutions and is an unlisted company. The valuation at 31 March 2022 is based on the cost of the investment when it was purchased in April 2021 with consideration given to the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2022, its fair value was £10,656,000 (book cost: £11,758,000).

Xiaoju Kuaizhi (Didi Chuxing)

Xiaoju Kuaizhi (Didi Chuxing) is a leading Chinese e-commerce company providing transport services. The Company holds unlisted preference shares awaiting conversion to American Depositary Shares (ADS). The valuation at 31 March 2022 is based on the price of the ADS with a conversion rate applied. As at 31 March 2022, its fair value was £4,796,000 (book cost: £9,971,000).

Since the year ended 31 March 2022, the company's preference shares have been converted to ADS shares. See Note 22 for further details.

Shanghai Yiguo

Shanghai Yiguo operates an e-commerce platform, selling fruit and vegetables online to customers in China and is an unlisted company. The company has commenced liquidation proceedings and following internal review, the valuation at £nil remained appropriate as at 31 March 2022 (book cost: £11,806,000).

Companies whose listings are suspended

Four listed companies in the portfolio have had their listing suspended: DBA Telecommunication (Asia) Limited (suspended July 2014), China Animal Healthcare Limited (suspended March 2015), BNN Technology Limited (suspended September 2017) and G3 Exploration (suspended October 2020). As at 31 March 2022, each holding has been valued at £nil.

Significant holdings

Details of significant holdings are noted below in accordance with the disclosure requirements of paragraph 82 of the AIC SORP. The Company is required to provide a list of all investments at the balance sheet date with a value greater than 5% if its portfolio and at least the ten largest investments, including the value of each investment, and for unlisted investments included in the list, additional detail is required as shown below. This disclosure includes turnover, pre-tax profits and net assets attributable to investors, as reported within the most recently audited financial statements of the investee companies.

	Latest Financial Statements	Proportion of capital owned	Income recognised from the holding in the year	Turnover US$'000	Pre-tax profit/(loss) US$'000	Net assets attributable to shareholders US$'000
Pony.ai	n/a	0.95%	nil	Information not publicly available		
DJI International	n/a	0.19%	nil	Information not publicly available		
Venturous Holdings	n/a	26.70%	nil	Information not publicly available		

19 Financial Instruments continued

Movements in level 3 investments during the year	2022 Level 3 £'000	2021 Level 3 £'000
Level 3 investments at the beginning of the year	**166,464**	81,146
Purchases at cost	**35,153**	63,847
Transfers out of level 3 at cost – Full Truck Alliance and SenseTime*	**(26,330)**	–
Unrealised profits recognised in the Income Statement	**19,363**	21,471
Level 3 investments at the end of the year	**194,650**	166,464

* 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 on pages 31 and 32. The principal risks and their management are disclosed in the Strategic Report on pages 33 to 36 and in Note 19 above.

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

	2022			
	Gross gearing		Net gearing	
	Exposure £'000	%[1]	Exposure £'000	%[1]
Investments	1,365,485	97.5	1,365,485	97.5
Long CFDs	568,330	40.6	568,330	40.6
Call options	2,642	0.2	2,642	0.2
Total long exposures before hedges	**1,936,457**	**138.3**	**1,936,457**	**138.3**
less: short derivative instruments hedging the above	(189,141)	(13.5)	(189,141)	(13.5)
Total long exposures after the netting of hedges	**1,747,316**	**124.8**	**1,747,316**	**124.8**
Short CFDs	14,149	1.0	(14,149)	(1.0)
Put options	4,096	0.3	(4,096)	(0.3)
Gross Asset Exposure/net exposure	**1,765,561**	**126.1**	**1,729,071**	**123.5**
Net Assets	**1,400,621**		**1,400,621**	
Gearing[2]		**26.1%**		**23.5%**

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

Notes to the Financial Statements continued

20 Capital Resources and Gearing continued

	2021			
	Gross gearing		Net gearing	
	Exposure £'000	%[1]	Exposure £'000	%[1]
Investments	2,167,275	99.3	2,167,275	99.3
Long CFDs	707,808	32.4	707,808	32.4
Total long exposures before hedges	2,875,083	131.7	2,875,083	131.7
less: short derivative instruments hedging the above	(206,452)	(9.4)	(206,452)	(9.4)
Total long exposures after the netting of hedges	2,668,631	122.3	2,668,631	122.3
Short CFDs	82,102	3.7	(82,102)	(3.7)
Put options	4,132	0.2	(4,132)	(0.2)
Gross Asset Exposure/net exposure	2,754,865	126.2	2,582,397	118.4
Net Assets	2,182,977		2,182,977	
Gearing[2]		26.2%		18.4%

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

21 Transactions with the Manager 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. Both are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report on page 40. During the year, management fees of £19,643,000 (2021: £18,591,000), and accounting, administration and secretarial fees of £nil (2021: £100,000) were payable to the Manager. At the Balance Sheet date, management fees of £1,307,000 (2021: £2,094,000), and accounting, administration and secretarial fees of £nil (2021: £8,000) were accrued and included in other payables. Fidelity also provides the Company with marketing services. The total amount payable for these services was £264,000 (2021: £195,000). At the Balance Sheet date, marketing services of £4,000 (2021: £17,000) were accrued and included in other payables.

Disclosures of the Directors' interests in the 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 on pages 50 and 51. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £19,000 (2021: £17,000) of employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £15,000 (2021: £14,000) were accrued and payable.

22 Post Balance Sheet Event

Subsequent to the year ended 31 March 2022, the Company elected to convert its holding of unlisted preference shares in Xiaoju Kuaizhi (Didi Chuxing) to listed American Depositary Shares (ADS). There was no impact on the net assets of the Company as a result of this conversion. Subsequently, the company announced its plans to delist from the New York Stock Exchange with the purpose of relisting on another exchange.

Alternative Performance Measures

Discount/Premium

The discount/premium is considered to be an Alternative Performance Measure. It is the difference between the NAV of the Company and the share price and is expressed as a percentage of the NAV. Details of the Company's discount/premium are on the Financial Highlights page and are both defined in the Glossary of Terms on pages 102 and 103.

Gearing

Gearing is considered to be an Alternative Performance Measure. See Note 20 on pages 93 and 94 for details of the Company's gearing.

Net Asset Value ("NAV") per Ordinary Share

The NAV per Ordinary Share is considered to be an Alternative Performance Measure. See the Balance Sheet on page 67 and Note 18 on page 82 for further details.

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.

	2022 £'000	2021 £'000
Investment management fees (£'000)	**15,937**	16,475
Other expenses (£'000)	**1,418**	1,368
Ongoing charges (£'000)	**17,355**	17,843
Variable management fees (£'000)	**3,706**	2,116
Average net assets (£'000)	**1,848,490**	1,836,578
Ongoing charges ratio	**0.94%**	0.97%
Ongoing charges ratio including variable management fees	**1.14%**	1.09%

Revenue, Capital and Total Earnings per Share

Revenue, capital and total earnings per share are considered to be Alternative Performance Measures. See the Income Statement on page 65 and Note 8 on page 77 for further details.

Alternative Performance Measures continued

Total Return Performance

Total return performance is considered to be an Alternative Performance Measure. NAV per share 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 share and share prices of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 March 2022 and 31 March 2021.

2022	**Net asset value per share**	**Share price**
31 March 2021	**423.50p**	**419.00p**
31 March 2022	**272.52p**	**252.00p**
Change in the year	**-35.7%**	**-39.9%**
Impact of dividend reinvestment	**+0.8%**	**+0.7%**
Total return for the year	**-34.9%**	**-39.2%**

2021	Net asset value per share	Share price
31 March 2020	236.27p	216.00p
31 March 2021	423.50p	419.00p
Change in the year	+79.2%	+94.0%
Impact of dividend reinvestment	+2.7%	+3.2%
Total return for the year	+81.9%	+97.2%

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity China Special Situations PLC will be held at 155 Bishopsgate, London EC2M 3YD on Wednesday, 20 July 2022 at 11.00 am for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 March 2022.
2. To declare that a final dividend for the year ended 31 March 2022 of 5.50 pence per ordinary share be paid to shareholders who appear on the register as at close of business on 17 June 2022.
3. To re-elect Mr Mike Balfour as a Director.
4. To re-elect Mr Alastair Bruce as a Director.
5. To re-elect Mrs Vanessa Donegan as a Director.
6. To elect Ms Georgina Field as a Director.
7. To re-elect Dr Linda Yueh as a Director.
8. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 49) for the year ended 31 March 2022.
9. To approve the Remuneration Policy as stated in the Directors' Remuneration Report on page 49.
10. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
11. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following special business resolutions of which Resolution 12 will be proposed as an ordinary resolution and Resolutions 13 and 14 as special resolutions.

Authority to Allot Shares and Disapply Pre-Emption Rights
Resolutions 12 and 13 will, if approved, authorise the Directors to allot a limited number of ordinary shares (or sell any ordinary shares which the Company elects to hold in Treasury) for cash without first offering such shares to existing ordinary shareholders pro-rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company (including Treasury shares) in issue on 30 May 2022. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority in order to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so. Any ordinary shares held in Treasury would be re-issued at no less than net asset value ("NAV") per ordinary share, or at a premium to NAV per ordinary share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per ordinary share.

12. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company ("relevant securities") up to an aggregate nominal amount of £571,054 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 30 May 2022) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authority to expire at the conclusion of the next Annual General Meeting ("AGM") of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.
13. THAT, subject to the passing of Resolution 12, as set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 12 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £571,054 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 30 May 2022); and

    b) by the condition that allotments of equity securities or sales of Treasury shares may only be made pursuant to this authority at a price of not less than the NAV per ordinary share.

    and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this resolution had not expired.

Authority to Repurchase Shares
Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue (excluding Treasury shares) on 30 May 2022, either for immediate cancellation or for retention as Treasury shares, at the determination of the Board. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. Purchases of ordinary shares will be at the discretion of the Directors and

Notice of Meeting continued

within guidelines set by them from time to time in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per ordinary share, thereby resulting in an increased NAV per ordinary share.

14. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 1 pence each (the "shares") in the capital of the Company provided that

    a) the maximum number of shares hereby authorised to be purchased shall be 76,965,549;

    b) the minimum price which may be paid for an ordinary share is 1 pence;

    c) the maximum price (excluding expenses) which may be paid for each share is the higher of:

        (i) 5% above the average of the middle market quotations for the shares as derived from the London Stock Exchange Official List for the five business days preceding the date of purchase; and

        (ii) the higher of the price of the last independent trade and the highest current independent purchase bid on the London Stock Exchange at the time the purchase is carried out;

    d) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company unless such authority is renewed prior to such time; and

    e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board
FIL Investments International
Secretary
30 May 2022

Notes to the Notice of Meeting:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies to attend and to speak and vote instead of him or her. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. To appoint a proxy via the share portal at **www.signalshares.com**, you will need to log in to your share portal account or register if you have not previously done so. To register you will need your Investor Code which can be found on your Form of Proxy.

2. A Form of Proxy is enclosed and must be returned to the Registrar at the address on the form to arrive not later than 11.00 am on Monday, 18 July 2022. Completion and return of the Form of Proxy will not prevent a shareholder from subsequently attending the meeting and voting in person or virtually if they so wish.

3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrar, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds LS1 4DL not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.

4. In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.

5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11.00 am on Monday, 18 July 2022, For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company's Registrar no later than 11.00 am on Monday, 18 July 2022.

6. Proxymity Voting – If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to **www.proxymity.io**. Your proxy must be lodged by no later than 11.00 am on Monday 18 July 2022 in order to be considered valid. Before you can appoint a proxy via this process, you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

7. All members are entitled to attend and vote at the AGM and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at close of business on Monday, 18 July 2022. Shareholders are urged to vote using the Form of Proxy provided or electronically where permitted by your nominee or platform.

8. The Company is pleased to be able to offer facilities for shareholders to attend, ask questions and vote at the AGM electronically in real time should they wish to do so. The details are set out below.

   In order to join the AGM electronically and ask questions via the platform, shareholders will need to connect to the following site: **https://web.lumiagm.com**. Lumi is available as a mobile web client, compatible with the latest browser versions of Chrome, Firefox, Edge and Safari and can be accessed using any web browser, on a PC or smartphone device.

   Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will be asked to enter the **Lumi Meeting ID** which is **152-195-444**. You will then be prompted to enter your unique 11 digit Investor Code ("IVC") including any leading zeros and 'PIN'. Your PIN is the last 4 digits of your IVC. This will authenticate you as a shareholder.

   Your IVC can be found on your share certificate or as detailed on your proxy form. Signal Shares users (**www.signalshares.com**) will find this under 'Manage your account' when logged in to the Signal Shares portal. You can also obtain this by contacting Link, our Registrar, by calling **+44 (0) 371 277 1020***.

   Access to the AGM will be available from **30 minutes before the meeting start time**, although the voting functionality will not be enabled until the Chairman of the meeting declares the poll open. During the AGM, you must ensure you are connected to the internet at all times in order to vote when the Chairman commences polling on the Resolutions. Therefore, it is your responsibility to ensure connectivity for the duration of the AGM via your wi-fi. A user guide to the Lumi platform is available on the Company's pages of the Manager's website at: **www.fidelity.co.uk/china**.

   If you wish to appoint a proxy other than the Chairman of the meeting and for them to attend the virtual meeting on your behalf, please submit your proxy appointment in the usual way before contacting Link Group on **+44 (0) 371 277 1020*** in order to obtain their IVC and PIN. It is suggested that you do this as soon as possible and at least 48 hours (excluding non-business days) before the meeting.

   If your shares are held within a nominee / platform and you wish to attend the electronic meeting, you will need to contact your nominee as soon as possible. Your nominee will need to present a corporate letter of representation to Link Group, the Registrar, as soon as possible and at least 72 hours (excluding non-business days) before the meeting, in order that they can obtain for you your unique IVC and PIN to enable you to attend the electronic meeting.

   If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **152-195-444**. You should then select the 'Guest Access' option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

   *Lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday, excluding public holidays in England and Wales. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate.

9. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in Note 1 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

10. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.

11. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), members must be entered on the Register of Members by close of business on Monday, 18 July 2022. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.

12. As at 30 May 2022 (the latest practicable date prior to the publication of this document), the Company's issued share capital consisted of 571,054,480 ordinary shares. The number of shares held by the Company in Treasury was 57,608,521. Therefore, the total number of shares with voting rights in the Company was 513,445,959.

Notice of Meeting continued

13. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

14. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.

15. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that is to be laid before the AGM or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with such requests. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.

16. No Director has a service contract with the Company.

17. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at **www.fidelity.co.uk/china**.

Registered office: Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Glossary to the Annual Report

AAF REPORT
A report prepared in accordance with the Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

ADR (AMERICAN DEPOSITARY RECEIPT)
A negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock that is traded on a US Exchange.

AIC
The Association of Investment Companies ("AIC"). The Company is a member of the AIC.

AIF
Alternative Investment Fund ("AIF"). The Company is an AIF.

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

AIFMD
The Alternative Investment Fund Managers Directive ("AIFMD") is a European Union Directive implemented on 22 July 2014.

AIM (ALTERNATIVE INVESTMENT MARKET)
A sub-market designed to help smaller companies access capital from the public market. AIM allows these companies to raise capital by listing on a public exchange with greater flexibility compared to the main market.

ALTERNATIVE PERFORMANCE MEASURES
The Company uses the following Alternative Performance Measures which are all defined in this Glossary:

- Discount/Premium;
- Gearing;
- Net Asset Value (NAV) per Ordinary Share;
- Ongoing Charges;
- Revenue, Capital and Total Earnings per share; and
- Total Return Performance (Net Asset Value Total Return or Share Price Total Return).

ASSET EXPOSURE
The value of an underlying security or instrument to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of derivatives).

AUDITOR
Ernst & Young LLP, or such other auditor, as the Company may appoint from time to time.

BENCHMARK INDEX
MSCI China Index total return (in UK sterling terms) and is a composite of China "A", "B", "H", "Red Chip" and "P Chip" share classes and foreign listings (e.g. ADRs).

BROKER
The Company's Broker is Peel Hunt LLP.

CHINA "A" SHARES
Shares traded on the Chinese Stock Exchanges in Chinese renminbi. Foreign investors were unable to participate in the China "A" Shares market until the introduction of the QFII program in 2002 which provided a legal framework for licensed QFIIs to invest in China "A" Shares on the Chinese Stock exchanges and certain other securities previously not eligible for investment by foreign investors.

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

CHINA "H" SHARES
Shares in companies incorporated in the PRC and listed on the Hong Kong Stock Exchange. They are available to non-Chinese investors and are traded in Hong Kong dollars on the Hong Kong Stock Exchange.

CHINESE RENMINBI
Currency of the PRC.

CHINESE STOCK EXCHANGES
The Shanghai Stock Exchange, the Shenzhen Stock Exchange and any other stock exchange located within the PRC from time to time.

CHINEXT
ChiNext is a NASDAQ-style board of the Shenzhen Stock Exchange for innovative and fast-growing companies, especially high-tech companies. It started trading in October 2009. The MSCI added stocks trading on Shenzhen's ChiNext board to its indexes for the first time in May 2019, allowing foreign investors to tap the tech-focused board by investing in the indexes.

COLLATERAL
Assets provided as security.

CONTRACT FOR DIFFERENCE (CFD)
A contract for difference is a derivative. It is a contract between the Company and an investment bank at the end of which the parties exchange the difference between the opening price and the closing price of the underlying asset of the specified financial instrument. It does not involve the Company buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A contract for difference allows the Company to gain access to the movement in the share price by depositing a small amount of cash known as margin. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the Company holds long positions, dividends are received and interest is paid. If the Company holds short positions, dividends are paid and interest is received.

Glossary to the Annual Report continued

CUSTODIAN
An entity that holds (as intermediary) the Company's assets, arranges the settlement of transactions and administers income, proxy voting and corporate actions. The Company's Custodian is JPMorgan Chase Bank.

DEBT
Bank borrowings and long contracts for difference.

DEPOSITARY
An entity that oversees the custody, cash arrangements and other AIFM responsibilities of the Company. J.P. Morgan Europe Limited act as the Company's Depositary.

DERIVATIVES
Financial instruments whose value is derived from the value of an underlying asset or other financial instruments. The main categories of derivatives are contracts for difference, warrants, futures and options.

DISCOUNT
If the share price of the Company is lower than the net asset value per ordinary share, the Company's shares are said to be trading at a discount. It is shown as a percentage of the net asset value per ordinary share.

EARNINGS
The earnings generated in a given period from investments:

- **Revenue Earnings** – reflects the dividends and interest from investments and other income, net of expenses, finance costs and taxation;
- **Capital Earnings** – reflects the return on capital, excluding any revenue earnings; and
- **Total Earnings** – reflects the aggregate of revenue and capital earnings.

EQUITY LINKED NOTES (ELNS)
Debt instruments whose return on investment is linked to specific equities or equity markets. The return on equity linked notes may be determined by an equity index, a basket of equities, or a single equity.

FAIR VALUE
The carrying value in the Balance Sheet which represents the amount that would be received or paid on disposal of the financial asset or liability.

FIL
FIL Limited and each of its subsidiaries.

FIL LIMITED
The ultimate parent company of the FIL Group of companies. Incorporated in Bermuda.

FIDELITY
FIL Investments International.

FORWARD CURRENCY CONTRACT
An agreement to buy or sell a currency, commodity or other asset at a specified future date and at a predetermined price.

FUTURE OR FUTURE CONTRACT
An agreement to buy or sell a stated amount of a security, currency or commodity at a specific future date and at a pre-agreed price.

GROSS ASSET EXPOSURE
The value of the portfolio to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of the derivatives, but excluding forward currency contracts).

GROSS GEARING
Gross Asset Exposure in excess of Net Assets.

HEDGING
A hedge position demonstrates risk reduction qualities by delivering short exposure to an asset which has regional congruence and a correlation of at least 80% to long exposures in the Company's portfolio. It therefore distinguishes itself from a "short" which is a position not opened with the objective of reducing the long exposure in the portfolio. Qualifying hedge exposures do not count towards the short exposure limits. For the purposes of calculating Gross Asset Exposure, the exposure attributed to the hedge positions will be deducted from the exposure of the corresponding long positions. Short positions are added to long positions in arriving at the Gross Asset Exposure.

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

INITIAL PUBLIC OFFERING (IPO)
An initial public offering ("IPO") is the first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded.

INVESTMENT MANAGER
FIL Investment Management (Hong Kong) Limited.

KROLL
Kroll (previously Duff & Phelps) provides an objective and independent assessment of value using sophisticated valuation methodologies. It constantly monitors changing regulations and consistently provides input to Accounting Standards Boards as they develop implementation guidance and new financial reporting rules with valuation implications.

LINK GROUP
The Company's Registrar.

MANAGEMENT AGREEMENT
The agreement between FIL Investment Management (Hong Kong) Limited and the Company regarding the management of the Company's investments.

MANAGER
FIL Investment Services (UK) Limited is the appointed Manager under the Alternative Investment Fund Managers' Directive ("AIFMD") and has delegated the investment management of the Company to the Investment Manager.

MSCI CHINA INDEX
The Benchmark Index of the investment performance of the Company, in UK sterling terms.

MSCI CHINA MID CAP INDEX
Designed to measure the performance of the mid cap segment of the China market. The Index represents approximately 15% of the free float-adjusted market capitalisation of the China equity universe.

MSCI CHINA SMALL CAP INDEX
Designed to measure the performance of the small cap segment of the China market. The Index represents approximately 14% of the free float-adjusted market capitalisation of the China equity universe.

NASDAQ
A global electronic marketplace for buying and selling securities, as well as the benchmark index for US technology stocks.

NET ASSETS
The value of the Company's assets minus its liabilities.

NET ASSETS PLUS BORROWINGS
Net Assets plus bank loans.

NET ASSET VALUE (NAV)
Net asset value is sometimes described as "Shareholders' Funds" and is the total value of the Company's assets less the total value of its liabilities. For valuation purposes, it is common to express the Net asset value on a per ordinary share basis.

NET ASSET VALUE (NAV) PER ORDINARY SHARE
The NAV per ordinary share is calculated as Shareholders' Funds divided by the number of ordinary shares in issue.

NET GEARING
Net Gearing is the total of all long exposures, less short exposures and less exposures hedging the portfolio in excess of Net Assets.

NET MARKET EXPOSURE
Net Market Exposure is the total of all long exposures, less short exposures and less exposures hedging the portfolio.

ONGOING CHARGES (EXCLUDING VARIABLE MANAGEMENT FEE ELEMENT)
Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of the average daily net asset values for the reporting year.

OPTIONS
An option is a contract which gives the right but not the obligation to buy or sell an underlying asset at an agreed price on or before an agreed date. Options may be call or put and are used to gain or reduce exposure to the underlying asset on a conditional basis.

P CHIPS
Companies controlled by mainland China individuals, with the establishment and origin of the company in mainland China. P Chips are incorporated outside of the PRC and traded on the Stock Exchange of Hong Kong with a majority of revenues or assets derived from mainland China.

PEEL HUNT LLP
The Company's Broker.

PORTFOLIO
The Company's portfolio which may be made up of equities, index linked securities, equity linked notes and other debt securities, cash deposits, money market instruments, foreign currency exchange transactions and other interests including derivatives (such as futures, options and contracts for difference).

PORTFOLIO MANAGER
Dale Nicholls is the appointed Portfolio Manager of the Company and is responsible for managing the Company's assets.

PRC
The People's Republic of China (excluding Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC).

PRE-EMPTION RIGHTS
Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held, to existing shareholders. At each annual general meeting, the Board seeks shareholder approval to disapply pre-emption right provision, up to 10% of the Company's issued share capital.

PREMIUM
If the share price of the Company is higher than the net asset value per ordinary share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the net asset value per ordinary share.

PROSPECTUS
The Prospectus of the Company dated 7 January 2011.

QFII
The Investment Manager is a QFII (a Qualified Foreign Institutional Investor) and as such has been granted a QFII licence by the China Securities Regulatory Commission ("CSRC") which permits the Company to invest in China "A" Shares through the Investment Manager and has received an allocation of quota for onshore investment from the State Administration of Foreign Exchange of the PRC ("SAFE").

Glossary to the Annual Report continued

RED CHIPS
Companies incorporated outside China but which are based in mainland China. Red Chips are listed on, and are required to observe the filing and reporting requirements of the Hong Kong Stock Exchange. Red Chips typically have a significant portion of their business interests located in mainland China and many are owned, either directly or indirectly, by organisations or enterprises controlled by the Chinese state, provinces or municipalities.

REGISTRAR
The entity that manages the Company's shareholder register. The Company's Registrar is Link Group.

RESERVES
- **Share premium account** represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend and it cannot be used to fund share repurchases.
- **Capital redemption reserve** represents the nominal value of ordinary shares repurchased and cancelled. It cannot be used to fund share repurchases and is not distributable by way of dividend.
- **Other reserve** is a distributable premium reserve created on 21 April 2010 when High Court approval was given for the share premium account 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.
- **Capital reserve** represents realised gains or losses on investments and derivatives sold, unrealised 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.
- **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.

SECRETARY
FIL Investments International.

SHAREHOLDERS' FUNDS
Also described as Net Asset Value, Shareholders' Funds represent the total value of the Company's assets less the total value of its liabilities as shown in the balance sheet.

SHORT STOCK EXPOSURE
The position of the Company when it has sold a security or derivative that it does not own but is now committed to eventually purchase in order to satisfy its obligation to sell. It is a strategy used to capitalise on an expected decline in the security's or derivative's price.

SIZE OF COMPANY (MARKET CAP)
Large – above £5bn

Medium – between £1bn – £5bn

Small – below £1bn

TOTAL RETURN PERFORMANCE
The return on the share price or net asset value per ordinary share taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for ordinary share price total return) or the Company's assets (for net asset value total return).

TOTAL SHAREHOLDER RETURN (TSR)
Total shareholder return (TSR) is the total return of shares to shareholders, or the capital gains, plus dividends paid.

TREASURY SHARES
Ordinary Shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not receive dividends, have no voting rights and are excluded from the net asset value calculation.

UNLISTED COMPANIES
Companies not listed on a regulated stock exchange. They are stated at best estimate of fair value, based on recognised valuation techniques which may take account of recent arm's length transactions in the investments.

VARIABLE INTEREST ENTITY ("VIE")
A variable interest entity ("VIE") structure is designed to facilitate 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 the controlling interest is not based on having the majority of voting rights, there may be a risk to an investor of being unable to enforce their ownership rights in certain circumstances.

VARIABLE MANAGEMENT FEE (VMF)
The Company has a Variable Management Fee (VMF) structure. The base fee is on a tiered basis of 0.90% on the first £1.5 billion of Net Assets, reducing to 0.70% on Net Assets over £1.5 billion per annum plus a +/- 0.20% variation fee based on performance relative to the Company's Benchmark Index (the MSCI China Index). The maximum fee that the Company could pay if it outperforms is 1.10% on Net Assets up to £1.5 billion and reducing to 0.90% on Net Assets over £1.5 billion, but if the Company underperforms against the Benchmark Index, then the overall fee could have been as low as 0.70% on Net Assets up to £1.5 billion, reducing to 0.50% on Net Assets over 1.5 billion.

WARRANTS
A derivative security that gives the Company the right to purchase securities (usually equity) from the issuer at a specific price and within a certain time frame.

Shareholder Information

Investing in Fidelity China Special Situations PLC

Fidelity China Special Situations PLC is a company listed on the London Stock Exchange and you can buy its shares through a platform, stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in a way that is best for you. Details of how to invest and the latest Key Information Document can be found on the Company's pages of the Manager's website at **www.fidelity.co.uk/china**.

CONTACT INFORMATION

Shareholders and Fidelity's Platform Investors should contact the appropriate administrator using the contact details given below and in the next column. Links to the websites of major platforms can be found online at **www.fidelityinvestmenttrusts.com**.

Shareholders on the main share register

Contact Link Group, Registrar to Fidelity China Special Situations PLC, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Email: **enquiries@linkgroup.co.uk**

Telephone: **0371 664 0300** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Details of individual shareholdings and other information can also be obtained online from the Registrar's Share Portal at **www.signalshares.com**. Shareholders are able to manage their shareholding online by registering for the Share Portal, a free and secure online access service. Facilities include:

Account Enquiry – Shareholders can access their personal shareholding, including share transaction history, dividend payment history and obtain an up-to-date shareholding valuation.

Amendment of Standing Data – Shareholders can change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download forms such as change of address, stock transfer and dividend mandates as well as buy and sell shares in the Company.

Should you have any queries in respect of the Link Share Portal, contact the helpline on **0371 664 0391** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Fidelity Platform Investors

Contact Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity, PO Box 391, Tadworth, Surrey KT20 9FU.

Website: **www.fidelity.co.uk**

Private investors: call free on **0800 41 41 10**, 9:00 – 18:00, Monday to Saturday.

Financial advisers: call free on **0800 41 41 81**, 8:00 – 18:00, Monday to Friday.

General Enquiries

General enquiries should be made to the Secretary, at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Telephone: **01737 836347**

Email: **investmenttrusts@fil.com**

Website: **www.fidelityinvestmenttrusts.com**

If you hold Fidelity China Special Situations PLC shares in an account provided by Fidelity International, you will receive a report every six months detailing all of your transactions and the value of your shares.

ShareGift

You may donate your shares to charity free of charge through ShareGift. Further details are available at **www.sharegift.org.uk** or by telephoning **020 7930 3737**.

Shareholder Information continued

Managers and Advisors

Alternative Investment Fund Manager (AIFM/the Manager)
FIL Investment Services (UK) Limited
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

Investment Manager
FIL Investment Management (Hong Kong) Limited
Level 21
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Secretary and Registered Office
FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP
Email: **investmenttrusts@fil.com**

Banker and Custodian
JPMorgan Chase Bank (London Branch)
125 London Wall
London
EC2Y 5AJ

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

Financial Adviser and Stockbroker
Peel Hunt LLP
Moor House,
120 London Wall
London
EC2Y 5ET

Independent Auditor
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Lawyer
Charles Russell Speechlys LLP
5 Fleet Street
London
EC4M 7RD

Registrar
Link Group
10th Floor
29 Wellington Street
Leeds
LS1 4DL

Company Information
The Company's initial public offering was on 19 April 2010. The original subscription price for each share was £1. The Company also issued "C" shares of £1 each on 1 March 2011 and these were subsequently converted into new ordinary shares.

The Company is a member of the Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning **020 7282 5555** (email address: **enquiries@theaic.co.uk**).

Price Information
The share price of the Company is published daily in The Financial Times under the heading "Investment Companies". It is also published in the Times and The Daily Telegraph. Price and performance information is also available at **www.fidelity.co.uk/china**

Investors can also obtain current share price information by telephoning Fidelity for free on **0800 41 41 10** or FT Cityline on **0905 817 1690** (voice activated service) (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters Code for Fidelity China Special Situations PLC is FCSS, the SEDOL is B62Z3C7 and the ISIN is GB00B62Z3C74.

Net Asset Value ("NAV") Information
The Company's NAV is calculated and released to the London Stock Exchange on a daily basis.

Capital Gains Tax
All UK individuals under present legislation are permitted to have £12,300 of capital gains in the current tax year 2022/2023 (2021/2022: £12,300) before being liable for capital gains tax. Capital gains tax is charged at 10% and 20% dependant on the total amount of taxable income.

General Data Protection Regulation ("GDPR")

What personal data is collected and how it is used

The Company is an investment trust which is a public limited company and has certain regulatory obligations such as the requirement to send documents to its shareholders, for example, the Annual Report and other documents that relate to meetings of the Company. The Company will therefore collect shareholders' personal data such as names, addresses and identification numbers or investor codes and will use this personal data to fulfil its statutory obligations.

Any personal data collected will be kept securely on computer systems and in some circumstances on paper. Personal information is kept secure in line with Fidelity's Information Security policies and standards. If you are unhappy with how we have used your personal data, you can complain by contacting the UK Data Protection Officer at Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Sharing personal data

In order to assist the Company in meeting its statutory requirements, the Company delegates certain duties around the processing of this data to its third party service providers, such as the Company's Registrar and Printers. The Company has appointed Fidelity to undertake marketing activities for the Company and their privacy statement can be found on the Company's website at **https://investment-trusts.fidelity.co.uk/privacy-policy/**

The Company's agreements with the third party service providers have been updated to be compliant with GDPR requirements. The Company confirms to its shareholders that their data will not be shared with any third party for any other purpose, such as for marketing purposes. In some circumstances, it may be necessary to transfer shareholders' personal data across national borders to Fidelity Group entities operating in the European Economic Area ("EEA"). Where this does occur, the European standard of protections will be applied to the personal data that is processed. Where personal data is transferred within the Fidelity Group, but outside of the EEA, that data will subsequently receive the same degree of protection as it would in the EEA.

Retention Period

We will keep the personal data for as long as is necessary for these purposes and no longer than we are legally permitted to do so.

Requesting access, making changes to your personal data and other important information

Shareholders can access the information that the Company holds about them or ask for it to be corrected or deleted by contacting Fidelity's UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Managers' Directive ("AIFMD"), the Board has appointed FIL Investment Services (UK) Limited ("FISL") as the Company's Alternative Investment Fund Manager ("AIFM"). FISL has delegated the investment management to FIL Investment Management (Hong Kong) Limited ("FIMHK") and the company secretarial function to FIL Investments International ("FII"). Details of the current Management Agreement can be found in the Directors' Report on page 40.

The table below discloses information required by the Alternative Investment Fund Managers' Regulations 2013.

Function	AIFM Role and Responsibility	AIFMD Disclosure
Investment management	The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investment Management (Hong Kong) Limited. The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.	Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 31 and 32.
Risk management	The AIFM has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management. The Company has a Risk Management Process Document which is agreed with the Board and demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independence safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing. The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.	The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of risk management and internal controls and for reviewing its effectiveness. Further details can be found in the Strategic Report on pages 33 to 36 and in Note 19 to the Financial Statements on pages 83 to 93.
Valuation of illiquid assets	AIFMD requires the disclosure of the percentage of the Alternative Investment Fund's assets which are subject to special arrangements arising from their illiquid nature and any new arrangements for managing the liquidity of the Company.	As at the date of this report, none of the Company's assets is subject to special arrangements arising from its illiquid nature.

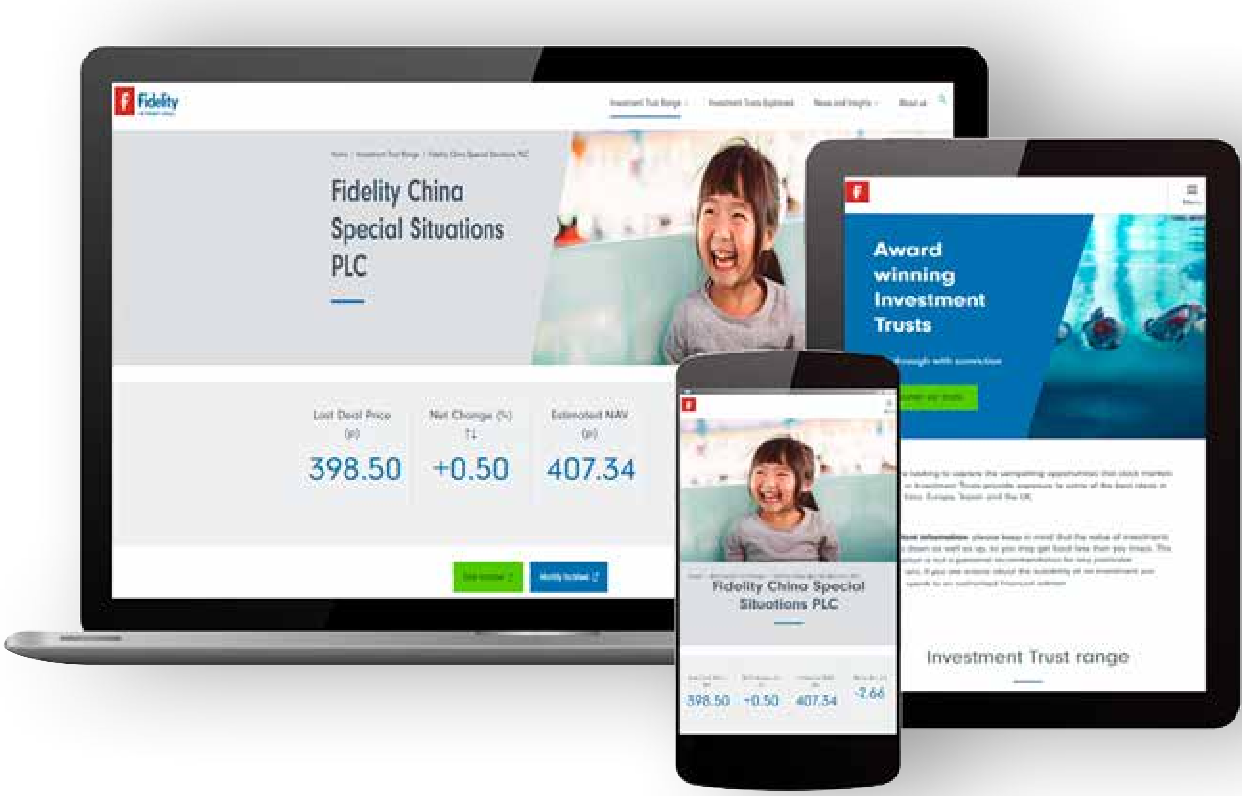
Function	AIFM Role and Responsibility	AIFMD Disclosure
Leverage	The Company uses leverage to increase its exposure primarily to the stock markets of China and currently holds long derivatives to achieve this. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times. There are two methods of calculating leverage – the Gross Method which does not reduce exposure for hedging; and the Commitment Method which does reduce exposure for hedging.	The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method. At 31 March 2022, actual leverage was 1.63 for the Gross Method and 1.46 for the Commitment Method.
Liquidity management	The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.	No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 19 on page 86.
Remuneration of the AIFM	The AIFM operates under the terms of Fidelity's Global Remuneration Policy Statement. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).	Details of Fidelity International's Global Remuneration Policy can be found at **www.fidelityinternational.com/global/remuneration/default.page**

EU Securities Financing Transactions Regulation ("SFTR")
The following disclosures relate to contracts for difference ("CFDs") held by the Company which may be considered Total Return Swaps under the SFTR, which came into force on 12 January 2016.

As at 31 March 2022, all CFDs were contracted bilaterally with open maturities:

Broker	Fair Value £'000	Percentage of Net Assets	Collateral held by the broker £'000	Collateral held by the Company £'000
Goldman Sachs International (UK)	751	0.05%	5,559	–
HSBC Bank plc (UK)	(273)	(0.02%)	–	806
J.P. Morgan Securities plc (UK)	12,960	0.93%	15,836	–
Morgan Stanley & Co International (UK)	(4,604)	(0.33%)	–	3,977
UBS AG (UK)	(3,016)	(0.22%)	–	167

Collateral held by the broker was denominated in US dollars and held in a segregated account on behalf of the Company with a maturity of one day. The total return for the year ended 31 March 2022 from CFDs was a loss of £198,997,000.



To find out more about Fidelity China Special Situations PLC, visit our new website www.fidelity.co.uk/china where you can read articles and watch videos on the Company.

www.fidelityinvestmenttrusts.com

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

The FSC® logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council®.

This document is printed on Cocoon Silk; a paper made using 50% recycled fibre from genuine waste paper and 50% virgin fibre.

The unavoidable carbon emissions generated during the manufacture and delivery of this document, have been reduced to net zero through a verified, carbon offsetting project.

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