FIDELITY CHINA SPECIAL SITUATIONS PLC

Final Results for the year ended 31 March 2024

Financial Highlights:

- The Board of Fidelity China Special Situations PLC (the "Company") recommends an annual dividend of 6.40 pence per share.
- During the year ended 31 March 2024, the Company reported a Net Asset Value ("NAV") total return of -16.3% and an ordinary share price total return of -16.4%.
- This was ahead of the Benchmark Index, the MSCI China Index, which returned a total return of -18.8% (in UK sterling terms) over the same period.
- Four of the top ten relative performers were in the consumer discretionary space, while the Portfolio Manager continues to find opportunities in the industrials sector.

Contacts

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Company Secretary
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FIL Investments International

CHAIRMAN'S STATEMENT

With global uncertainties and geopolitical concerns remaining heightened, as well as a softer-than-expected economy recovery in the wake of COVID restrictions being lifted, investors in China have once more faced a challenging year. Overall returns were negative during the year with the small consolation that your Company did manage again to outperform its Benchmark Index, the MSCI China Index (in UK sterling terms).

In the reporting year to 31 March 2024, the net asset value ("NAV") per share total return of your Company was -16.3%, while the Benchmark Index returned -18.8%. The share price total return was -16.4%. After widening during the previous financial year, the share price discount to NAV was relatively stable beginning the period at 9.7% and ending it at 10.2%. Noticeably Chinese companies – even in the state-owned sector – are becoming increasingly focused on rewarding minority shareholders, including through the payment of dividends. While we have always expected your Company to generate the majority of its returns from capital, dividends from underlying companies also make a meaningful contribution to the total return. This has helped us to grow the dividend paid each year since launch.

The current Chinese Year of the Dragon marks Dale Nicholls' 10th anniversary as your Portfolio Manager. While there have undoubtedly been ups and downs for investors during this time (particularly during 2021 and 2022), Dale has built an impressive record, with the NAV outperforming the Benchmark Index over one, five and 10 years. Over his tenure, he has generated a total shareholder return of 125.7% (NAV total return of 123.0%), some 75 percentage points ahead of the Benchmark Index return of 49.3%.

A notable event during the year was the transaction by your Company with the abrdn China Investment Company Limited ("ACIC"). The transaction was concluded on 14 March 2024 and provides benefits to both existing shareholders of Fidelity China Special Situations PLC ("FCSS") and former holders of ACIC. Upon conclusion of the transaction (which was supported by 99.9% of ACIC shareholders voting at their shareholders meeting) the Company's assets grew by £126m, which brings greater liquidity to our shares and a larger asset base (now well over £1 billion) over which to spread the Company's fixed costs, helping to otherwise reduce the level of ongoing charges for all investors. As part of the transaction, the Manager (FIL Investment Services (UK) Limited) contributed to the transaction costs, waiving eight months of management fees on the assets transferred from ACIC, thereby offsetting direct expenses to the Company. It also reduced the fee level at the higher tier of assets (above £1.5 billion) from 0.70% to 0.65%. This is expected to lower the ongoing costs of the Company further as it grows over the longer-term. We welcome the former ACIC shareholders and look forward to their continued support being rewarded. The very short-term experience since the transaction has been encouraging for both new and existing shareholders with the share price rising from 197.40 pence on 14 March 2024 to 222.00 pence per share on 31 May 2024, an increase of 12.5%.

The main driving force of the Chinese economy in the past 10 years has been investment – whether at the government, business or household level – leading to improvements in infrastructure, strong export growth and a property boom. In the current environment, export growth has weakened as a result of global supply chain diversification away from China as well as US trade reluctance (expressed via tariffs and sanctions), and infrastructure is now developed to the point where the marginal impact of additional investment is reduced. Concerns in the property market – particularly in the new-build sector, which has a stronger contribution to overall growth – have been well documented in recent years. With these three stalwarts of economic growth curtailed a 5% GDP growth target – would be a good outcome that underscores China's resilience. While a US plan to further restrict sales of advanced semiconductors to China adds an element of uncertainty, particularly in some areas of technology and automation, it is leading to a wave of Chinese invention and investment to compensate. So far, China has surprised in its ability to keep innovating in microchips in particular. It is also leading the world in electric vehicles, green energy technologies and battery technology and is making strong progress with AI. All these are becoming increasingly important industries that China could seek to lead globally in the future.

Meanwhile, the Chinese stock market remains one of the most lowly-valued large, liquid markets in the world. Market-level performance has been disappointing for three years now, and it is always difficult to know when share prices will start to reflect intrinsic value rather than being marked down on poor sentiment. However, the companies in the portfolio continue to show strong earnings growth, and we remain confident that the market will come to appreciate the value on offer in the future; it may already have started to happen. As ever, having a large research team on the ground in China is fundamental to success in seeking out the best opportunities, particularly among smaller and medium-sized companies, where the relatively higher growth potential has yet to be reflected in share prices, and investor awareness is low.

Being structured as a closed-ended investment company means that your Company does not have the liquidity constraints of an open-ended fund, and it can use this flexibility to invest in less liquid assets with a longer-term view of returns. Up to 15% of Net Assets plus Borrowings may be invested in unquoted companies (those not yet listed on a stock exchange), allowing the Manager to take advantage of the faster growth trajectory of earlier-stage businesses before they are potentially listed on the public markets. During the period under review, the number of unquoted companies held in the portfolio reduced from nine to six, following the IPOs of Beisen, Cutia Therapeutics and Tuhu Car in April, June and September 2023 respectively. Unlisted holdings now make up 12.8% of Net Assets, compared with 13.6% on 31 March 2023. If the Company were to reach the 15% limit in unquoted companies, it does not preclude us from further investment in existing holdings if fresh capital was required by them. However, with valuations in the listed equity market currently at historically low levels, Dale has said that any potential new private investments would have to be very attractive in order to win a place in the portfolio.

We have confidence in the strength of the detailed process for the valuation of our unlisted holdings. They are assessed regularly by Fidelity's dedicated Fair Value Committee ("FVC"), with advice from Kroll, a third-party valuation specialist, as well as from the Fidelity analysts who follow the companies and the sectors in which they operate. The valuation process is set out in more detail in the Annual Report. The Board receives regular updates from the FVC, with Alastair Bruce, our Audit and Risk Committee Chairman, also providing expertise in the area, having for many years been involved professionally in private equity investing.

The Board is mindful of the risks of investing in a single emerging market, however large and diverse it may be, and monitors both current risks and its perception of emerging risks. Dale's focus on consumption and the domestic economy mitigates much of the geopolitical risk that has increased in the last few years. In particular, a greater focus on the opportunities in the domestic market generated by industrial and technology companies is helping Chinese businesses continue to innovate and grow, even in a period of continued strain in the relationship between China and the US.

ESG

While your Company is not a 'green' or 'ethical' fund, ESG factors remain an important part of the work of the Portfolio Manager, as continuing deterioration in the climate and other social and governance concerns present a potential investment risk to your portfolio. Chinese businesses are under increasing pressure to ensure that their activities are environmentally sustainable and demonstrate social responsibility and good corporate governance. Although there is progress in the form of commitments and initiatives across a wide range of areas, more needs to be done. Fidelity has a sustainable investing approach, including engagement and voting principles and guidelines, as well as having developed its own proprietary forward-looking ESG ratings. The ratings of the companies in the portfolio are ahead of the broader market and continue to improve. Details of ESG engagements by the management team in the year under review are included in the Portfolio Manager's Review below, and an explanation of how Fidelity has embedded ESG factors in its investment decision-making can be found in the Annual Report.

GEARING

During the year, the Company repaid its US$100m loan from The Bank of Nova Scotia and replaced it with additional gearing by way of contracts for difference ("CFDs"). Previously CFDs accounted for around two-thirds of gearing and for the time being this has risen to 100% to control costs. We continue to believe that the judicious use of gearing (another benefit of the investment trust structure) can enhance long-term capital and income returns, although being more than 100% invested also means that the NAV and share price may be more volatile and can accentuate losses in a falling market. The overall level of gearing remains broadly unchanged, with net gearing beginning the year at 21.1% and ending it at 20.8%. Gearing in the past has typically been in the range of 10% to 25%, and the current level reflects Dale's view that the low valuation of the Chinese equity market means that there are many attractive investment opportunities available on a bottom-up basis. Going forward, the upper limit for net gearing will be 20% of Net Assets. Your Board will continue to monitor the cost of fixed term debt, with the ambition of reinstating an element of it in the future.

DIVIDEND

Although the Company's investment objective is to achieve long-term capital growth, it has paid an increased dividend each year since its inception, growing from 0.25 pence per share in 2011 to 6.25 pence per share in 2023, which is a compound annualised growth rate of 25.8%.

The Board is pleased to recommend once again an increased final dividend of 6.40 pence per share for the year ended 31 March 2024 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 23 July 2024.

This represents an increase of 2.4% over the 6.25 pence paid in respect of the prior year. The dividend will be payable on 31 July 2024 to shareholders on the register on 21 June 2024 (ex-dividend date 20 June 2024).

The revenue per share earned by the Company during the year was 5.78 pence, which is a decrease of 18.0% compared with the 7.05 pence earned in the prior year. This is primarily due to the higher cost of gearing. This revenue per share does not fully cover the recommended dividend for the year and as a result Revenue Reserves, which have been built up over the years, will be used to cover the shortfall. Following this, there will remain 3.78 pence per share in Revenue Reserves.

DISCOUNT MANAGEMENT

The Board believes that investors are best served when the share price trades close to the Company's NAV per share. However, we recognise that the share price is affected by the interaction of supply and demand in the market based on investor sentiment towards China, as well as the performance of the Company's portfolio. A discount control mechanism is in place whereby we seek to maintain the Company's discount in single digits in normal market conditions. Historically, shares bought back were held in Treasury and could be issued at a later date should the share price move to a premium to NAV per share. As the number of shares held in Treasury equated to 15% of the issued share capital by 11 May 2023, shares repurchased since then have been cancelled.

The Company's discount was broadly stable during the reporting year, widening marginally from 9.7% on 31 March 2023 to 10.2% at the end of the period. This is perhaps notable in a period in which many investment trusts saw their discounts widen, sometimes materially. With sentiment towards China in particular and investment trusts in general remaining challenging, the Board authorised the repurchase of 21,650,191 shares (the majority for cancellation) at a cost of £45,933,000, representing 3.5% of the issued share capital of the Company. Just under half of the repurchases (by number of shares) took place between August and November 2023. As well as helping to limit discount volatility, share repurchases are of benefit to the remaining shareholders, as the NAV per share is increased by purchasing shares at a discount. Since the year end and as at the latest practicable date of this report, the Company has repurchased a further 2,696,249 shares for cancellation. The graph in the in the Annual Report shows the movement of the Company's discount during the year.

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.

ONGOING CHARGES RATIO

The Ongoing Charges Ratio (the costs of running the Company) for the year was 0.98% (2023: 0.98%). The variable element of the management fee (due to outperformance of the Benchmark Index) was a charge of 0.15% (2023: 0.20%). Therefore, the Ongoing Charges Ratio, including this variable element, for the year was 1.13% (2023: 1.18%).

MANAGEMENT FEE

Your Board continues to focus on achieving good value for the Company's shareholders. During the year under review, the management fee paid to the Manager, FIL Investment Services (UK) Limited, on the first £1.5 billion of Net Assets was reduced from 0.90% to 0.85% (effective 1 July 2023). As mentioned above, in tandem with the transaction with ACIC, the fee payable on Net Assets should they exceed £1.5 billion has also been renegotiated, falling from 0.70% to 0.65%. The variable element of the fee of +/-0.20% remains unchanged.

CONTINUATION VOTE

Following the completion of the transaction with abrdn China Investment Company Limited, your Board has committed to give shareholders the opportunity to vote on the continuation of the Company. The first vote will be at the AGM in 2029 and every five years thereafter.

BOARD OF DIRECTORS

After a programme of Board refreshment in recent years (with all the Directors, including myself, having been appointed since 2020 as the Company's founding Directors retired), there have been no changes to the Board of Directors in the year under review. We are pleased that your Company's Board includes a real diversity and balance of relevant skills and experience, covering China itself, accountancy, investment management (including private equity and private equity valuations) and marketing expertise. I noted in last year's Annual Report that with two women and four men, our Board currently falls short of the voluntary target of 40% of FTSE 350 board members to be women, as set by the new FCA Listing Rules. It should, however, be noted that from July 2019 to January 2023 at least 40% of the Board was comprised of women. In order to meet this target in the near term, we would need to increase the number of Directors from six to seven, a move that we have carefully assessed – in consultation with some of our larger shareholders – and concluded that it would not currently represent the best value for shareholders. It remains our longer-term ambition to move closer to gender parity as and when any of our current Directors retire from the Board.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, all Directors are subject to annual re-election at the AGM on 23 July 2024. The Directors' biographies can be found in the Annual Report, and, between them, they have a wide range of appropriate skills and experience to form a balanced Board to support and oversee the Company in the best interests of all shareholders.

ANNUAL GENERAL MEETING

The Company's AGM is at 11.00 am on Tuesday, 23 July 2024. While the meeting will once again be hybrid in format, with online attendance available, the Board and I hope to see as many of you as possible in person on the day to mark Dale's 10-year record of outperformance. Details of the AGM are below.

OUTLOOK

While the Chinese economy remains sluggish, having failed to reap fully the benefits from the post-COVID reopening, there are undoubtedly signs of improvement. The March PMI figure – a measure of the economic health of the manufacturing sector – moved into positive territory (a reading above 50) for the first time in six months, reaching its highest level since March 2023 and potentially signalling a more sustained period of improvement. April trade data was good and showed a rise in imports, indicating a possible rise in domestic demand. At the same time, it is heartening to see that the Chinese authorities have not been panicked into implementing one-off large measures to boost the economy. They are going about things in a gradually stimulating fashion on both the fiscal and the monetary side, which will hopefully lead to a more balanced outcome. Meanwhile, with Chinese equity market valuations at particularly low levels, both relative to their own history and in a global context, there should be many opportunities for investors to participate profitably in the recovery.

Perhaps the major risk to our cautiously positive outlook is the forthcoming US Presidential election. US relations with China have stabilised somewhat, although increasing tariffs and trade restrictions remain a concern. There is a significant risk that relations could worsen and US may implement measures such as raising tariffs on imports from China to 60%, which would significantly harm Chinese exporters and would depress global trade and exacerbate US inflation trends.

In Chinese culture, the Year of the Dragon is associated with great change, good fortune and prosperity, to such an extent that Dragon years have historically experienced 'baby booms'. While there can be no certainty that the Chinese equity market is itself on the verge of a boom, the structural trends at play in the economy, coupled with Dale and his team's focus on selecting the stocks best positioned to deliver value to shareholders, should continue to support our positive medium to long-term view.

Meanwhile, we hope to see you, in person or virtually, at our Annual General Meeting on 23 July 2024.

MIKE BALFOUR
Chairman
10 June 2024

ANNUAL GENERAL MEETING – TUESDAY, 23 JULY 2024 AT 11.00 AM

The AGM of the Company will be held at **11.00 am on Tuesday, 23 July 2024** at 4 Cannon Street, London EC4M 5AB (nearest tube stations are St Paul's or Mansion House) and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Notice of Meeting in the Annual Report.

For those shareholders who are unable to attend in person, 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 9 to the Notes to the Notice of Meeting in the Annual Report 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 of these 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 at **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 your 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 **134-206-210**. 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

QUESTION
How has the investment company performed in the year to 31 March 2024?

ANSWER
The Company's NAV delivered a total return of -16.3% for the financial year ended 31 March 2024, outperforming the MSCI China Index (the Benchmark Index), which returned -18.8%. While overall returns were negative, the biggest contributors to outperformance were stock selection in the consumer discretionary (our largest sector weighting), industrials and consumer staples sectors. We were overweight in all these sectors compared to the Benchmark. In absolute terms, our energy stocks were the best performers, although their weighting is a very small part of the portfolio (c. 2% of total net assets), and is underweight versus the Benchmark. Our overweight exposures to financials and materials were the biggest drag on relative returns, while the worst absolute performance was in real estate – perhaps unsurprisingly, given another year of negative headlines – although our exposure did outperform the Benchmark. This is another small weighting, at only around 3% of total net assets.

QUESTION
What stocks have been the main drivers of performance during the period and why?

ANSWER
Four of our top 10 relative performers are consumer discretionary stocks, the best of which has been Hisense Home Appliances Group. While the 'white collar' area of the consumer market has had a tougher time, the lower end has been much more resilient, supported by government stimulus in the case of home appliances. Hisense has executed well in the mass-market segment, growing its market share and margins in both 2023 and so far in 2024. It had also been trading at a very cheap valuation. The market began to recognise the value on offer with the share price almost doubling in the year under review. It is also among our best performing shares over the past 10 years.

Elsewhere in the consumer space, two clothing companies – Crystal International Group and JNBY Design – were also notable contributors. Crystal International is an apparel manufacturer, with strong growth in sportswear, supported by excellent relationships with the likes of Adidas and lululemon. JNBY is a designer fashion brand offering a good value proposition for its niche higher-end customers, and has been posting resilient sales numbers despite economic headwinds. Its loyal and sophisticated customer base with high fashion awareness helps mitigate macro risks.

Logistics firm Sinotrans falls into the industrial sector, but also benefits from consumer trends, with an increase in international e-commerce transportation leading to strong performance. Disruption in the Red Sea has also provided some support as air transportation freight rates have increased.

HollySys Automation Technologies, a firm engaged in industrial automation, was also among the largest contributors to positive returns in the year. The company is in the process of being taken private after a bid from a Hong Kong-based private equity group. We decided to exit the position following its share price strength prompted by the bid.

The portfolio does not have heavy exposure to Chinese auto makers, mostly on the back of competition concerns, but, as a global leader in the electric vehicle (EV) market, China offers many opportunities to participate in growth. Our two biggest detractors have exposure to the autos value chain. Hesai Group is a global leader in three-dimensional LiDAR (laser range determining) sensors, which are an important component in the development of autonomous vehicles. While Hesai's stock price suffered over the reporting period, and was the largest detractor to performance, we still see this as a structural growth opportunity over the long-term. Intron Technology's automotive electronic components are applied in new energy, body control, safety and power train systems. It detracted from performance amid a tough market environment, with a price war in auto parts putting pressure on margins.

Relative returns were also hurt by not holding state-owned banks, China Construction Bank and Bank of China. We preferred not to own these stocks given a poor outlook for their net interest margins, due to falling lending rates, weak loan growth and the potential impact on credit quality, if the government steps up policies to encourage more lending. The portfolio did include China Merchants Bank to mitigate this risk and for its consumer lending franchise.

QUESTION
The expected recovery of the Chinese consumer has been somewhat disappointing. Could 2024 see a change in both consumer confidence and retail sales?

ANSWER
Consumer confidence has indeed been weak but there are reasons to anticipate an improvement. Bank deposits saw huge growth during COVID and household balance sheets are very strong, so there is spending power available, but people need confidence to unlock it. Deposit growth has slowed down more recently, which suggests a more optimistic outlook on spending. There has been a bifurcation in confidence, with the white-collar area suffering most, presumably hurt by bigger redundancies. In general, lower-end products have performed better. Job cuts by the big technology companies may now be largely behind us, and a slowly improving employment picture could bring back some confidence.

Consumer services have also outperformed consumer goods, for example in the growth of travel since the lifting of COVID restrictions. For now, we believe service-led consumption will continue to dominate the recovery in China. Recent data has shown that Chinese tourists spent more per trip now than the pre-pandemic era. Railway travel has doubled year-to-date, and air travel has almost tripled compared with 2023. Sectors such as Macau gaming, tourism and internet platforms related to services are well positioned to benefit. On the consumer goods side, the government has announced measures to encourage durable goods upgrades through subsidies or targeted credit support, such as lowering the down payment requirement for car purchases. We believe this should support increased industrial production and manufacturing opportunities.

Weakness in the property sector has clearly been a significant drag on overall economic growth, including the obvious impact on consumer sentiment. Although retail sales have been more volatile in the post-COVID period than previously, they continue on a broadly upward trend, indicating some resilience in the face of falling property sales. We feel confident that we will continue to see ongoing policy loosening to support the property sector.

QUESTION
We are reading about challenges in the region with potential higher tariffs being explored in the US and Europe, along with other domestic challenges. How are you managing this risk, and does this bring with it opportunities?

ANSWER
With regard to US executive orders and sanctions, we are working closely with Fidelity International's legal and regulatory experts to understand the policy direction and potential policy response. In general, we believe that China would be keen to have better relations with the US, and the greater dialogue between Presidents Xi and Biden is encouraging. There is no denying, however, that strategic competition between the two countries is going to be a factor that will be with us for decades. The good thing is that the market is becoming more comfortable with this reality. China has been dealing with US tariffs for years, and companies are well aware of the prospect that they might be higher in the future. Former President Trump has even suggested raising import tariffs to 60%, although one has to think that stickier inflation in the US could mean it will be harder for the government there to implement hikes of this magnitude.

In terms of corporate-level geopolitical risk, it is something we look at on a stock by stock basis. For example, we try to incorporate sanction risks on companies with any significant technology exporting from China to the US into our analysis. In general, within our portfolio, revenue exposure to the US is limited and any risk would appear to be mostly priced in. While the video platform TikTok has again been in the headlines because of a new US bill that would require it to be sold off or risk being banned, it is important to remember that as a percentage of its parent company ByteDance's operations, TikTok is relatively small and also loss-making, whereas the domestic business is highly profitable and growing strongly. Meanwhile, the vast majority of companies are largely unaffected by such geopolitical concerns.

QUESTION
How have you utilised the investment company structure this year? Has it been beneficial?

ANSWER
Our approach to managing the gearing of the Company mostly reflects the opportunity set that we see at any one time. Gearing will naturally be higher when that opportunity set is plentiful and vice versa. Given the significant swings in sentiment towards the China market, we tend to see better risk-reward prospects when sentiment is weak and valuations are lower. Gearing is primarily deployed using contracts for difference (“CFDs”), which are low-cost and represent a flexible way of increasing investment exposure. During the year, we repaid the fixed-term loan facility, and all gearing is currently via CFDs. However, this is something we continue to evaluate and may look to reinstate an element of fixed-term borrowing in the future if the terms are attractive.

We like to utilise all the tools the investment company structure gives us, with historically a working maximum net exposure of around 25% and a hard limit of 30% of gross assets. At the start of the period under review, net gearing was 21.1%, which rose over the following months, peaking at 25.5% by the end of August 2023 before falling slightly. At 31 March 2024, the portfolio’s net market exposure was 120.8% (net gearing of 20.8%), which, while marginally lower than at the start of the period, is still a notable increase since late 2021, reflecting the compellingly attractive valuations of the Chinese market and, therefore, the relative appeal of greater levels of gearing to take advantage of opportunities on offer. It is not anticipated that net gearing will materially exceed 20% in the future, following a change of the Board’s policy.

Because gearing increases market exposure, it magnifies returns in strong market conditions, but also acts as a drag in times of poor returns. As such, it was a negative contributor to relative performance in the period under review, detracting by 3.75 percentage points. Nevertheless, we continue to believe that the judicious use of gearing can be accretive to long-term capital and income returns, allowing us the opportunity to capitalise on the volatility in the Chinese market.

QUESTION
Looking longer-term, what do you see as the drivers of returns for China equities?

ANSWER
At a basic level, returns will be driven by a Company’s earnings and the multiple that the market is willing to put on those earnings. As mentioned, this multiple can swing significantly depending on sentiment, which is often influenced by factors such as geopolitics, which in many cases bear little influence on a company’s earnings outlook. This is why we spend most of our efforts analysing company fundamentals, and looking to capitalise at times when these fundamentals are underappreciated.

While China’s economy is forecast to slow from its current growth rate of around 5%, it is expected to remain one of the fastest growing major economies in the world. Its gradual shift towards consumption-driven growth, fuelled by an expanding middle class, rising incomes and technological innovation, provides a solid backdrop for companies to thrive.

However, China’s financial markets in the shorter-term are often heavily influenced by geopolitics and macro decisions, which have been more of an issue in the last few years, amid one of the longest and harshest regulatory environments. Despite this, regulation trends are typically somewhat cyclical, and the government is now increasingly focused on economic growth.

What is often not appreciated is the level of change that is apparent on the ground, with winners emerging and innovation flourishing across sectors, reflecting companies’ commitment to building a competitive edge. Coupled with trends such as rapid automation implementation driven by an aging population and the energy transition, this continues to create interesting investment opportunities. Consumer trends like experience-based spending, health consciousness and premiumisation continue to grow. There is also an increasing preference among Chinese consumers and corporates for Chinese brands and local suppliers, resulting in domestic companies taking ever greater market share in what remains one of the world’s largest markets.

At the same time, and importantly, companies are increasingly rewarding shareholders through dividends and share buybacks, supported by recent government policy reforms and shareholders demands. This trend is particularly prominent in the financial sector, where state-owned enterprise companies have increased dividend payout ratios, while smaller financial companies have engaged in buybacks or boosted dividends.

Companies have started to recognise the potential value accretion when valuations are at extreme levels. Internet companies like Alibaba Group Holding and Tencent Holdings have been some of the most aggressive in hiking both dividends and buybacks. For many of these companies, we are seeing shares outstanding decline for the first time.

The Japanese equity market has been in the headlines in the past year as a similar focus on boosting shareholder returns has helped the main index to finally regain highs last seen more than 30 years ago. We have been closely monitoring Chinese companies’ dividend payouts, buybacks and restricted share units (RSU) for many years and believe that across the board – be it state-owned or private companies, large or small-cap, utilities, internet stocks or consumer names – management teams are emphasising returns for minority shareholders.

In addition to this encouraging trend towards increasing shareholder value, the Chinese stock markets also offer earnings growth opportunities that compare well to other markets. However, there will be differences across sectors and companies, which underscores the importance of bottom-up stock selection. Identifying companies with good long-term growth prospects, that are cash generative and have strong management teams, remains key to constructing a resilient portfolio that compounds growth over the long-term.

QUESTION
Which sectors are you particularly excited about?

ANSWER
We continue to find companies offering compelling long-term growth prospects within the industrial sector, driven by factors such as ongoing industry consolidation and the continued fast pace of innovation. China’s share of global patent applications is approaching 50%, and companies are investing ever more into research and development (R&D), which over time should feed through into improved competitiveness, pricing power and returns on capital. This is clear in areas like robotics and the related supply chain. Fragmented industries like building materials, including paint, pipes and waterproofing, are poised for further consolidation, following the trajectory seen in more developed markets. Moreover, many businesses are also benefiting from the re-orientation of global supply chains and an increasing preference for local suppliers.

In emerging sectors such as EVs and renewable energy, we are finding opportunities among enablers in the EV value chain, particularly those providing key components and services, such as EV battery manufacturers or auto parts suppliers. Healthcare also presents opportunities, especially in areas with low penetration like medical devices. Chinese companies also now have the third-largest number of innovative drugs in development globally, and are fast catching up with Europe, which currently lies second behind the US.

In addition, despite macroeconomic challenges, many companies will continue to benefit from China’s long-term shift from export and investment-led growth towards higher-quality growth driven by consumption. Urbanisation and a growing middle class are important factors underlying stronger consumer purchasing power, offering notable structural growth opportunities for under-penetrated products and services. Therefore, we are equally excited about long-term structural beneficiaries in the consumption space, with an abundance of investment opportunities given many companies have seen their valuations dragged down by weak overall market sentiment.

QUESTION
You have just reached the milestone of 10 years managing the Trust. With strong NAV and share price comparative performance versus the Benchmark Index, outperforming by over 76% since your tenure, what has been the key to that success over the longer-term?

ANSWER
For me, the past 10 years has underlined how important it is for us to stay focused on company level fundamentals. We operate in a volatile market with significant swings in sentiment. Even through tough markets of the last few years, we have had huge winners driven by great market opportunities supported by great management execution.

Supporting this is the calibre of the team of people we have on the ground in China. Our analysts understand the DNA of companies; they have long-standing relationships with the companies they cover, and they understand the nuances of trends. The 'challenge' of stock price volatility is also the opportunity, and we are now finding many great companies trading at bargain valuations. As long as our earnings forecasts are accurate, we believe share prices will reflect the delivery of those growth opportunities in the long-term.

The main driver of the Company's performance has always been – and will always be – the individual stocks that we invest in, the ability to choose from the whole market cap spectrum, from tech giants through to entrepreneurial small and medium-sized companies, and even new businesses yet to launch on the stock market. This all-cap strategy allows me to unearth and invest in a multitude of stocks that play into the growth and development of the domestic consumer. While confidence remains weak, spending power is significant, and we see the ongoing emergence of strong domestic brands leveraging a deep understanding of the local consumer and operating environment.

QUESTION
Environmental, social and governance ("ESG") themes are very topical among investors. How do you approach ESG, and can you outline specific examples where engagement has resulted in good outcomes for stakeholders?

ANSWER
Fidelity International integrates ESG factors into its investment process, with research analysts incorporating ESG into company assessments using proprietary Sustainability Rating and Climate Rating frameworks. We also actively engage with companies to improve their ESG practices.

Chinese companies have not historically performed well in third-party ESG assessments, but a great deal of this is about disclosure. If a company is not transparent about its supply chains or its emissions, then the market will tend to assume the worst. We have been working with the companies in our portfolio to improve their disclosures, and this is resulting in good progress on the governance front.

One such example through the review period was our engagement with Medlive Technology, one of the largest online physician platforms. The engagement focused on their cybersecurity and data privacy practices, which had been lacking in the past. We found that while the company places a strong emphasis on data systems and policies, this was not adequately reflected in their disclosures. Therefore, we recommended that the company improves its transparency for all stakeholders, strengthens cybersecurity privacy practices and increases engagements with rating agencies. Subsequently, Medlive took proactive steps, leading to enhanced cybersecurity, privacy management and disclosures. These efforts were recognised by rating agencies, contributing to an upgrade of the company's ESG rating. Additionally, Medlive established a board-level committee to oversee key areas of information and data security.

Other noteworthy progress included our multi-year engagement with leading Chinese sports equipment company ANTA Sports Products. We encouraged enhancements in sustainable supply chain management, an area that we identified as lagging global best practices. By explaining essential aspects of industry leading supply chain practices during our discussions, the company was open to suggestions and proactively made improvements and new commitments. For example, the company committed to further measures for improving labour supply chain management, workforce disclosure, publishing health and safety practices, and supporting suppliers in obtaining ISO/Bluesign certifications.

As discussed in the question above on the drivers of returns for China equities, better capital management is a key aspect of improving governance. We actively engaged with many of the companies we hold, and it is positive to see increased buyback and dividend activity across the whole market. For example, we encouraged wealth management firm Noah Holdings to improve its capital allocation, for which, in our view, returns have been held back by an over-capitalised balance sheet. Over the past year, the company has made some improvements, including the removal of dual share classes and the introduction of a (small) dividend. In its most recent earnings release, it announced a 50% payout ratio (which was at the top end of the newly announced policy), as well as an additional 50% special dividend payout.

QUESTION
Finally, with the completion of the combining of assets with abrdn China Investment Company Limited (ACIC), how have you allocated these assets within the portfolio?

ANSWER
The transaction of with ACIC was a real team effort and thank you to all involved. From a portfolio management perspective, I was involved in the transition of assets throughout the transaction process, making sure individual companies that I already owned or would own came across 'in-specie' and the residual cash from the ACIC portfolio was implemented into my best ideas. This cash was invested as soon as the transaction was completed.

The key benefits of the transaction for the Company were greater scale, an enhanced profile and increased liquidity. While we were already by some way the largest in our Association of Investment Companies (AIC) sector, the increased scale and liquidity should help to bring Fidelity China Special Situations PLC to the attention of more professional fund buyers, many of whom may not consider investing in a portfolio below £1 billion.

DALE NICHOLLS
Portfolio Manager
10 June 2024

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 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.

Climate change, which refers to a large scale shift in the planet's weather patterns and average temperatures, continues to be a key emerging as well as a principal risk confronting asset managers and their investors. Globally, climate change effects are already being experienced in the form of changing weather patterns. Extreme weather events can potentially impact the operations of investee companies, their supply chains and their customers. The Board notes that the Manager has integrated ESG considerations, including climate change, into the Company's investment process. Further details are in the Annual Report. The Board will continue to monitor how this may impact the Company as a risk to investment valuations and potentially shareholder returns.

Other emerging risks may continue to evolve from unforeseen geopolitical and economic events.

The Board, together with the Manager, is also monitoring the emerging risks posed by the rapid advancement of artificial intelligence ("AI") and technology and how it may threaten the Company's activities and its potential impact on the portfolio and investee companies. Although advances in computing power mean that AI is a powerful tool that will impact society, there are risks from its increasing use and manipulation with the potential to harm, including a heightened threat to cybersecurity.

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.

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

Principal Risks	Risk Description and Impact	Risk Mitigation	Trend
Geopolitical Risk	• Impact on the value of investments and the Manager's ability to access markets freely. • Continuing political and trade tensions between China and the US, e.g. trade sanctions. • Challenging regulatory environment hindering foreign investment, including US Executive Orders prohibiting transactions by US persons in certain publicly traded Chinese companies. • The ongoing Ukraine/Russia conflict remains a driver of uncertainty impacting the global geopolitical landscape, consumer spending and industrial activity with the potential for increased energy costs, rising food prices and currency instability. • The escalation of the Middle East conflict has added another source of geopolitical risks and economic instability, elevating oil supply concerns and driving prices upwards. China is a major trading partner with countries in the region and any disruption in trade may have an impact on exports/imports and the shipping sector. • A South China Sea dispute could have a negative impact on Chinese companies, including reduced access to global markets and technology, potential sanctions and retaliatory measures and possible weakening of investment and confidence in Chinese companies. • Implications of tensions in the Taiwan Strait region for China include potential military conflict and increased tensions over trade and economic issues over competing territorial claims.	• The Board receives insights and information, including research notes, from the Manager and independent sources on a regular basis. • The portfolio is tilted to domestic Chinese markets. • The Board receives and reviews reports from the Portfolio Manager on a regular basis. • Major adverse market events are stress-tested for operational resilience and financial impact.	**Increasing**
Market and Economic Risks (including Currency Risk)	• Whilst China's outlook for "controlled stabilisation" is supported by targeted policy measures, the property sector is a source of increased uncertainty. Growth in consumption remains subdued. • The momentum from the growth in size and wealth of the middle class depends on China's ability to generate sustained productivity gains. • China's economy is vulnerable to uncertain world growth prospects, tightening in global financial conditions, energy costs, rising food prices, currency instability and challenging regulatory environment. • China faces several economic headwinds, including an aging population, environmental pollution, isolation of the financial system and debt concerns in its corporate and local government sectors. • China's economy is vulnerable to uncertain world growth prospects, tightening in global financial conditions, energy costs, rising food prices and currency instability. • The ability of China's centralised government system to enact regulation rapidly can adversely affect sectors or individual companies and as a result affect their stock market prices negatively. • The currency in which the Company reports its results is sterling and its ordinary shares trade in sterling, whilst the underlying investments are in different currencies. The Company does not hedge currencies.	• Growth may still exceed economic targets as the stable policy setting may help restore private sector confidence after a policy-induced slowdown in the prior year. • The Portfolio Manager and the Manager's ability to understand and predict events in China. Independent risk management insight is provided on a regular basis. • The Company holds a diversified portfolio emphasising sectors of strategic importance to China. • Current projections are for China's GDP to continue to grow at above the global average.	**Stable**
Investment Performance Risk (including Gearing Risk)	• The Portfolio Manager may fail to outperform the Benchmark Index and peers over the longer-term. • 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. • Diversification of investments through investment restrictions and guidelines which are monitored and reported upon by the Investment Manager. • 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**
Discount Management Risk	• The Board may fail to implement its discount management policy successfully to keep the level of the discount in single digits and in the face of heavy selling pressure, may exhaust its authorised buyback	• The Company's discount management policy is aimed at keeping the discount in single digits during normal market conditions.	**Stable**

	facility. The impact of excessive market volatility on the Company's NAV may also lead to a widening of the discount. • If investor perception towards China is negative, then the shares in the Company may trade at an increasing discount to its underlying NAV.	• Continuing scrutiny by the Board, the Manager and the Company's Broker within parameters set. • Maintaining a reputation for standing in the marketplace when required in order to keep the discount in single digits. • Maintaining close communications with major shareholders.	
Unlisted Securities Risk	• Valuations of unlisted securities may be adversely affected by market conditions. • Initial public offering (IPO) of the unlisted companies may face delays leading to longer holding periods. • 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 set a limit on the level of investments in unlisted companies and the Manager has a track record of identifying profitable opportunities. • The Board's Audit and Risk Committee scrutinises the carrying value of unlisted investments, and this is supported by the Manager, Fidelity's unlisted investments specialist and an external advisor.	**Stable**
Climate Change Risk	• Impact on investment valuations, business operations, the supply chain of investee companies and shareholder expectations. • China's climate change credentials are likely to be less favourable when compared to similar economies in developed western markets. • Reputational impact may arise by being invested in a company with poor climate change performance.	• The Board is provided with insights and reports by the investment management team. • Fidelity uses a proprietary climate rating designed to complement broader sustainability ratings and is considered in the investment process where appropriate. • Fidelity's climate rating analyses companies in three core areas - net zero target alignment, climate governance and capital allocation to the transition - which are in line with the guidance from the Task Force on Climate-related Financial Disclosures (TCFD) and the Institutional Investors Group on Climate Change (IIGCC).	**Stable**
Environmental, Social and Governance ("ESG") Risk	• Investor expectations and/or regulatory requirements related to ESG factors of the underlying investee companies and the portfolio are not perceived to be met. • Reputational damage to the Company may arise from perception in the marketplace.	• Whilst the investment portfolio does not target or employ any set limit on ESG investments, the Manager is expected to engage with companies where sustainability issues arise. • Fidelity carries out ESG considerations at the fundamental research level. • The Portfolio Manager and analysts carry out additional quantitative and qualitative analysis of potential investments to form a view on ESG characteristics of every investee company. • The Manager has developed an ESG investment risk oversight framework to reinforce its Investment Risk Policy to set minimum controls.	**Stable**
Key Person Risk	• Loss of the Portfolio Manager or other key individuals could lead to potential performance and/or operational issues.	• The Manager has succession plans for key dependencies. • The depth of the team within Fidelity. • The experience of the analysts covering China.	**Stable**
Cybercrime and Information Security Risks	• Cybersecurity risk from cyberattacks or threats to the functioning of global markets and to the Manager's own business model, including its and the Company's outsourced suppliers. • Risk of cybercrime such as phishing, remote access threats, extortion and denial-of-services attacks from geopolitically motivated attacks.	• The risk is monitored by the Board with the help of the Manager's global cybersecurity team and their extensive Strategic Cyber and Information Security program and assurances from outsourced suppliers. • Key performance indicators and metrics have been developed by the Manager to monitor the overall efficacy of cybersecurity processes and controls and to further enhance the Manager's cybersecurity strategy and operational resilience.	**Stable**
Business Continuity Risk	• Business process disruption risk from continued threats of cyberattacks, geopolitical threats and natural events, such as earthquakes, resulting in financial and/or reputational impact to the Company affecting the functioning of the business.	• Fidelity has Business Continuity and Crisis Management Frameworks in place to deal with business disruption and assure operational resilience.	**Stable**
Operational Risk	• Financial losses or reputational damage from inadequate or failed internal processes, people and systems or from external parties and events.	• Fidelity's Operational Risk Management Framework is designed to pro-actively prevent, identify and manage operational risks inherent in most activities. • Fidelity uses robust systems and procedures dedicated to its operational processes. Its risk management structure is designed according to the FCA's three lines of defence model.	**Decreasing**
Variable Interest Entity Structures Risk	• The Company's exposure to a number of companies with all or part of their businesses in Variable Interest Entities ("VIEs") is expected to remain significant. The ability of overseas investors to invest in VIEs could be amended. • Regulatory risk from the China Security Regulatory Commission ("CSCR") guidelines that companies with VIE structures require CSCR approval to list overseas and are required to comply with Chinese laws.	• Whilst it is not expected that China will change the rules to the extent that it will ban foreign investment, this risk is closely monitored.	**Stable**

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.

THIRD-PARTY 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 compared to its Benchmark Index;
- The principal and emerging risks and uncertainties facing the Company and their potential impact, as set out above;
- 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;
- Future income and expenditure forecasts; and
- Introduction of a continuation vote with effect from 2029 and every five years thereafter.

The Company's performance for the five year reporting period to 31 March 2024 was a NAV total return of -4.3% and a share price total return of -5.9%, both outperforming the Benchmark Index total return of -25.6%. 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 portfolio comprises sufficient readily realisable securities which can be sold to meet funding requirements if necessary; 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 as detailed above. The Board has also considered the impact of regulatory changes, continuing tensions between the US and China, and China and Taiwan, unforeseen market events and also the ongoing global implications of the Russia and Ukraine war and the Middle East conflict, 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 below.

GOING CONCERN STATEMENT

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio 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), stress testing performed, the projected income and expenditure, 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 30 June 2025 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 the war in Ukraine, the Middle East conflict, China's tensions with the US and Taiwan and significant market events.

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

The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors 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 externally appointed Manager (FIL Investment Services (UK) Limited) 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 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 in the Annual Report.

The Board receives regular reports from the Company's Broker which covers market activity, how the Company compares with its peers in the China sector on performance, discount and share repurchase activity, an analysis of the Company's share register and market trends.

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 any questions or 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 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 throughout 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 ESG issues aligns with the Company's investment objective to deliver long-term growth in both capital and income, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in the Annual Report.

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:

- The decision to combine assets with abrdn China Investment Company Limited on 14 March 2024 (see further details in the Chairman's Statement above and Note 2 (a) below);
- The decision to introduce a continuation vote with effect from 2029 and every five years thereafter;
- The decision to hold a hybrid AGM in 2023 (and again this year) in order to make the AGM more accessible and improve the shareholder experience;
- Authorising the repurchase of 2,900,696 shares into Treasury and 18,749,495 shares for cancellation in the reporting year 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. Since the year ended 31 March 2024 and up to the latest practicable date of this report, a further 2,696,249 shares have been repurchased;
- The decision not to renew the Company's credit facility for US$100,000,000 and to use contracts for difference for gearing purposes as they are generally a cheaper finance option and offer more flexibility;
- Following discussions with the Manager, the reduction in the first tier of the management fee from 0.90% to 0.85% with effect from 1 July 2023, and from 14 March 2024, the reduction of the second tier management fee from 0.70% to 0.65% for Net Assets over £1.5 billion;
- The decision to carry out an external Board evaluation using the services of Lintstock Ltd in accordance with the UK Corporate Governance Code; and
- The decision to pay a final dividend of 6.40 pence per ordinary share.

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") and IFRIC interpretations, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

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

Approved by the Board on 10 June 2024 and signed on its behalf

MIKE BALFOUR
Chairman

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

		Year ended 31 March 2024			Year ended 31 March 2023		
		Revenue	Capital	Total	Revenue	Capital	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Revenue							
Investment income	3	26,123	–	26,123	32,704	–	32,704
Derivative income	3	11,154	–	11,154	11,566	–	11,566
Other income	3	1,659	–	1,659	409	–	409
Total income		38,936	–	38,936	44,679	–	44,679
Losses on investments at fair value through profit or loss	10	–	(155,001)	(155,001)	–	(6,912)	(6,912)
(Losses)/gains on derivative instruments	11	–	(54,790)	(54,790)	–	14,971	14,971
Foreign exchange (losses)/gains		–	(3,858)	(3,858)	–	8,167	8,167
Foreign exchange gains/(losses) on bank loan		–	1,517	1,517	–	(4,814)	(4,814)
Total income and (losses)/gains		38,936	(212,132)	(173,196)	44,679	11,412	56,091
Expenses							
Investment management fees	4	(2,430)	(8,991)	(11,421)	(3,012)	(11,715)	(14,727)
Other expenses	5	(1,203)	(35)	(1,238)	(1,097)	(4)	(1,101)

Profit/(loss) before finance costs and taxation		35,303	(221,158)	(185,855)	40,570	(307)	40,263
Finance costs	6	(6,699)	(20,098)	(26,797)	(3,956)	(11,869)	(15,825)
Profit/(loss) before taxation		28,604	(241,256)	(212,652)	36,614	(12,176)	24,438
Taxation	7	(812)	–	(812)	(1,149)	–	(1,149)
Profit/(loss) after taxation for the year		27,792	(241,256)	(213,464)	35,465	(12,176)	23,289
Earnings/(loss) per ordinary share	8	5.78p	(50.18p)	(44.40p)	7.05p	(2.42p)	4.63p

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.

On 13 March 2024, the Company combined assets with abrdn China Investment Company Limited ("ACIC"), following a Guernsey scheme of reconstruction. No other operations were acquired or discontinued during the year.

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2024

	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 2023		5,710	211,569	917	186,794	877,782	55,649	1,338,421
New ordinary shares issued in respect of the transaction with ACIC	15	590	126,198	–	–	–	–	126,788
Contribution in respect of the transaction with ACIC by the Manager		–	400	–	–	–	–	400
Repurchase of ordinary shares into Treasury	15	–	–	–	(6,965)	–	–	(6,965)
Repurchase of ordinary shares for cancellation	15	(187)	–	187	(38,968)	–	–	(38,968)
(Loss)/profit after taxation for the year		–	–	–	–	(241,256)	27,792	(213,464)
Dividend paid to shareholders	9	–	–	–	–	–	(30,198)	(30,198)
Total equity at 31 March 2024		6,113	338,167	1,104	140,861	636,526	53,243	1,176,014
Total equity at 31 March 2022		5,710	211,569	917	244,043	889,958	48,424	1,400,621
Repurchase of ordinary shares	15	–	–	–	(57,249)	–	–	(57,249)
(Loss)/profit after taxation for the year		–	–	–	–	(12,176)	35,465	23,289
Dividend paid to shareholders	9	–	–	–	–	–	(28,240)	(28,240)
Total equity at 31 March 2023		5,710	211,569	917	186,794	877,782	55,649	1,338,421

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

BALANCE SHEET AS AT 31 MARCH 2024
Company number 7133583

	31 March	31 March

	Notes	2024 £'000	2023 £'000
Non-current assets			
Investments at fair value through profit or loss	10	1,162,265	1,318,764
Current assets			
Derivative instruments	11	7,103	22,313
Amounts held at futures clearing houses and brokers		24,589	34,813
Other receivables	12	10,066	11,939
Cash at bank		7,858	72,943
		49,616	142,008
Current liabilities			
Derivative instruments	11	(13,307)	(20,892)
Bank loan	13	–	(80,857)
Other payables	14	(9,802)	(20,602)
Bank overdrafts		(12,758)	–
		(35,867)	(122,351)
Net current assets		13,749	19,657
Net assets		1,176,014	1,338,421
Equity attributable to equity shareholders			
Share capital	15	6,113	5,710
Share premium account	16	338,167	211,569
Capital redemption reserve	16	1,104	917
Other reserve	16	140,861	186,794
Capital reserve	16	636,526	877,782
Revenue reserve	16	53,243	55,649
Total equity		1,176,014	1,338,421
Net asset value per ordinary share	17	223.71p	274.08p

The Financial Statements above and below were approved by the Board of Directors on 10 June 2024 and were signed on its behalf by:

MIKE BALFOUR
Chairman

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Operating activities		
Cash inflow from investment income	26,240	30,352
Cash inflow from derivative income	10,891	11,484
Cash inflow from other income	1,659	409
Cash outflow from Directors' fees	(236)	(195)

Cash outflow from other payments	(13,104)	(15,638)
Cash outflow from the purchase of investments	(592,266)	(429,715)
Cash outflow from the purchase of derivatives	(1,910)	(7,957)
Cash outflow from the settlement of derivatives	(301,285)	(485,760)
Cash inflow from the sale of investments	703,150	480,407
Cash inflow from the settlement of derivatives	260,351	510,263
Cash outflow from amounts held at futures clearing houses and brokers	10,224	(2,593)
	---------------	---------------
Net cash inflow from operating activities before servicing of finance	103,714	91,057
	=========	=========
Financing activities		
Cash inflow from the issuance of ordinary shares in respect of the transaction with ACIC	5,156	–
Cash inflow from the Fidelity contribution in respect of the transaction with ACIC	400	–
Cash outflow from loan interest paid	(5,138)	(2,242)
Cash outflow from the settlement of the bank loan	(79,340)	–
Cash outflow from CFD interest paid	(22,695)	(12,099)
Cash outflow from short CFD dividends paid	–	(254)
Cash outflow from the repurchase of ordinary shares into Treasury	(7,095)	(57,119)
Cash outflow from the repurchase of ordinary shares for cancellation	(38,789)	–
Cash outflow from dividends paid to shareholders	(30,198)	(28,240)
	---------------	---------------
Cash outflow from financing activities	(177,699)	(99,954)
	=========	=========
Decrease in cash at bank	(73,985)	(8,897)
Cash at bank at the start of the year	72,943	73,673
Effect of foreign exchange movements	(3,858)	8,167
	---------------	---------------
Cash at bank at the end of the year	(4,900)	72,943
	=========	=========
Represented by:		
Cash at bank	7,858	72,943
Bank overdrafts	(12,758)	–
	---------------	---------------
	(4,900)	72,943
	=========	=========

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"), 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 July 2022. 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 30 June 2025 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, the liquidity of the investment portfolio, stress testing performed 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 risks faced by the Company as detailed in the Going Concern Statement above.

In preparing these Financial Statements the Directors have considered the impact of climate change risk as an emerging and a principal risk as set out above, 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 above takes account of all events and conditions up to 30 June 2025 which is at least twelve months from the date of approval of these Financial Statements.

Issue of Ordinary Shares in respect of the transaction with abrdn China Investment Company Limited ("ACIC")
On 13 March 2024, the Company issued New ordinary shares which were provided to shareholders of ACIC, in connection with the combination of the assets of the Company with the assets of ACIC.

The Directors have considered the substance of the assets and activities of ACIC in determining whether the acquisition represents the acquisition of a business. In this case, the acquisition is not considered to be an acquisition of a business, and therefore, has not been treated as a business combination. Rather, the cost to acquire the assets and liabilities of ACIC has been allocated between the acquired identifiable assets and liabilities based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes. A total of £126,789,000 of assets were acquired as a result of the transaction with ACIC. This comprised investments (£120,754,000), cash (£5,156,000) and receivables (£879,000).

The Manager agreed to contribute towards the transaction with ACIC, as described below.

A contribution of £715,000, representing eight months of management fees, in respect of the assets transferred by ACIC to the Company, that would otherwise be payable by the enlarged Company to the Manager in the year to 31 March 2025.

Additionally, the Manager agreed to make a cash contribution to the Company equal to £500,000. In the year to 31 March 2024, the Company has recognised an initial contribution of £400,000, with a further £100,000 being recognised in the year to 31 March 2025, to align with the reduction of management fees and the recognition of expenses relating to the transaction and issuance of shares.

The Company has recognised the contribution from the Manager in the Share premium account as described in Note 16.

Furthermore, the Manager has agreed that following the transaction with ACIC, the base management fee payable by the Company under the Management Agreement will reduce from 0.70% to 0.65% on the Company's Net Assets in excess of £1.5 billion. This is expected to lower the ongoing costs of the Company as it grows over the longer-term.

b) Adoption of new and revised International Accounting Standards – the accounting policies adopted are consistent with those of the previous financial year.

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 7 Statement of Cash Flows;
- 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 these estimates.

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

Judgements
The Directors consider whether each fair value is appropriate following detailed review and challenge 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 an external valuer and Fidelity's unlisted investments specialist, 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 18 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 on securities, interest for 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.

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 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 at 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 and Fidelity's unlisted investments specialist, provides recommended fair values to the Directors. These are based on the principles outlined in Note 2 (e). The unlisted investments are valued at fair value following a detailed review and appropriate challenge by the Directors of the pricing methodology proposed by the FVC.

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

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

The nature of the unlisted investment will influence the valuation technique applied. The valuation approach recognises that the price of a recent investment, if resulting from an orderly transaction, generally represents fair value as at the transaction date and may be an appropriate starting point for estimating fair value at subsequent measurement dates. However, consideration is given to the facts and circumstances as at the subsequent measurement date, including changes in the market or performance of the investee company. Milestone analysis 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, Fidelity's unlisted investments specialist 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 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);
- 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 securities sold for future settlement, amounts receivable on settlement of derivatives, 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.

q) Other payables – Other payables include securities purchased for future settlement, amounts payable on settlement of derivatives, investment management fees, loan interest payable, amounts payable for repurchase of shares, finance costs payable 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 and ordinary shares repurchased for cancellation 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 derivative instruments contracted with counterparties having adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of the level 3 investments which had unrealised investment holding gains of £10,288,000 (2023: unrealised investment holding gains of £25,993,000). See Note 18 below for further details on the level 3 investments.

3. INCOME

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Investment income		
Overseas dividends	26,052	31,949
Overseas scrip dividends	–	755
Interest on securities	71	–
	---------------	---------------
	26,123	32,704
	=========	=========
Derivative income		
Dividends received on long CFDs	10,525	11,282
Interest received on CFDs	629	284
	---------------	---------------
	11,154	11,566
	=========	=========
Other income		
Interest received on collateral, deposits and money market funds	1,659	409
	---------------	---------------
Total income	38,936	44,679
	=========	=========

Special dividends of £1,458,000 (2023: £1,155,000) have been recognised in capital.

4. INVESTMENT MANAGEMENT FEES

	Year ended 31 March 2024			Year ended 31 March 2023		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee – base	2,430	7,289	9,719	3,012	9,037	12,049
Investment management fee – variable	–	1,702	1,702	–	2,678	2,678
	---------------	---------------	---------------	---------------	---------------	---------------
	2,430	8,991	11,421	3,012	11,715	14,727
	=========	=========	=========	=========	=========	=========

FIL Investment Services (UK) Limited 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").

The base investment management fee for the period from 1 April to 30 June 2023 was 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. Since 1 July 2023, it has been charged at an annual reduced rate of 0.85% on the first £1.5 billion of Net Assets and remained unchanged at 0.70% on Net Assets over £1.5 billion until 14 March 2024, when on completion of the transaction with ACIC, it reduced to 0.65% on Net Assets over £1.5 billion.

In addition, there is a +/-0.20% variable fee based on the Company's NAV per share performance relative to the Company's Benchmark Index measured daily over a three-year rolling basis.

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 in the Annual Report.

5. OTHER EXPENSES

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Allocated to revenue:		
AIC fees	21	21
Custody fees	101	157
Depositary fees	52	57
Directors' expenses	79	13
Directors' fees[1]	240	202
Legal and professional fees	143	77
Marketing expenses	269	263
Printing and publication expenses	39	50
Registrars' fees	63	69
Other expenses	125	131
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	71	57
	---------------	---------------
	1,203	1,097
	=========	=========
Allocated to capital:		
Legal and professional fees	35	4
	---------------	---------------
Other expenses	1,238	1,101
	=========	=========

1 Details of the breakdown of Directors' fees are provided within the Directors' Remuneration Report in the Annual Report.

6. FINANCE COSTS

	Year ended 31 March 2024			Year ended 31 March 2023		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest paid on bank loan and overdrafts	1,117	3,352	4,469	663	1,989	2,652
Interest paid on CFDs	5,582	16,746	22,328	3,230	9,689	12,919
Dividends paid on short CFDs	–	–	–	63	191	254
	---------------	---------------	---------------	---------------	---------------	---------------
	6,699	20,098	26,797	3,956	11,869	15,825
	=========	=========	=========	=========	=========	=========

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

7. TAXATION

	Year ended 31 March 2024			Year ended 31 March 2023		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
a) Analysis of the taxation charge for the year						
Overseas taxation	812	–	812	1,149	–	1,149
	---------------	---------------	---------------	---------------	---------------	---------------
Taxation charge for the year (see Note 7b)	812	–	812	1,149	–	1,149
	=========	=========	=========	=========	=========	=========

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 25% (2023: 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 2024			Year ended 31 March 2023		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000

Profit/(loss) before taxation	28,604	(241,256)	(212,652)	36,614	(12,176)	24,438
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 25% (2023: 19%)	7,151	(60,314)	(53,163)	6,957	(2,313)	4,644
Effects of:						
Capital losses/(gains) not taxable[1]	–	53,033	53,033	–	(2,168)	(2,168)
Income not taxable	(6,406)	–	(6,406)	(6,116)	–	(6,116)
Expenses not deductible	–	4,604	4,604	–	1,987	1,987
Excess expenses	(745)	2,677	1,932	(841)	2,494	1,653
Overseas taxation	812	–	812	1,149	–	1,149
	---------------	---------------	---------------	---------------	---------------	---------------
Taxation charge (Note 7a)	812	–	812	1,149	–	1,149
	=========	=========	=========	=========	=========	=========

1 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 £39,515,000 (2023: £37,583,000), in respect of excess expenses of £158,059,000 (2023: £150,330,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

The UK corporation tax rate increased from 19% to 25% from 1 April 2023. The rate of 25% has been applied to calculate the unrecognised deferred tax asset for the current year (2023: 25%).

8. EARNINGS/(LOSS) PER ORDINARY SHARE

	Year ended 31 March 2024	Year ended 31 March 2023
Revenue earnings per ordinary share	5.78p	7.05p
Capital loss per ordinary share	(50.18p)	(2.42p)
	---------------	---------------
Total (loss)/earnings per ordinary share	(44.40p)	4.63p
	=========	=========

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 of Treasury during the year, as shown below:

	£'000	£'000
Revenue profit after taxation for the year	27,792	35,465
Capital loss after taxation for the year	(241,256)	(12,176)
	---------------	---------------
Total (loss)/profit after taxation for the year	(213,464)	23,289
	=========	=========

	Number	Number
Weighted average number of ordinary shares held outside of Treasury	480,806,725	503,045,428
	=========	=========

9. DIVIDENDS PAID TO SHAREHOLDERS

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Dividend paid		
Dividend of 6.25 pence per ordinary share paid for the year ended 31 March 2023	30,198	–
Dividend of 5.50 pence per ordinary share paid for the year ended 31 March 2022	–	28,240
	---------------	---------------
	30,198	28,240
	=========	=========
Dividend proposed		
Dividend proposed of 6.40 pence per ordinary share for the year ended 31 March 2024	33,471	–

Dividend proposed of 6.25 pence per ordinary share for the year ended 31 March 2023	–	30,199
	---------------	---------------
	33,471	30,199
	=========	=========

The Directors have proposed the payment of a dividend for the year ended 31 March 2024 of 6.40 pence per ordinary share which is subject to approval by shareholders at the Annual General Meeting on 23 July 2024 and has not been included as a liability in these Financial Statements. The dividend will be paid on 31 July 2024 to shareholders on the register at the close of business on 21 June 2024 (ex-dividend date 20 June 2024).

10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024	2023
	£'000	£'000
Total investments[1]	1,162,265	1,318,764
Opening book cost	1,514,572	1,630,492
Opening investment holding losses	(195,808)	(265,007)
Opening fair value of investments	1,318,764	1,365,485
	---------------	---------------
Movements in the year		
Purchases at cost	586,707	440,666
Assets acquired in respect of the transaction with ACIC	120,754	–
Sales – proceeds	(708,959)	(480,475)
Losses on investments	(155,001)	(6,912)
	---------------	---------------
Closing fair value	1,162,265	1,318,764
	=========	=========
Closing book cost	1,398,894	1,514,572
Closing investment holding losses	(236,629)	(195,808)
	---------------	---------------
Closing fair value of investments	1,162,265	1,318,764
	=========	=========

1 The fair value hierarchy of the investments is shown in Note 18.

The Company received £708,959,000 (2023: £480,475,000) from investments sold in the year. The book cost of these investments when they were purchased was £823,139,000 (2023: £556,586,000). 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 on investments were as follows:

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	£'000
Purchases transaction costs	720	599
Sales transaction costs	740	742
	---------------	---------------
	1,460	1,341
	=========	=========

The portfolio turnover rate for the year was 57.7%, excluding the ACIC transaction (2023: 35.5%). 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 2024	Year ended 31 March 2023
	£'000	£'000
Net change to (losses)/gains on derivative instruments		

Realised (losses)/gains on CFDs	(74,311)	6,913
Realised gains on futures	27,951	16,590
Realised losses on options	(4,632)	(2,645)
Movement in investment holding (losses)/gains on CFDs	(11,900)	353
Movement in investment holding gains/(losses) on futures	6,382	(4,466)
Movement in investment holding gains/(losses) on options	1,720	(1,774)
	---------------	---------------
	(54,790)	14,971
	=========	=========

	2024 Fair value £'000	2023 Fair value £'000
Fair value of derivative instruments recognised on the Balance Sheet[1]		
Derivative instrument assets	7,103	22,313
Derivative instrument liabilities	(13,307)	(20,892)
	---------------	---------------
	(6,204)	1,421
	=========	=========

1 The fair value hierarchy of the derivative instruments is shown in Note 18.

	Fair value £'000	2024 Asset exposure £'000	Fair value £'000	2023 Asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	(4,483)	412,237	7,409	512,674
Short CFDs	(1,246)	14,766	(1,238)	19,086
Futures (hedging exposure)	(475)	(138,402)	(6,857)	(172,890)
Call options	–	–	204	2,161
Put options (long exposure)	–	–	(414)	5,097
Put options (short exposure)	–	–	29	188
Put options (hedging exposure)	–	–	2,288	(26,013)
	---------------	---------------	---------------	---------------
	(6,204)	288,601	1,421	340,303
	=========	=========	=========	=========

12. OTHER RECEIVABLES

	2024 £'000	2023 £'000
Securities sold for future settlement	5,957	148
Amounts receivable on settlement of derivatives	2,161	10,135
Accrued income	1,726	1,513
Taxation recoverable	12	13
Other receivables	210	130
	---------------	---------------
	10,066	11,939
	=========	=========

13. BANK LOAN – REPAYABLE WITHIN ONE YEAR

	2024 £'000	2023 £'000
Fixed rate unsecured US dollar loan		
US dollar 100,000,000 fixed at a rate of 6.335%[1]	–	80,857
	---------------	---------------
	–	80,857

========= =========

1 The unsecured loan with The Bank of Nova Scotia, London Branch was repaid on 13 February 2024.

14. OTHER PAYABLES

	2024 £'000	2023 £'000
Securities purchased for future settlement	6,843	12,402
Amounts payable on settlement of derivatives	1,078	4,731
Investment management fees	678	1,266
Finance costs payable	610	977
Accrued expenses	414	1,096
Amounts payable for repurchase of shares for cancellation	179	–
Amounts payable for repurchase of shares into Treasury	–	130
	9,802	20,602

15. SHARE CAPITAL

	2024 Number of shares	2024 Nominal value £'000	2023 Number of shares	2023 Nominal value £'000
Issued, allotted and fully paid				
Ordinary shares of 1 pence each held outside of Treasury				
Beginning of the year	488,325,628	4,884	513,957,409	5,140
New ordinary shares issued in respect of the transaction with ACIC	59,005,997	590	–	–
Ordinary shares repurchased into Treasury	(2,900,696)	(29)	(25,631,781)	(256)
Ordinary shares repurchased for cancellation	(18,749,495)	(187)	–	–
End of the year	525,681,434	5,258	488,325,628	4,884
Ordinary shares of 1 pence each held in Treasury[1]				
Beginning of the year	82,728,852	826	57,097,071	570
Ordinary shares repurchased into Treasury	2,900,696	29	25,631,781	256
End of the year	85,629,548	855	82,728,852	826
Total share capital		6,113		5,710

1 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.

On 13 March 2024, the Company acquired £126.8 million of Net Assets from ACIC, in consideration for the issue of 59,005,997 new shares to ACIC shareholders in accordance with the Scheme.

During the year, the Company repurchased 2,900,696 (2023: 25,631,781) ordinary shares and held them in Treasury. The cost of repurchasing these shares of £6,965,000 (2023: £57,249,000) was charged to the Other Reserve.

The Company also repurchased 18,749,495 (2023: nil shares) ordinary shares for cancellation. The cost of repurchasing these shares of £38,968,000 (2023: £nil) was charged to the Other Reserve.

16. 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 2023	5,710	211,569	917	186,794	877,782	55,649	1,338,421
Losses on investments (see Note 10)	–	–	–	–	(155,001)	–	(155,001)

Losses on derivative instruments (see Note 11)	–	–	–	–	(54,790)	–	(54,790)
Foreign exchange losses	–	–	–	–	(3,858)	–	(3,858)
Foreign exchange gains on bank loan	–	–	–	–	1,517	–	1,517
Investment management fees (see Note 4)	–	–	–	–	(8,991)	–	(8,991)
Other expenses (see Note 5)	–	–	–	–	(35)	–	(35)
Finance costs (see Note 6)	–	–	–	–	(20,098)	–	(20,098)
Revenue profit after taxation for the year	–	–	–	–	–	27,792	27,792
Dividend paid to shareholders (see Note 9)	–	–	–	–	–	(30,198)	(30,198)
New ordinary shares issued in respect of the transaction with ACIC (see Note 15)	590	126,198	–	–	–	–	126,788
Contribution in respect of the transaction with ACIC by the Manager (see Note 2 (a))	–	400	–	–	–	–	400
Repurchase of ordinary shares into Treasury (see Note 15)	–	–	–	(6,965)	–	–	(6,965)
Repurchase of ordinary shares for cancellation (see Note 15)	(187)	–	187	(38,968)	–	–	(38,968)
At 31 March 2024	6,113	338,167	1,104	140,861	636,526	53,243	1,176,014
At 1 April 2022	5,710	211,569	917	244,043	889,958	48,424	1,400,621
Losses on investments (see Note 10)	–	–	–	–	(6,912)	–	(6,912)
Gains on derivative instruments (see Note 11)	–	–	–	–	14,971	–	14,971
Foreign exchange gains	–	–	–	–	8,167	–	8,167
Foreign exchange losses on bank loan	–	–	–	–	(4,814)	–	(4,814)
Investment management fees (see Note 4)	–	–	–	–	(11,715)	–	(11,715)
Other expenses (see Note 5)	–	–	–	–	(4)	–	(4)
Finance costs (see Note 6)	–	–	–	–	(11,869)	–	(11,869)
Revenue profit after taxation for the year	–	–	–	–	–	35,465	35,465
Dividend paid to shareholders (see Note 9)	–	–	–	–	–	(28,240)	(28,240)
Repurchase of ordinary shares (see Note 15)	–	–	–	(57,249)	–	–	(57,249)
At 31 March 2023	5,710	211,569	917	186,794	877,782	55,649	1,338,421

The capital reserve balance at 31 March 2024 includes investment holding losses on investments of £236,629,000 (2023: losses of £195,808,000) as detailed in Note 10 above. See Note 2 (s) for further details. The revenue, capital and other reserves are distributable by way of dividend.

17. NET ASSET VALUE PER ORDINARY SHARE

The calculation of the net asset value per ordinary share is based on the net assets divided by the number of ordinary shares held outside of Treasury.

	2024	2023
Net assets	£1,176,014,000	£1,338,421,000
Ordinary shares held outside of Treasury at year end	525,681,434	488,325,628
Net asset value per ordinary share	223.71p	274.08p

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 so that shares held in Treasury have no dilutive effect.

18. 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, market and economic (including currency), investment performance (including gearing), discount management, unlisted securities, climate change, environmental, social and governance ("ESG"), key person, cybercrime and information security, business continuity, operational and variable interest entity structures. 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 above.

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

The Company's financial instruments may comprise:

- Equity shares (listed and unlisted), equity linked notes, 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 and in addition, the Company has derivative instruments. The unsecured fixed rate loan facility for US$100,000,000 expired on 13 February 2024 as disclosed in Note 13.

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

	2024 £'000	2023 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	416,720	505,265
Bank overdrafts	12,758	–
Bank loan	–	80,857
	429,478	586,122
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	13,520	17,848
Amounts held at futures clearing houses and brokers	24,589	34,813
Cash at bank	7,858	72,943
	45,967	125,604
Net exposure to financial instruments that bear interest	383,511	460,518

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;
- 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:

					2024
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	Total £'000
Chinese renminbi	92,336	–	–	1,372	93,708
Euro	10,903	–	–	–	10,903

Hong Kong dollar	704,175	148,557	18,153	–	870,885
Japanese yen	5,787	22,134	125	341	28,387
Taiwan dollar	7,603	–	12	–	7,615
Thai baht	439	–	–	–	439
UK sterling	17,752	–	209	–	17,961
US dollar	323,270	103,144	16,156	6,145	448,715
	---------------	---------------	---------------	---------------	---------------
	1,162,265	273,835	34,655	7,858	1,478,613
	=========	=========	=========	=========	=========

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	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	2023 Total £'000
Chinese renminbi	170,913	–	–	21,221	192,134
Euro	10,432	–	–	–	10,432
Hong Kong dollar	601,107	270,181	34,483	24,043	929,814
Japanese yen	35,111	–	84	–	35,195
South Korean won	–	–	–	1	1
Taiwan dollar	19,621	–	72	8	19,701
UK sterling	16,221	–	130	–	16,351
US dollar	465,359	50,848	11,983	27,670	555,860
	---------------	---------------	---------------	---------------	---------------
	1,318,764	321,029	46,752	72,943	1,759,488
	=========	=========	=========	=========	=========

1 The asset exposure of long CFDs and options 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, other payables, bank overdrafts and US dollar denominated bank loan. The currency profile of these financial liabilities is shown below:

Currency	Asset exposure of short derivative instruments[1] £'000	Other payables £'000	Bank overdrafts £'000	2024 Total £'000
Hong Kong dollar	–	5,994	12,744	18,738
UK sterling	–	1,271	14	1,285
US dollar	14,766	2,537	–	17,303
	---------------	---------------	---------------	---------------
	14,766	9,802	12,758	37,326
	=========	=========	=========	=========

Currency	Asset exposure of short derivative instruments[1] £'000	Other payables £'000	US dollar bank loan £'000	2023 Total £'000

Hong Kong dollar	13,842	13,658	–	27,500
UK sterling	–	1,823	–	1,823
US dollar	5,432	5,121	80,857	91,410
	---------------	---------------	---------------	---------------
	19,274	20,602	80,857	120,733
	=========	=========	=========	=========

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

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

The Investment 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.

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 2024, £2,811,000 (2023: £15,601,000) 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: Goldman Sachs International Ltd £2,613,000 (2023: £5,814,000), HSBC Bank plc £198,000 (2023: £5,397,000) and UBS AG £nil (2023: £4,390,000). As at 31 March 2024, £24,589,000 (2023: £34,813,000), 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 £15,689,000 (2023: £24,694,000) in cash, J.P. Morgan Securities plc £5,186,000 (2023: £7,273,000) in cash and Morgan Stanley & Co. International Ltd £3,714,000 (2023: £2,846,000) 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:

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	2024 Net amount £'000
CFDs	7,103	–	7,103	(3,844)	(2,389)	870

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	2024 Net amount £'000
CFDs	(12,832)	–	(12,832)	3,844	8,900	(88)
Futures (exchange traded)	(475)	–	(475)	–	475	–
	(13,307)	–	(13,307)	3,844	9,375	(88)

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	2023 Net amount £'000
CFDs	19,792	–	19,792	(9,040)	(9,704)	1,048
Options	2,521	–	2,521	(414)	(2,107)	–
	22,313	–	22,313	(9,454)	(11,811)	1,048

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	2023 Net amount £'000
CFDs	(13,621)	–	(13,621)	9,040	4,581	–
Futures (exchange traded)	(6,857)	–	(6,857)	–	6,857	–
Options	(414)	–	(414)	414	–	–
	(20,892)	–	(20,892)	9,454	11,438	–

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 1.00% 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 £3,835,000 (2023: decreased the profit after taxation and decreased the net assets by £3,797,000). A decrease of 1.00% 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 (2023: decreased the profit after taxation and decreased the net assets) by the following amounts:

	2024	2023
Currency	£'000	£'000
Chinese renminbi	8,519	17,467
Euro	991	948
Hong Kong dollar	77,468	82,028
Japanese yen	2,581	3,200
Taiwan dollar	692	1,791
Thai baht	40	–
US dollar	39,219	42,223
	---------------	---------------
	129,510	147,657
	=========	=========

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 (2023: increased the profit after taxation and increased the net assets) by the following amounts:

	2024	2023
Currency	£'000	£'000
Chinese renminbi	10,412	21,348
Euro	1,211	1,159
Hong Kong dollar	94,683	100,257
Japanese yen	3,154	3,911
Taiwan dollar	846	2,189
Thai baht	49	–
US dollar	47,935	51,606
	---------------	---------------
	158,290	180,470
	=========	=========

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 in the Annual Report.

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 £100,526,000 (2023: increased the profit after taxation and increased the net assets by £112,588,000). 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 £15,701,000 (2023: increased the profit after taxation and increased the net assets by £19,288,000). 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 £25,907,000 (2023: increased the profit after taxation and increased the net assets by £30,176,000). 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), 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.

		2024		2023
	Fair value	Book value	Fair value	Book value
	£'000	£'000	£'000	£'000
Fixed rate unsecured loan of US dollar 100,000,000[1]	–	–	81,092	80,857
	=========	=========	=========	=========

1 The unsecured fixed rate loan facility for US$100,000,000 was repaid on 13 February 2024 as disclosed in Note 13.

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.

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 (e), (l) and (m). The table below sets out the Company's fair value hierarchy:

				2024
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£'000	£'000	£'000	£'000
Investments	980,975	24,282	157,008	1,162,265
Derivative instrument assets	–	7,103	–	7,103
	---------------	---------------	---------------	---------------
	980,975	31,385	157,008	1,169,368
	=========	=========	=========	=========
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(475)	(12,832)	–	(13,307)
	=========	=========	=========	=========

				2023
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£'000	£'000	£'000	£'000
Investments	1,081,458	44,428	192,878	1,318,764
Derivative instrument assets	2,492	19,821	–	22,313
	---------------	---------------	---------------	---------------
	1,083,950	64,249	192,878	1,341,077
	=========	=========	=========	=========
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(7,271)	(13,621)	–	(20,892)
	---------------	---------------	---------------	---------------
Financial liabilities at fair value				
Bank loan	–	(81,092)	–	(81,092)
	=========	=========	=========	=========

Level 3 investments (unlisted and delisted investments)

	2024 £'000	2023 £'000
Pony.ai	42,805	48,272
DJI International	30,769	30,475
Chime Biologics	27,312	29,064
Venturous Holdings	25,602	26,015
ByteDance	24,724	24,035
Tuhu Car (moved into Level 1)	–	14,024
Cutia Therapeutics (moved into Level 1)	–	11,575
Beisen (moved into Level 1)	–	9,418
Shanghai Yiguo	–	–
4 listed investments whose listings are currently suspended	5,796	–
	157,008	192,878

Pony.ai
Pony.ai develops artificial intelligence and autonomous driving technology solutions for transportation and is an unlisted company. The valuation at 31 March 2024 is based on the company's financial performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2024, its fair value was £42,805,000 (book cost: £24,892,000).

DJI International
DJI International is a manufacturer of drones and is an unlisted company. The valuation at 31 March 2024 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, product development and benchmarking the position to a range of comparable market data. As at 31 March 2024, its fair value was £30,769,000 (book cost: £22,416,000).

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 2024 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 2024, its fair value was £27,312,000 (book cost: £25,227,000).

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 2024 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 2024, its fair value was £25,602,000 (book cost: £23,701,000).

ByteDance
ByteDance develops applications for smart phones and is an unlisted company. The valuation at 31 March 2024 is based on the company's financial performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2024, its fair value was £24,724,000 (book cost: £7,361,000).

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 2024 (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 China Renaissance Holdings (suspended April 2023). All holdings have been valued at £nil, apart from China Renaissance Holdings which has been valued at £5,796,000.

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% of 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	Income recognised from the holding in the year	Turnover £'000	Pre-tax profit/(loss) £'000	Net assets attributable to shareholders £'000
Pony.ai	n/a	nil			Information not publicly available
DJI International	n/a	nil			Information not publicly available
Chime Biologics	n/a	nil			Information not publicly available

Movements in level 3 investments during the year	2024 Level 3 £'000	2023 Level 3 £'000
Level 3 investments at the beginning of the year	192,878	194,650
Purchases at cost	–	–
Sales proceeds - Venturous Holdings	(2,943)	–
Sales gain - Venturous Holdings	615	–
Transfers into level 3 at cost – China Renaissance Holdings	17,316	–
Transfers out of level 3 at cost[1]	(35,153)	(9,971)
Unrealised (loss)/profit recognised in the Income Statement	(15,705)	8,199
Level 3 investments at the end of the year	157,008	192,878

1 Financial instruments are transferred out of level 3 when they become listed. See above for more information.

19. 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 in the Annual Report. The principal risks and their management are disclosed above and in Note 18 above.

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

2024	Gross gearing Exposure £'000	Gross gearing %[1]	Net gearing Exposure £'000	Net gearing %[1]
Investments	1,162,265	98.8	1,162,265	98.8
Long CFDs	412,237	35.1	412,237	35.1
Total long exposures before hedges	1,574,502	133.9	1,574,502	133.9
less: short derivative instruments hedging the above	(138,402)	(11.8)	(138,402)	(11.8)
Total long exposures after the netting of hedges	1,436,100	122.1	1,436,100	122.1
Short CFDs	14,766	1.3	(14,766)	(1.3)
Gross Asset Exposure/net market exposure*	1,450,866	123.4	1,421,334	120.8
Net Assets	1,176,014		1,176,014	
Gearing [2]		23.4%		20.8%

2023	Gross gearing Exposure £'000	Gross gearing %[1]	Net gearing Exposure £'000	Net gearing %[1]
Investments	1,318,764	98.5	1,318,764	98.5
Long CFDs	512,674	38.3	512,674	38.3
Call options	2,161	0.2	2,161	0.2
Put options (long exposure)	5,097	0.4	5,097	0.4
Total long exposures before hedges	1,838,696	137.4	1,838,696	137.4
less: short derivative instruments hedging the above	(198,903)	(14.9)	(198,903)	(14.9)

Total long exposures after the netting of hedges	1,639,793	122.5	1,639,793	122.5
	=========	=========	=========	=========
Short CFDs	19,086	1.4	(19,086)	(1.4)
Put options (short exposure)	188	–	(188)	–
	---------------	---------------	---------------	---------------
Gross Asset Exposure/net market exposure*	1,659,067	123.9	1,620,519	121.1
	=========	=========	=========	=========
Net Assets	1,338,421		1,338,421	
	---------------		---------------	
Gearing[2]		23.9%		21.1%
		=========		=========

* Defined in the Glossary of Terms in the Annual Report.
1 Exposure to the market expressed as a percentage of Net Assets.
2 Gearing is the amount by which Gross Asset Exposure/net market exposure exceeds Net Assets expressed as a percentage of Net Assets.

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

Details of the current fee arrangements are given in the Directors' Report in the Annual Report. During the year, management fees of £11,421,000 (2023: £14,727,000) were payable to Fidelity. At the Balance Sheet date, management fees of £678,000 (2023: £1,266,000) were accrued and included in other payables. Fidelity also provides the Company with marketing services. The total amount payable for these services was £269,000 (2023: £263,000). At the Balance Sheet date, marketing services of £91,000 (2023: £43,000) were accrued and included in other payables.

FIL Investment Services (UK) Limited agreed to contribute towards the costs of the transaction with ACIC and an amount equal to eight months of management fees in the year to 31 March 2025, that would otherwise be payable by the enlarged Company to the AIFM in respect of the assets transferred by ACIC to the Company pursuant to the Scheme was waived. In the financial period ended 31 March 2024, the Company has recognised an initial contribution of £400,000 in respect of the transaction with ACIC, with the balance being recognised in the year ending 31 March 2025.

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 in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £23,000 (2023: £22,000) of employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £26,000 (2023: £22,000) were accrued and payable.

ALTERNATIVE PERFORMANCE MEASURES

DISCOUNT/PREMIUM
The discount/premium is considered to be an Alternative Performance Measure. It is the difference between the Net Asset Value ("NAV") per Ordinary Share of the Company and the Ordinary Share price expressed as a percentage of the NAV per Ordinary Share. Details of the Company's discount/premium are in the Financial Highlights in the Annual Report and are both defined in the Glossary of Terms in the Annual Report.

GEARING
Gearing (both gross and net) is considered to be an Alternative Performance Measure. See Note 19 above 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 and Note 17 above for further details.

ONGOING CHARGES RATIO
The ongoing charges ratio is considered to be an Alternative Performance Measure. It 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.

	2024	2023
Investment management fees (£'000)	9,719	12,049
Other expenses (£'000)	1,238	1,101
	---------------	---------------
Ongoing charges (£'000)	10,957	13,150
	=========	=========
Variable management fees (£'000)	1,702	2,678
Average net assets (£'000)	1,122,589	1,338,770
	---------------	---------------
Ongoing charges ratio	0.98%	0.98%
	---------------	---------------
Ongoing charges ratio including variable management fees	1.13%	1.18%
	=========	=========

The ongoing charges ratio represents the total expenses of the Company, excluding transaction costs, interest payments, tax and non-recurring expenses expressed, as a percentage of the average daily net asset value, in accordance with guidance issued by the AIC. The ongoing charges ratio, excluding the variable management fee, for the year ended 31 March 2024 was 0.98%. It is estimated that the ongoing charges ratio for the year ending 31 March 2025 will be 0.88%, the significant reduction reflecting the management fees waived by the Manager in lieu of its contribution to the costs of the Company's transaction with ACIC.

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 and Note 8 above for further details.

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 2024 and 31 March 2023.

2024	Net asset value per share	Share price
31 March 2023	274.08p	247.50p
31 March 2024	223.71p	201.00p
Change in the year	-18.4%	-18.8%
Impact of dividend reinvestment	+2.1%	+2.4%
	---------------	---------------
Total return for the year	-16.3%	-16.4%
	=========	=========

2023	Net asset value per share	Share Price
31 March 2022	272.52p	252.00p
31 March 2023	274.08p	247.50p
Change in the year	+0.6%	-1.8%
Impact of dividend reinvestment	+2.0%	+2.1%
	---------------	---------------
Total return for the year	+2.6%	+0.3%
	=========	=========

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 March 2024 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2023 and 2024 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2023 is derived from the statutory accounts for 2023 which have been delivered to the Registrar of Companies. The 2024 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the above results announcement will be available on the Company's website at www.fidelity.co.uk/china within two working days.

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

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: www.fidelity.co.uk/china where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

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

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