

FIDELITY CHINA SPECIAL SITUATIONS PLC

Final Results for the year ended 31 March 2021

Financial Highlights:

- The Board of Fidelity China Special Situations PLC (the “Company”) recommends an annual dividend of 4.68 pence per share, an increase of 10.1% from last year.
- The Company recorded its highest annual net asset value (“NAV”) total return of +81.9% and share price total return of +97.2%, significantly outperforming the MSCI China Index return of +29.1%.
- The unlisted space in China has expanded quite markedly and offers some excellent opportunities for patient, long-term investors. At the reporting year end, the Company had 7.4% of Net Assets plus Borrowings in nine unlisted holdings.
- Subject to shareholder approval, the Board proposes increasing the Company’s permitted limit in unlisted holdings from 10% to 15% of Net Assets plus Borrowings.

Contacts

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CHAIRMAN'S STATEMENT

The reporting year started just as the global pandemic was declared and finished as we began to emerge from the effects of the COVID-19 virus. In calendar year 2020 virtually every major economy in the world recorded negative GDP numbers with the exception of China which generated 2.3% growth in GDP. Not surprisingly, therefore, our Benchmark Index, the MSCI China index, returned 29.1% in the reporting year as investors recognised that China, having been first to experience the effects of the virus was also the first to emerge.

Against that backdrop our Portfolio Manager achieved a total return on net asset value for the year of 81.9%. This is a remarkable achievement and in the Portfolio Manager's Review Dale Nicholls sets out his investment philosophy, which has remained constant since his appointment. He has continued to concentrate on the increase in the wealth and the size of the middle class in China as the driver of growth in the value of companies which provide goods and services to the middle class. In the latter stages of the reporting year, in early 2021, the equity market in China consolidated, but our value driven approach underpinned our performance.

In the year, our share price total return was 97.2% as the discount narrowed from around 10% to around 1% reflecting investors' wish to be exposed to the Chinese economy through our investments in companies that are part of the remarkable growth of New China.

We have always advocated that investors who wish to have a diversified portfolio should have a portion of it dedicated to China to gain exposure to the continuing growth in the Chinese economy. Certainly, in the last year, that has been proved right; and indeed the annual growth in the value of an investment in the Company over the last ten years has been 15.6% based on share price total return. Another benefit witnessed in recent times is that the Chinese equity market has been a useful diversifier of risk for investors seeking a diversified portfolio.

ACCESSING CHINA'S GROWTH AS AN INVESTOR

Fidelity China Special Situations was launched to offer sterling based investors an exposure to China. We chose a closed ended fund – an investment trust – as the vehicle for a number of reasons. Being immune from withdrawals of capital a closed ended fund can take longer-term decisions and purchase less liquid stocks. This has enabled us to invest in unlisted companies as well as those listed on a stock exchange. It gives the Manager the ability to gear the fund to assist performance and to take short positions. Liquidity for an investor in the Company is also assured through its critical mass and our membership of the FTSE 250 Index with a market capitalisation of £2,159.8m on 31 March 2021.

As Dale explains in his Portfolio Manager's Review, he has constructed the Company's portfolio to benefit from "New China" and the extraordinary growth there in consumption. Only a small proportion of the companies he invests in are export based; they all benefit from domestic growth and because of that are, to a large extent, distanced from the effects of global geo-political goings on.

The portfolio is therefore constructed to offer investors a "one stop shop" investment in China. Larger companies such as Tencent Holdings and Alibaba Group Holding are included, which are market leaders in New China, and as shown in the Annual Report, the forty largest holdings represent 63% of our total geared portfolio (expressed as a percentage of Gross Asset Exposure). A further 107 companies make up the balance of the portfolio giving exposure to a wide range of businesses predominantly in the New China category. Spread across the portfolio are our unlisted investments where we hope to benefit from significant uplifts in value when they come to IPO.

FIDELITY AS MANAGER

The Board has contracted with Fidelity to provide the Company with investment management and administrative services. In reviewing Fidelity, the Board notes Fidelity International's strong position in fund management in China where it employs a significant number of analysts on the ground in both Shanghai and Hong Kong. Furthermore, the performance of Dale, as Portfolio Manager, since his appointment on 1 April 2014, has been very strong and well ahead of the Benchmark Index (NAV per share total return of +299.8% and share price per share total return of +342.5% compared to the Benchmark Index return of +156.4%).

Some simplifications to our management agreement are set out below.

DUE DILIGENCE VIRTUAL MEETINGS

Each year the Board has visited China to spend time with Fidelity International's analysts and staff, together with Dale, and to meet some of the companies in which we are invested. Travel was not possible this year and so we undertook a virtual trip. During the course of our due diligence week, we met management teams and key personnel from a number of companies in the portfolio and gained insight into how research is being conducted by Fidelity International's analysts in a virtual environment.

As in previous years, we listened to presentations from leading investment strategists and economists. We also spoke to members of Fidelity's investment and research teams and in particular Fidelity's Global Head of Stewardship & Sustainable Investing.

Among the companies we met was Yadea - a world leader in electrically powered transportation. Founded in 2001, the company is now the largest two-wheel electric vehicle producer globally and its core business focuses on the design, research, development, manufacturing and sales of electric scooters and bicycles, among others. The company has poured considerable resources into technological innovation and has obtained several hundred patents, including graphene batteries, power motors and smart travel.

We also heard from the management team of Intron Technology Holdings, a 'technology enabler' supporting manufacturers and components suppliers to incorporate enhancements and innovative solutions for critical automotive electronic components. Its business network covers 16 major cities in China.

We also saw representatives from Renrui Human Resources Technology Holdings, JNBY Design Ltd, SKSHU Paint Company, Full Truck Alliance and Venturous Holdings.

Details of our largest ten holdings are set out in the Annual Report.

Our visit reconfirmed our confidence in the Portfolio Manager and his team of research analysts. It was also a useful insight into the manner in which virtual due diligence is carried out where no alternative exists. Market participants have adapted rapidly.

UNLISTED COMPANIES

At present the Company is permitted to invest up to 10% of its Net Assets plus Borrowings (which has been referred to as gross assets in previous reports) in unlisted companies. As the Portfolio Manager mentions in his Review, in recent years the unlisted space in China has expanded quite markedly and offers some excellent opportunities for patient, long-term investors.

At the reporting year end, the Company had 7.4% of Net Assets plus Borrowings in nine unlisted holdings (2020: six unlisted investments representing 6.0% of Net Assets plus Borrowings). New additions to the portfolio in the twelve months to 31 March 2021 were Full Truck Alliance, Venturous Holdings and Chime Biologics.

Since the end of the reporting year, the Company has also taken a new position in Beisen, and at the end of May 2021, the portfolio held ten unlisted investments totalling 8.1% of Net Assets plus Borrowings.

Over the years we have been able to make investments in unlisted companies who have established their business model and are looking towards an IPO. Fidelity International has grown its expertise in this area both in identifying and also in valuing new opportunities and then in monitoring them as they progress to their IPO. At the same time the period from investment to IPO has lengthened as unlisted companies are finding it possible to fulfil their capital needs with more rounds of capital raising pre-IPO. Taken together this has led us to conclude that we should have the ability to hold a greater proportion of the Company in unlisted investments. We are therefore placing before shareholders, at the Annual General Meeting, a proposal to increase our limit from 10% to 15% of Net Assets plus Borrowings.

Details of the unlisted companies currently held are set out in the Annual Report and a proposal to increase the cap on unlisted investments is set out below and in the Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTMENT

The scale and sophistication of China's modern equity markets belies the fact that they are only 30 years old. For many Chinese domestically listed A-share companies, the priorities to date have centred on survival and growth. More recently, however, corporate mentality has begun to shift as the country rebalances its economy from a model of growth at all costs to one that stresses quality and sustainability.

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

Launched during the reporting year under review, Fidelity International's inaugural China Stewardship Report features a proprietary study of shareholder voting patterns across nearly 7,000 shareholder meetings and 40,000 company filings at Chinese A-share firms, plus on-the-ground evidence from Fidelity's onshore ESG engagements in China. The report paints a clear picture of steady progress across-the-board when it comes to investment stewardship in China.

As a stock picker, our Portfolio Manager attempts to assess the quality of governance in the companies he researches and visits, as experience has clearly shown that better governed companies make better investments. Dale and his investment team have been on the front foot in lobbying for better disclosure and governance. Fidelity International as an organisation embeds ESG factors in its investment decision making process including considerations relating to the reduction of carbon emissions by investee companies.

In recent years Fidelity International has developed a proprietary sustainability ratings system leveraging its internal research and interactions with issuers. The ratings are designed to generate a forward-looking and holistic assessment of ESG risks and opportunities. Analysts quantify the direction of change of companies' ESG performance (positive, neutral or negative trajectory). Analysts rate companies in ESG using a scale of A to E. The Board pays close attention to the ratings of underlying portfolio companies and challenges the Portfolio Manager and his team on any stocks with lower (so-called 'D' and 'E') ratings.

Further details are below.

RISKS

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

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

GEARING

The Company has a three-year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US\$100,000,000. The interest rate is fixed at 2.606% per annum until the facility terminates on 14 February 2023.

To achieve further gearing, the Company uses contracts for difference ("CFDs") on a number of holdings in its portfolio. Further details are in Note 19 to the Financial Statements below.

At 31 March 2021, the Company's Gross Gearing, defined as Gross Asset Exposure in excess of Net Assets, was 26.2% (2020: 25.2%). The level of Gross Gearing is determined by the Manager within the limit set by the Board of 30%. Net Gearing, which nets off short positions, was 18.4% at the year end (2020: 23.2%).

DIVIDEND

At the launch of the Company, it was envisaged that returns for investors would come from capital growth. Nevertheless, we have been able to increase the dividend per share every year since the Company launched (see the Annual Report for a record of the last ten years). With interest rates being low, the Directors recognise that the dividend has become a more important part of the total return to shareholders.

The Board recommends a final dividend of 4.68 pence per share for the year ended 31 March 2021 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 20 July 2021. This represents an increase of 10.1% over the 4.25 pence paid in respect of the prior year. The dividend will be payable on 27 July 2021 to shareholders on the register on 18 June 2021 (ex-dividend date 17 June 2021).

The revenue per share earned by the company during the year was 4.70 pence, which is an increase of 4.2% over the 4.51 pence earned in the prior year, and covers the recommended dividend. This highlights the point about risk diversification made earlier in that all other major equity markets experienced dividend declines during the year.

DISCOUNT MANAGEMENT

The Board believes that investors are best served when the share price trades close to net asset value. The Board recognises that the Company's share price is affected by the interaction of supply and demand in the market based on investor sentiment towards China and the performance of the NAV per share. The Board has a discount control policy in place whereby it seeks to maintain the discount in single digits in normal market conditions and will, subject to market conditions, repurchase shares with the objective of stabilising the share price discount within a single digit range.

The Company's discount narrowed significantly from 8.6% at the start of the reporting year to 1.1% at the end of its reporting year. During the year, the Board authorised the repurchase of 23,345,560 shares into Treasury, representing 4.1% of issued share capital. These share repurchases have benefited remaining shareholders as the NAV per share has been increased by purchasing shares at a discount. Since the year end and as at the date of this report, the Company has not repurchased any more shares into Treasury or for cancellation. The graph below shows the progress of the Company's discount during the year.

DISCOUNT TO NAV

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

ONGOING CHARGES

The Ongoing Charge for the year was 0.97% (2020: 0.99%). The variable element of the management fee was a charge of 0.12% (2020: credit 0.20%). Therefore, the Ongoing Charge for the year, including the variable element, was 1.09% (2020: 0.79%).

MANAGEMENT FEES

Recognising the growth in the net asset value of the Company, the Board agreed a new fee arrangement with FIL Investment Services (UK) Limited, the Company's Alternative Investment Fund Manager (the "Manager"), with effect from 1 April 2021. The revised fee structure is on a tiered basis of 0.90% on the first £1.5bn of Net Assets reducing to 0.70% on Net Assets over £1.5bn. The variable element from the current fee structure of +/-0.20% remains unchanged. In addition, the fixed annual fee of £100,000 for services other than portfolio management has been removed. The revised fee will provide savings on the overall percentage costs for shareholders.

Details of the fee structure for the year ended 31 March 2021 are set out in the Directors' Report in the Annual Report.

BOARD OF DIRECTORS

Elisabeth Scott who has served on the Board as a non-executive Director since 1 November 2011 and as Senior Independent Director since 22 July 2016, will step down from the Board at the conclusion of the AGM on 20 July 2021. I would like to thank her on behalf of the Board and all of the Company's stakeholders for her invaluable contribution to the Company. We shall miss her wisdom as a Board member and as Senior Independent Director and she takes with her our good wishes for the future. Elisabeth will be replaced as Senior Independent Director by Linda Yueh on 20 July 2021.

Having served on the Board as a Director since the Company's launch on 19 April 2010, Peter Pleydell-Bouverie stepped down from the Board at the conclusion of the AGM on 23 July 2020. As Peter's replacement, Vanessa Donegan was appointed to the Board as a non-executive Director and also as Chair of the Investment Committee on 1 September 2020. Mrs Donegan has 37 years of Asian fund management experience, including managing dedicated China portfolios. She was Head of the Asia Pacific desk at Columbia Threadneedle Investments Ltd. (formerly Threadneedle Investments Ltd.) for twenty-one years and has extensive experience of marketing to retail and institutional clients across the globe. She is an independent non-executive director of Herald Investment Management Ltd., the JP Morgan Indian Investment Trust plc, the Invesco Asia Trust plc and the SSGA Luxembourg SICAV.

The Board's succession plan for the next year is set out in the Corporate Governance Statement in the Annual Report.

As part of the Board's succession planning it has been decided that I will retire as Chairman at the AGM in 2022. Following a formal process, the Board has chosen Mike Balfour as my successor. As Mike is currently Chairman of the Audit and Risk Committee, the Director recruited to replace Elisabeth Scott was chosen also to succeed him as Chairman of the Audit and Risk Committee in 2022. The Board has appointed Alastair Bruce as a non-executive Director with effect from 1 July 2021. His biography is in the Annual Report and he will stand for election at the AGM on 20 July 2021.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, all Directors, with the exception of Elisabeth Scott, are subject to annual re-election at the AGM on 20 July 2021. Vanessa Donegan, having been appointed in the reporting year, is subject to election at the same AGM. The Directors' biographies can be found in the Annual Report, and, between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

BOARD APPRENTICE

The Board continues to participate in the Board Apprentice Scheme which is the result of a government-supported scheme to give board exposure to aspiring non-executive directors, particularly women and minority groups. Kal Foley-Khalique was appointed as a Board Apprentice on 1 December 2020 for a period of one year. She attends all Board and Committee meetings as an observer and it is intended that this will assist her aspirations in securing a non-executive director role in the future.

CHANGE ON WORDING OF THE INVESTMENT OBJECTIVE

As described above, we are seeking shareholder consent to increase the limit of unlisted investment from 10% of Net Assets plus Borrowings to 15%. Recognising the growing importance of unlisted investments within the Company we feel that this should be reflected in the wording of the Investment Objective. The revised text of the Investment Objective is shown in the Appendix to the Notice of Meeting in the Annual Report.

INVESTMENT MANAGEMENT AGREEMENTS AND INVESTMENT COMMITTEE

The Board has taken the opportunity to simplify the two management agreements which had been in place since the launch of the Company into one agreement. While FIL Investment Services (UK) Limited will remain as the Company's Alternative Investment Fund Manager (AIFM), all delegated investment management, including for the unlisted securities, will be carried out by FIL Investment Management (Hong Kong) Limited. Previously, the investment management of the unlisted securities was delegated to FIL Investments International ("FIL").

The Board is also taking the opportunity to simplify its own committee structures by disbanding the Investment Committee. Its activities will be consolidated, with oversight of the Portfolio Manager taking place under the auspices of the main Board and valuations of hard to price assets in the Company's portfolio being considered by the Audit and Risk Committee.

These changes took effect from 1 June 2021 when a new Investment Management Agreement was entered into.

Full details of the Investment Management Agreement are set out in the Annual Report.

ARTICLES OF ASSOCIATION

Among the temporary measures forced upon us by the COVID-19 pandemic was the closed session AGM we held last year.

With the intention of providing the very best experience for shareholders longer-term and mindful of potential future restrictions, the Board is proposing amendments to the Articles of Association (the "Articles") to enable the Company to hold 'hybrid' general meetings. 'Hybrid meetings' involve both the physical attendance by shareholders as well as by shareholders via electronic means. By changing the Company's Articles, the Board will have the ability to determine whether a future AGM or general meeting should be held as a 'physical meeting' or as a 'hybrid meeting'.

My fellow Directors and I greatly enjoy the opportunity to meet and exchange views with shareholders and a physical meeting will remain our preferred format provided Government guidance permits it, but we are keen to provide virtual facilities for future AGMs should it be necessary.

We have also taken the opportunity to update certain other provisions within the Articles, including for example, in relation to retirement of Directors, Directors' fees and regulatory restrictions and information. A full tracked version of all the changes proposed to the Articles is available at www.fidelity.co.uk/china. The principal changes proposed to the Articles are set out in more detail in the Directors' Report in the Annual Report.

OUTLOOK

It is now widely accepted that investors should have a direct exposure to China within a diversified portfolio. While recognising that investment in multinational companies may bring an indirect exposure through their global activities, the size and growth of the economy in China combined with the vast array of companies, both listed and unlisted, tapping into that growth potential makes direct exposure a compelling investment opportunity in my view.

We have set out to provide that exposure through one single investment vehicle: Fidelity China Special Situations. We recognise that investors have other choices, in both closed-ended and open-ended vehicles, for making an investment in China, but our Portfolio Manager has constructed the portfolio to provide a broad-based exposure to “New China” focusing on the long-term growth trajectory of the underlying companies and based on fundamental research that ensures a disciplined approach to valuation.

The Board remains very positive about the prospects for the Company.

ANNUAL GENERAL MEETING - TUESDAY 20 JULY 2021 AT 11.00 AM

In response to the ongoing pandemic, we are, once more, adjusting the format of the AGM this year.

With travel restrictions in place, our Portfolio Manager will not be able to fly from Asia to London to attend the event and thus while we will be hosting a physical event, we anticipate very limited numbers in attendance. Guests will not be permitted. The AGM will be restricted to the formal business of the meeting as set out in the Notice of Meeting in the Annual Report and voting on the resolutions therein. It will be held at 11.00 am at 155 Bishopsgate, London EC2M 3YD. Appropriate social distancing and hygiene measures will be in place and under the circumstances it is unlikely that we will be able to offer the usual catering service.

Ahead of the AGM, online presentations by the Portfolio Manager and me will be held at 9.30 am on 8 July 2021 which will cover a review of the Company’s reporting year and market outlook. You will also have the opportunity, then, to put your questions to us live. Details will be made available nearer the time at www.fidelity.co.uk/china. If anything changes then we will advise investors via the website. Copies of the Portfolio Manager’s presentation can be requested by email at investmenttrusts@fil.com or in writing to the Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. We encourage all investors who have any questions or comments to contact the Secretary so that she can relay your comments to the Board, and we will respond in due course.

We urge all shareholders to vote and make use of the proxy form provided. If you hold shares through the Fidelity Platform, other platforms or a nominee (and not directly in your own name), proxy forms are not provided, and you are advised to contact the company with which you hold your shares in order to lodge your voting instructions.

NICHOLAS BULL

Chairman

7 June 2021

PORTFOLIO MANAGER’S REVIEW

Question

How has the Company performed in the year under review?

Answer

Pleasingly, the Company’s NAV per share return was 81.9% over the reporting year ending 31 March 2021. The Company’s share price, meanwhile, returned 97.2% in sterling terms versus the MSCI China Index’s return of 29.1%. (All performance data on a total return basis).

Question

Investment performance in the year under review has been excellent. What have the drivers been?

Answer

The year under review has certainly been one of the most challenging and unusual times I have experienced as an investor. The economic and social impact from COVID-19 has been unprecedented – at least in modern times – which in turn, has seen us work and live in different ways.

With borders generally remaining closed, not just in China but across the Asia Pacific region and around the world, virtual communication has become the new ‘norm’. From an investment perspective, our research process has remained robust, with Fidelity’s investment team swiftly adapting to the changes we have endured. We have been doing a similar number of meetings, but mostly in a virtual format – and have found company management teams on the whole being very amenable and adaptable to this new reality. I still very much value face-to-face contact with management teams and on the ground due diligence meetings with the companies we invest in. The good news is that with life very much back to normal on the ground in China, our team there is back to doing just that. Without a doubt, our research team’s ongoing dedication and focus during this review period has been a key contributor to the portfolio’s strong performance.

From an attribution perspective, ‘New China’ and consumer related stocks were particularly strong performers over the year. Of the 81.9% NAV total return, 47.1% was due to stock selection and 11.1% was from gearing. The strength of sterling detracted 18.3% from returns over the year. Further details on all the components contributing to the NAV total return are in the Attribution Analysis in the Annual Report. Many shareholders will remember that I previously showcased China Meidong Auto Holdings. Over the year, it has benefited from improving margins in car sales, coupled with strong after-sales services growth. It is also worth noting that during the peak of the lockdown in China back in the first quarter of 2020, we spoke to its management team who expected that strong brand and customer relationships would help position them well for when the pent-up demand story played out. Given China Meidong’s significant share price appreciation, I have reduced our exposure, but it still remains a core position in the portfolio.

Also, within the transportation industry, a position in China’s largest two-wheeler e-bike manufacturer, Yadea Group Holdings, has been a notable contributor to performance. Yadea’s strong brand, coupled with its expanding distribution network and focus on innovative and differentiated products underpinned the share price’s performance. However, with valuations here also becoming less attractive, I have closed out the position.

Focusing now on the healthcare segment, Wuxi AppTec (another core holding that I have previously highlighted) benefited from ongoing strong global demand for contract research and manufacturing services. The company’s ability to grow its strong talent pool is a key strength. Looking ahead there is exciting potential upside from new technology developments, such as its cell/gene therapy business.

In terms of consumer technology companies, participating in the Hong Kong Initial Public Offering (IPO) of the Chinese short-video application company Kuaishou Technology also added to performance. Regarded as one of the most popular social platforms in China (akin to ByteDance, which is an unlisted position in the portfolio), Kuaishou's better-than-anticipated quarterly earnings lifted sentiment towards the stock. While the IPO was deemed to be a great success, the company's growth outlook remains promising as it's supported by the ramp-up of monetisation in advertising and livestreaming e-commerce.

The exposure to leading carrier-neutral internet data centre services provider 21Vianet Group also proved rewarding, with strong performance supported by robust demand for its cloud services, coupled with expectations of increased demand for fifth generation (5G) applications. In our view, its management has delivered on its strategy as it continues to expand the base of large wholesale clients.

Conversely, not holding the likes of Meituan, Nio and Baidu weighed on relative performance as these stocks performed strongly over the reporting period. While I remain very positive on the outlook for industries such as electric vehicles, in many cases I find very little margin of safety given current valuations.

In the "less-loved" parts of the market such as the materials sector, investments relating to the 'industry consolidation' theme delivered solid returns. Many industries remain very fragmented compared to industry structures we see in the West, but the process of market consolidation is clearly underway and it may have accelerated with the disruption the pandemic has brought. We remain very focused on identifying the winners to come out of this process.

One of the subsectors that I have found attractive is the paint business, which is characterised by high margins, robust returns on capital and strong cash flows. Furthermore, and as highlighted above, industry dynamics coupled with increasing demand have resulted in leading paint players gaining market share, for example SKSHU Paint Company, one of China's largest paint manufacturers. It offers products such as exterior architectural coatings, interior household paint products and waterproofing materials. Consistent market share gains have driven strong top-line growth and disciplined cost control has helped it maintain healthy margins. In the type of macro environment we have endured over the year, it's been paramount for me and our analysts to focus on how management teams manage their costs and cash flows. The Company also holds Asia Cuanon Technology, another leading paint producer. It is also well positioned to benefit from industry consolidation, urban renovation and its penetration into lower tiered markets. Suffice to say that these factors have helped Asia Cuanon perform strongly over the year.

Question

What have you been focused on over the year and how is the Company currently positioned?

Answer

In the early days of COVID-19, we applied extra focus on companies' balance sheets and their ability to survive for a period of potentially significantly lower revenues. In the ensuing sell-off in the market, I felt that in many cases valuations had become compelling. This provided opportunities to add to these names – leading to rising net leverage in the portfolio, primarily during the first half of the financial year. Later in the year, we saw strong moves in many parts of the market – with valuations becoming less attractive, and more selling has seen net gearing move down (despite the rising weight of unlisted holdings). The shorting book has also been larger than it has been historically.

There hasn't been a significant change in the portfolio's core themes. In fact, within many of these areas, COVID-19 has accelerated structural trends already underway in China, for example, the wider penetration and acceptance of e-commerce, online entertainment and educational services, which bodes well for structural growth industries such as information technology (IT) and certain consumer discretionary sectors.

With so-called COVID-19-beneficiaries significantly outperforming the broader market, the valuation gap between different sectors and parts within the market became more extreme over the year. We saw large cap, well-loved stocks in sectors such as big tech and biotech trade at steep multiples versus their smaller cap peers or versus the multiples of other sectors. With this in mind, and as highlighted earlier, we found several attractive opportunities within areas such as materials and textiles.

Within financials, I continue to favour insurers, given the low penetration in protection-type life insurance areas and expected demand growth given higher incomes. The insurance sector could also, over time, see renewed demand from COVID-19, as people focus more on protection in areas such as health insurance. The portfolio continues to hold an exposure to China Pacific Insurance Group, which is the third largest insurance group in China covering life and property and casualty segments. I also have a positive view towards the management team's new efforts to incentivise their workforce and boost productivity.

In the depths of COVID-19, I initiated a position in the aircraft lessor BOC Aviation. Whilst potentially appearing to be in the 'eye of the COVID-19 storm' and being valued accordingly, we had confidence that it was well placed to weather the storm and come out stronger. Thankfully this has played out to date, with the company clearly faring better than its peers. While its airline clients have been under pressure, as we have seen in previous downturns, it is worth bearing in mind that failing airlines don't equate to failing lessors as aircraft are usually re-leased to stronger players. Leveraging the strength of its balance sheet, market conditions provide an opportunity for BOC Aviation to meaningfully grow its leasing book. Also, the market seems to be pricing in significant changes in long-term travel patterns, which I think is unlikely to occur. Yes, there could be some impact to travel demand as we grow more comfortable with video conferencing, but the underlying propensity to travel driven by the expanding middle class in countries like China, we feel, will return.

Another sector that I feel is somewhat neglected in the market, despite strong underlying growth prospects and good consolidation potential, is flexible staffing. A key holding here is Renrui Human Resources Technology Holdings, which is the largest flexible staffing service provider in China, with more than 3,000 clients in 30 provinces and 150 cities across China. Its size makes it very competitive, with other players in this space significantly lagging Renrui in terms of quality, speed and service capability.

Other opportunities were also found in the more cyclical parts of the market. A good example is the shipping industry, being as we are in the rebalancing phase of the tanker cycle, with tanker demand recovering while destocking continues. Meanwhile, the supply side remains very tight and order books (as a percentage of fleet) are at historical lows. Areas such as dry bulk should see an earlier recovery aided by targeted stimulus and infrastructure projects. China Merchants Energy Shipping, one of the largest shipping conglomerates in the world is held in the portfolio, which should benefit from the expected recovery.

Finally, extended valuations have created more shorting opportunities. While these will never be very large positions, the short book has grown over the period to over 3% of Net Assets. As discussed earlier, stock specific areas such as electric vehicles provide some interesting opportunities for shorting. With valuations as elevated as they are, I feel that the market could be underestimating just how competitive this sector will prove to be.

Question

In valuations terms, where are we now versus a year ago and what next?

Answer

As Chinese equities have been one of the best performing asset classes during 2020, valuations are currently not as attractive as they were at the start of the review period. However, as the charts in the Annual Report indicate, relative to other markets such as the US, Chinese stocks continue to trade at a significant discount, with arguably better mid-term growth prospects.

CHINA EQUITY VALUATIONS: MSCI CHINA

I believe the return to 'normality' in China should also mean lower risks relative to other economies with higher uncertainties relating to the virus as well as policy direction. More recently, performance has broadened out across the market – compared to

the more crowded trades in 2020. Not only have we been looking at valuations across sectors but from an intra-sector perspective; for example, well-known names in the consumer space have performed strongly such as Li Ning (a leading sportswear brand in China), which has traded much more favourably than other comparable smaller names such as Xtep International (the third largest sportswear brand in China).

In general, I have trimmed names where valuations were particularly stretched and continue to favour more attractively priced small and mid-cap stocks. While the valuation gap appears to have begun to close in recent months, there still remain significantly undervalued companies in this part of the market.

Question

Can you explain your choice of your five largest holdings?

Answer

My top five holdings in aggregate comprise 30.6% of the portfolio (as at 31 March 2021).

Tencent Holdings*: I am keen on Tencent given its strong position in running the dominant social network in China and the attendant benefits of powerful network effects. Tencent has carefully nurtured and enriched user experience and benefits from a sizeable user base. As China's internet user growth slows down Tencent's enviable user base constitutes an extremely deep moat. Tencent recently consolidated its leading position in internet gaming by mediating a merger between Chinese game broadcasting platforms Huya and DouYu, thus securing a controlling stake in the new company post the completion of the merger.

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

The pandemic has accelerated the trend towards digitalisation, which is a long-term driver of Alibaba's growth in the e-commerce business. Its cloud business is also likely to excel, as more corporates use its infrastructure to become digital ready. We also saw antitrust regulation in the technology space, notably resulting in a fine for Alibaba. The extent of the fine was largely as expected and it announced that it will fully comply and look at ways to further strengthen customer value creation and experience and introduce new measures to lower entry barriers and costs of operations on its platform.

Ping An Insurance: Ping An stands out as a leading insurer in China, with its superior agent productivity, leading technology and entrepreneurial management. The company has well-rounded share incentive schemes to motivate management and core employees based on profit and other key performance measures. The incorporation of technology into its operations facilitates cost reduction/efficiency improvement which has become part of Ping An's core competitive edge against peers.

WuXi AppTec: The company is a long-term beneficiary from increasing pharmaceutical and biotech contract research and manufacturing (CDMO/CMO) demand globally. China's CDMO/ CMO business has significant investment potential, driven by a structural shift from generic to innovative drugs in the country's pharmaceutical market. WuXi has established a talent pool with strong technical skills, which has helped drive a loyal client base. Looking ahead, there is exciting potential upside from new technology developments, such as its cell/gene therapy business.

SKSHU Paint Company: The company is one of China's largest paint manufacturers and is benefitting as the sector is undergoing consolidation with the leaders gaining market share. We have seen consistent market share gains drive strong top-line growth and disciplined cost control has helped it maintain healthy margins. I am also positive as the paint business is characterised by high margins, robust returns on capital and strong cash flows.

* Given the large weighting in the Index of 28.9% to these two companies and the portfolio weighting of 22.3%, the portfolio is underweight these two companies for diversification purposes and I believe there is more value in other parts of the market at present, as mentioned in the report.

Top 5 positions (as at 31 March 2021)	Sector	Portfolio (%)	Index (%)	Relative (%)
Tencent Holdings	Communication			
	Services	11.7	14.8	-3.1
Alibaba Group Holding	Consumer			
	Discretionary	10.6	14.1	-3.5
Ping An Insurance	Financials	2.9	2.6	0.4
WuXi AppTec	Healthcare	2.8	0.3	2.6
SKSHU Paint Company	Materials	2.6	0.0	2.6
	=====	=====	=====	=====

Question

How has the unlisted exposure progressed over the year?

Answer

China's diverse listed universe/public markets remain the primary investible areas for investors looking to access the country's long-term growth story. However, as China's corporate landscape continues to expand and evolve, there are growing opportunities within its vibrant and diverse unlisted/private equity market.

Fidelity China Special Situations has been able to invest in Chinese unlisted companies since we launched the Company back in 2010. As many shareholders remember, we were early investors in Alibaba (now one of the world's largest companies), which we had held as an unlisted holding for nearly three years before its record-breaking US\$25bn IPO in 2014.

Today, a key holding in the unlisted space of the portfolio is ByteDance, an internet technology company with core domestic Chinese products being its content platform Toutiao and its video-sharing service Douyin. It also currently owns the more globally popular social media app TikTok, although its domestic business remains the key driver of earnings growth in the short-term. From a market capitalisation perspective, the company has the potential to become one of the largest companies in China.

Additions during the year were:

Full Truck Alliance is the leading online commercial freight platform in China in the full-truck-load segment. The company has consolidated the road logistics market to become the dominant online marketplace. It has significant market share and covers 80% of the total road logistic market volume. Since the year end, it has filed for an IPO.

Chime Biologics is a biologics contract research and manufacturing company in China that is benefiting from the strong growth and development activity of the market for pharmaceutical biologics. Like market leader Wuxi Biologics, the company has a strong focus on R&D and has in place a reputable and committed team. The company was spun out of JHL Biotech (previously listed in Taiwan), in order to have a stronger presence in China.

Venturous Holdings is a 'deep technology' conglomerate focused on investing in digital transformation, in particular, the smart city theme. In its next stage of development, China is focused on making cities faster, safer, greener and more liveable by embracing structural reforms and a new era of digital technologies.

At the end of March 2021, the Company had a weighting of 7.6% of Net Assets in nine unlisted holdings. We have the expectation that some of these unlisted positions will IPO within the next 12 to 18 months. Since the end of the reporting period, we have invested in one further unlisted company, talent management company Beisen. Further details in the Annual Report.

Question
The Chinese economy appears to have fully normalised and the worst of the pandemic shock to corporate profits seems to be behind us. Is that a fair assessment?

Answer
The economic backdrop for China remains strong as the economy continues to recover. A "first in, first out" recovery has clearly been a factor supporting the economy, as the spread of COVID-19 remains largely under control and exporters have been taking advantage of supply-side disruptions in western countries. China's GDP growth came in at a stellar 18.3% year-on-year in the first quarter of 2021 (albeit from a low base). Meanwhile, the country's 2020 annual GDP growth came in at 2.3%, largely the result of China being the first major economy in the world to return to pre-COVID-19 normalcy.

Government stimulus has also clearly been a factor supporting the recovery, but overall has been more restrained and targeted than policy measures seen in most western economies. This, therefore, leaves room for further policy support if required.

The government reiterated its aim to provide 'balanced' policy support at the National People's Congress (NPC) in March, which in turn has seen policymakers once again focus on debt and liquidity. While China will look at a more prudent policy approach, with the potential for tightening, it will remain flexible. Also, at the NPC, the government approved its 14th Five Year Plan, which essentially flags key economic objectives and macro policy. This Plan emphasises high-quality development, with an aim of ensuring that overall productivity grows faster than GDP, plus a focus on keeping urban unemployment within a set range. China also de-emphasised, rather than abandoned its GDP target – setting the 2021 growth target at 'above 6%'. This GDP target offers enough leeway for policymakers to tackle potential uncertainties, such as COVID-19 and US-China relations. Beijing intends to re-double its efforts to foster innovation to improve technology self-sufficiency. The government plans to increase R&D spending by more than 7% per year, enhancing intellectual property protection and offering more market incentives to researchers. Many corporates have reconfirmed these policy aims with us.

Boosting domestic demand remains a top priority, with plans to increase household income and confidence via supporting employment and small and medium size enterprises, improving the social safety net and reducing hukou restrictions in large cities. Hukou is the household registration system in China that the government has used to help allocate labour resources in the economy, equality of urban and rural residents' status and the urbanisation of cities. And again, management teams have highlighted to us that the labour market is indeed healthy.

Question
Sustainability is a key topic for you as an investor. Why is it so important and how does that play out in your investment process?

Answer
Sustainable investing remains an integral part of our investment process. We believe that high standards of corporate responsibility make good business sense and have the potential to protect and enhance investment returns. Consequently, we integrate Environmental, Social and Governance (ESG) issues into our research and investment decision-making process. Further details on this topic can be found below.

We favour engagement over exclusion as positive influences on corporate behaviour can add real value for companies, our investors and society. The priority themes that have formed part of our recent ESG engagements include supply chain sustainability and corporate sustainability reporting.

Fidelity International has developed a proprietary sustainability rating leveraging our internal research and interactions with issuers (companies are assigned an overall A to E rating). The objective of the sustainability ratings is to assess the ESG risks facing companies and to rate how an issuer is managing these risks. To understand how companies approach ESG issues, we need to uncover the right information.

I continue to believe our work in this area can help to mitigate against risk and be a source of alpha generation for the Company going forward, especially for companies in the portfolio which have good potential for improving these scores. Other cases would include those where we reach different conclusions to the market consensus, which is not uncommon with ESG data in many of the well-known indices often out of date.

When it comes to putting ESG into practice, for me, it's all about engagement. For example, we had a positive ESG engagement with a Chinese innovative drug producer whereby the CFO demonstrated a clear understanding of the company's key ESG issues and was able to articulate its management approach, suggesting robust measures around executive remuneration design, incentivising sales teams, supplier quality control, and employee and supplier misconduct particularly in relation to anti-bribery and corruption behaviours. There were also clear signs of the company taking ESG seriously and wanting to establish itself as a leader on this front, and it was positive to see the company being receptive to our suggestion of setting improvement targets for its key environmental impact.

From a corporate governance perspective, its board meets four times a year, with each meeting lasting four to six hours. In addition, all of the company's directors participate in the annual strategy meeting. With the entire board being independent and two of the directors being industry experts, the board is well positioned to provide meaningful strategic guidance and managerial oversight. Key Performance Indicators (KPIs) of senior management are well aligned with its business development strategy and focus. KPIs for senior sales managers are based on a wide array of factors rather than a single top-line number, suggesting a more holistic assessment that tends to lead to more sustainable outcomes. We plan to monitor the company on the setting of environmental performance targets and to have more in-depth discussions on supply chain management, talent acquisition and retention and anti-bribery and corruption management as a next step.

Question
Has there been a shift in how Chinese corporates think about ESG?

Answer

We have genuinely seen an increasing willingness among most Chinese corporates to engage on a range of ESG matters. Take, for example, newly listed companies proactively engaging with us on their first discussions regarding ESG topics. This clearly demonstrates that we are viewed as a trusted partner by many Chinese firms and hence are well positioned to facilitate positive ESG change at these companies, many of whom are just starting their ESG journey.

Another example is Pony.ai (the autonomous driving company, which is an unlisted holding). During our engagements with the company, we were made aware of their proactive approach in partnering with local government to provide the necessary training to drivers-at-risk to help them transition into new roles. They highlighted that they have already hired some former taxi drivers to be their safety drivers and maintenance workers but will investigate other ways to address this issue in a more structured way.

Furthermore, China's ambition to reach peak carbon emissions before 2030 and achieve carbon neutrality by 2060 will require companies to transform to a lower-carbon business model. Improved ESG reporting that makes emissions data visible, comparable and accountable is a key component for achieving these goals and will further help embed ESG into the way Chinese corporates operate and think.

Question

What are your thoughts as the Company enters a new reporting period?

Answer

The key areas to monitor from a risk perspective are geopolitical and regulatory developments. While the Biden administration is likely to take a more measured approach, we continue to believe that these tensions will be with us for decades to come. With tightening regulation around technology shipments, we spend a lot of time evaluating potential risks around companies' supply chains. On the positive side, we believe this tension has become more "established" in markets – thus a more collaborative dialogue could be an area of positive upside. Going forward, we feel that this will be more about a competitive as opposed to an adversarial approach.

Taiwanese/Chinese relations remain a sensitive issue and any developments need watching. We should highlight, though, that the portfolio remains focused on opportunities supported by ongoing structural shifts in China's domestic economy and only has around 5% of revenue from underlying holdings exposed to the US.

We do need to follow regulatory developments closely in China. Recently we have seen draft regulation in the fintech space and the executive order (EO) in January 2021 from the US prohibiting investment in Chinese equities associated with the Chinese military. We also saw antitrust regulation in the technology space in China, notably resulting in a fine for Alibaba. The extent of the fine was largely as expected, which amounted to 18.2bn Yuan (equivalent to around 4% of the company's domestic revenue in 2019). Overall, with greater regulatory certainty established, we believe that Alibaba looks quite attractively valued versus many other companies in the tech space.

While Chinese markets do still look attractive relative to other major peers, valuations are now well above historical averages and investors should be mindful of this. I believe stock picking will become even more critical in the delivery of value to shareholders. One needs to stay disciplined around valuation - picking great companies is not the same as picking great stocks.

In closing, we have come through an unprecedented year, the likes of which we will hopefully never see again. On the whole, I have been impressed by the resilience of our investee companies in managing through challenging circumstances. Geopolitical issues may indeed be grabbing the headlines, but they are rarely problematic for companies focused on rapidly developing local markets. More importantly, it is the effective execution by these companies that is key to the performance of the Trust. China's rising weight in global indices still has a long way to go - I continue to believe its growth will represent the biggest shift in equity exposure we will see this decade. On the back of this, we continue to grow our investment resources, with Team China now the largest geographical research team at Fidelity International. I am incredibly proud of this team and its members' resilience and hard work, day in and day out. It is their diligent application of critical analysis that helps us unearth the gems that will drive tomorrow's performance. I remain confident that our significant resources and process will continue to deliver value for shareholders and I remain personally invested in the Company.

DALE NICHOLLS

Portfolio Manager

7 June 2021

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

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

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

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

Principal Risks	Description and Risk Mitigation
Market, Economic and Geopolitical risk	<p>Investing in an emerging market such as the People's Republic of China (PRC) subjects the Company to a higher level of market risk than investment in a more developed market. This is due to greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background is core to the Company's continued success.</p> <p>The geo-political tensions between the US and China remain. In November 2020, the US issued an Executive Order prohibiting transactions by US persons in publicly traded securities of certain Chinese companies determined to be associated with the Chinese military. The Biden administration is expected to continue to exert pressure on China in trade negotiations.</p> <p>COVID-19 continues to be a global pandemic with severe market and economic impacts. Central banks have taken unprecedented emergency monetary actions and national governments have provided considerable fiscal and policy support. The Chinese economy has recovered well, attributed to the more successful control of the pandemic and increasing industrial production. Economic growth exceeded</p>

expectations. The risk of the likely effects of COVID-19 on the markets is discussed in the Chairman's Statement and in the Portfolio Manager's Review above. These risks are somewhat mitigated by the Company's investment trust structure which means no forced sales need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon.

The Board reviews market, economic and geo-political risks and legislative changes at each Board meeting.

Most of the Company's assets and income are denominated in currencies other than sterling which is the Company's functional and presentation currency. As a result, movements in exchange rates may affect the UK sterling value of these items. This includes the US dollar loan facility.

Risks to which the Company is exposed in the market risk and currency risk categories are included in Note 18 to the Financial Statements below together with summaries of the policies for managing these risks.

The Company's unlisted investments by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks compared with other investments in the portfolio. No transaction is made in an unlisted investment until the Investment Manager is satisfied that it has been through sufficient scrutiny and approval process. As at 31 March 2021, holdings in unlisted companies was 7.4% of Net Assets plus Borrowings. The Board reviews and challenges all unlisted investments and their valuations.

The Company has exposure to a number of companies with all or part of their business in Variable Interest Entity ("VIE") structures. A VIE structure facilitates foreign investment in sectors of the Chinese domestic economy which prohibit foreign ownership. The essential purpose of the VIE structure is to convey the economic benefits and operational control of ownership without direct equity ownership itself. As these entities have a controlling interest that is not based on the majority of voting rights, there is a risk to investors of being unable to enforce their ownership rights in certain circumstances. The proportion of the portfolio which is invested in companies operating a VIE structure is monitored on a monthly basis by the Manager and holdings are reported to the Board on a regular basis. As at 31 March 2021, 44.4% (2020: 52.3%) of the companies in the portfolio had a VIE structure (Benchmark Index: 49.2% (2020: 43.4%)).

Investment Performance Risk

The achievement of the Company's investment performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to NAV and share price underperformance compared to the Benchmark Index.

The Company has a clearly defined investment strategy and remit. Borrowing and derivative limits are set by the Board in line with the Company's Prospectus. The portfolio is managed by a highly experienced Portfolio Manager who is supported by a large team of analysts. The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the portfolio against the Company's Benchmark Index and that of its competitors and the outlook of the markets with the Portfolio Manager. The emphasis is on long-term investment performance and the Board accepts that by targeting long-term results the Company risks volatility and underperformance in the shorter-term.

Performance for the financial year is outlined in the Chairman's Statement and Portfolio Manager's Review above.

Pandemic risk

With the pandemic continuing to evolve and variants of COVID-19 appearing, it is evident that although COVID-19 is being tackled by the arrival of vaccines, risks remain. The roll-out of vaccines globally is slow and the effectiveness against the variants is uncertain. There continues to be increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The Manager carries on reviewing its business continuity plans and operational resilience strategies on an ongoing basis and continues to take all reasonable steps in meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. For example, to enhance its resilience, the Manager has mandated that all staff work from home and has implemented split team working for those whose work is deemed necessary to be carried out in an office. The Manager follows the self-isolation and lock-down arrangements on staff in line with Government recommendations and guidance. PricewaterhouseCoopers LLP has also confirmed in the AAF Internal Controls report issued to Fidelity International that there have not been any significant changes to Fidelity International's control environment as a result of COVID-19. Further to this, the Manager has provided the Board with assurance that the Company has appropriate business continuity plans and the provision of services has continued to be supplied without interruption during the pandemic.

Investment team key activities, including portfolio managers, analysts and trading/support functions, are performing well despite the operational challenges posed by working from home or split team arrangements.

The Company's other third party service providers have also confirmed the implementation of similar measures to ensure no business disruption.

Gearing risk

The Company has a US\$100,000,000 unsecured fixed rate facility agreement with Scotiabank Europe PLC which has been fully drawn down. The principal risk is that the Portfolio Manager fails to use gearing effectively, resulting in a failure to outperform in a rising market or underperform in a falling market. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. In addition to the loan facility, the Company can use contracts for difference ("CFDs") to obtain further gearing exposure. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.

Discount Control risk

Due to the nature of investment companies, the Board cannot control the discount at which the Company's share price trades to net asset value ("NAV"). However, it can influence this through its share repurchase policy and through creating demand for the Company's shares through good performance and an active investor relations programme. The Board has a formal discount control policy whereby it seeks to maintain the discount in single digits in normal market conditions. The Company's share price, NAV and discount volatility are monitored daily by the Manager and regularly reported to the Board.

Key Person risk

There is a risk that the Manager has an inadequate succession plan for key individuals. The loss of the Portfolio Manager could lead to potential performance, operational or regulatory issues. The Manager identifies key dependencies which are then addressed through succession plans. Fidelity International has succession plans in place for portfolio managers which have been discussed with the Board.

Economic, Social and Governance ("ESG") Risk

There is a risk that the value of the assets of the Company are negatively impacted by ESG related risks, including climate control. Fidelity International has embedded ESG factors in its investment decision making process. ESG integration is carried out at the fundamental research analyst level within its investment teams, primarily through Fidelity's Proprietary Sustainability Rating which is designed to generate forward-looking and holistic assessment of a company's ESG risks and opportunities based on sector-specific key performance indicators across 99 individual and unique sub-sectors. The Portfolio Manager is also active in analysing the effects of ESG when making investment decisions. The Board continues to monitor the developments in this area and reviews the positioning of the portfolio considering ESG factors.

Further detail on ESG considerations in the investment process is below.

Cybercrime risk

The operational risk from cybercrime is significant. Cybercrime threats evolve rapidly and consequently the risk is regularly re-assessed and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager's technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk

is frequently re-assessed by Fidelity's information security and technology teams and has resulted in the implementation of new tools and processes as well as improvements to existing ones. Fidelity International has also established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance.

Risks are increased due to the COVID-19 crisis, primarily related to phishing, remote access threats, extortion and denial-of-services attacks. The Manager has a dedicated detect and respond resource specifically to monitor the cyber threats associated with COVID-19. The Company's third party service providers also have similar measures in place.

Other risks facing the Company include:

TAX AND REGULATORY RISKS

There is a risk of the Company not complying with the tax and regulatory requirements in the UK and China. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains.

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

OPERATIONAL RISKS

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

VIABILITY STATEMENT

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

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

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

The Company's performance has been strong for the five year reporting period to 31 March 2021, with a NAV total return of 175.0%, a share price total return of 231.3% and a Benchmark Index total return of 119.7%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

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

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

GOING CONCERN STATEMENT

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

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio and its expenditure and cash flow projections. The Directors, having considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable), the projected income and expenditure and the loan facility agreement, are satisfied that the Company is financially sound and has adequate resources to meet all of its liabilities and ongoing expenses and continue in operational existence for the foreseeable future. The Board has therefore concluded that the Company has adequate resources to continue to adopt the going concern basis for the period to 30 June 2022 which is at least twelve months from the date of approval of the Financial Statements. This conclusion also takes into account the Board's assessment of the ongoing risks from COVID-19 as set out in the Pandemic Risk above. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors 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 to the Manager, but other professional service providers support the Company by providing administration, custodial, banking and audit services. The Board considers the Company's key stakeholders to be the existing and potential shareholders, the external appointed Manager (Fidelity), and other third party professional service providers. The Board considers that the interest of these stakeholders is aligned with the Company's objective of delivering long-term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings. In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out in the Annual Report.

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

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

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

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:

- authorising the repurchase of 23,345,560 ordinary shares when the Company's discount widened, in line with the Board's intention that the ordinary share price should trade at a level close to the underlying NAV;
- the decision to pay a final dividend of 4.68 pence per ordinary share, the highest rate since the Company was launched;
- as part of ongoing Board succession, the appointment and induction of Vanessa Donegan to the Board with effect from 1 September 2020 and the appointment of Alastair Bruce with effect from 1 July 2021; and
- agreeing a new fee arrangement with effect from 1 April 2021, providing cost savings to the Company and contributing to reducing the Ongoing Charges to help the Company remain competitive. Details of the new fee arrangement can be found in the Directors' Report in the Annual Report.

ESG IN THE INVESTMENT PROCESS

Fidelity International has embedded Environmental, Social and Governance ("ESG") factors in its investment decision making process. Fidelity International has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis.

ESG integration at Fidelity International is carried out at the fundamental research analyst level within its investment teams, primarily through the implementation of the Fidelity Proprietary Sustainability Rating. This rating was established in 2019 and is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on sector specific key performance indicators across 99 individual and unique sub-sectors. A breakdown of the ratings of the companies in the portfolio using MSCI and Fidelity's own proprietary ratings is in the Annual Report. In addition, Fidelity's portfolio managers are also active in analysing the effects of ESG factors when making investment decisions.

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

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

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

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

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

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

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

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

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 and IFRIC interpretations. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the reporting period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IAS 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 IAS in conformity with the requirements of the Companies Act 2006 and IFRIC interpretations, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

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

Approved by the Board on 7 June 2021 and signed on its behalf by:

NICHOLAS BULL
Chairman

FINANCIAL

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year ended 31 March 2021			Year ended 31 March 2020		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Investment income	3	21,012	–	21,012	22,520	–	22,520
Derivative income	3	11,689	–	11,689	9,015	–	9,015
Other income	3	80	–	80	1,481	–	1,481
Total income		32,781	–	32,781	33,016	–	33,016
Gains/(losses) on investments at fair value through profit or loss	10	–	725,388	725,388	–	(57,341)	(57,341)
Gains/(losses) on derivative instruments	11	–	266,752	266,752	–	(33,597)	(33,597)
Foreign exchange (losses)/gains on other net assets		–	(12,401)	(12,401)	–	3,634	3,634
Foreign exchange gains/(losses) on bank loan		–	7,825	7,825	–	(3,321)	(3,321)
Total income and gains/(losses)		32,781	987,564	1,020,345	33,016	(90,625)	(57,609)
Expenses							
Investment management fees	4	(4,119)	(14,472)	(18,591)	(3,031)	(6,409)	(9,440)
Other expenses	5	(1,260)	(108)	(1,368)	(1,177)	–	(1,177)
Profit/(loss) before finance costs and taxation		27,402	972,984	1,000,386	28,808	(97,034)	(68,226)
Finance costs	6	(2,253)	(6,758)	(9,011)	(3,590)	(10,771)	(14,361)
Profit/(loss) before taxation		25,149	966,226	991,375	25,218	(107,805)	(82,587)
Taxation	7	(760)	–	(760)	(488)	–	(488)
Profit/(loss) after taxation for the year		24,389	966,226	990,615	24,730	(107,805)	(83,075)
Earnings/(loss) per ordinary share	8	4.70p	186.11p	190.81p	4.51p	(19.67p)	(15.16p)

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

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

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

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

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	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 2020		5,713	211,569	914	307,049	710,565	37,237	1,273,047
Repurchase of ordinary shares	15	–	–	–	(58,558)	–	–	(58,558)
Cancellation of ordinary shares from Treasury	15	(3)	–	3	–	–	–	–
Profit after taxation for the year		–	–	–	–	966,226	24,389	990,615
Dividend paid to shareholders	9	–	–	–	–	–	(22,127)	(22,127)
Total equity at 31 March 2021		5,710	211,569	917	248,491	1,676,791	39,499	2,182,977
Total equity at 31 March 2019		5,713	211,569	914	331,362	818,370	33,660	1,401,588
Repurchase of ordinary shares	15	–	–	–	(24,313)	–	–	(24,313)
(Loss)/profit after taxation for the year		–	–	–	–	(107,805)	24,730	(83,075)
Dividend paid to shareholders	9	–	–	–	–	–	(21,153)	(21,153)
Total equity at 31 March 2020		5,713	211,569	914	307,049	710,565	37,237	1,273,047

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

BALANCE SHEET AS AT 31 MARCH 2021 COMPANY NUMBER 7133583

	Notes	31 March 2021 £'000	31 March 2020 £'000
Non-current assets			
Investments at fair value through profit or loss	10	2,167,275	1,289,807
Current assets			
Derivative instruments	11	33,296	39,152
Amounts held at futures clearing houses and brokers		19,872	39,495
Other receivables	12	22,749	1,407
Cash at bank		66,404	38,523
		-----	-----
		142,321	118,577
Current liabilities			
Derivative instruments	11	(22,208)	(45,183)
Other payables	13	(31,937)	(9,855)
		-----	-----
		(54,145)	(55,038)
Net current assets			
		88,176	63,539
Total assets less current liabilities			
		2,255,451	1,353,346
Non-current liabilities			
Bank loan	14	(72,474)	(80,299)
Net assets			
		2,182,977	1,273,047
Equity attributable to equity shareholders			
Share capital	15	5,710	5,713
Share premium account	16	211,569	211,569
Capital redemption reserve	16	917	914
Other reserve	16	248,491	307,049
Capital reserve	16	1,676,791	710,565
Revenue reserve	16	39,499	37,237
		-----	-----
Total equity		2,182,977	1,273,047
Net asset value per ordinary share			
	17	423.50p	236.27p
		-----	-----

The Financial Statements above and below were approved by the Board of Directors on 7 June 2021 and were signed on its behalf by:

NICHOLAS BULL
Chairman

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating activities		
Cash inflow from investment income	20,241	21,465
Cash inflow from derivative income	11,794	9,004
Cash inflow from other income	80	1,481
Cash outflow from Directors' fees	(201)	(124)
Cash outflow from other payments	(18,580)	(10,377)
Cash outflow from the purchase of investments	(1,159,050)	(476,779)
Cash outflow from the purchase of derivatives	(23,789)	(8,968)
Cash outflow from the settlement of derivatives	(258,808)	(145,890)
Cash inflow from the sale of investments	998,888	558,055
Cash inflow from the settlement of derivatives	539,536	57,544
Cash inflow from amounts held at futures clearing houses and brokers	19,623	41,956
	-----	-----
Net cash inflow from operating activities before servicing of finance	129,734	47,367
	=====	=====
Financing activities		
Cash outflow from repayment of loan	-	(38,353)
Cash outflow from loan interest paid	(2,140)	(3,665)
Cash outflow from CFD interest paid	(5,924)	(10,595)
Cash outflow from short CFD dividends paid	(703)	(1,362)
Cash outflow from the repurchase of ordinary shares	(58,558)	(24,313)
Cash outflow from dividends paid to shareholders	(22,127)	(21,153)
	-----	-----
Cash outflow from financing activities	(89,452)	(99,441)
	=====	=====
Increase/(decrease) in cash at bank	40,282	(52,074)
Cash at bank at the start of the year	38,523	86,963
Effect of foreign exchange movements	(12,401)	3,634
	-----	-----
Cash at bank at the end of the year	66,404	38,523
	=====	=====

The below form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACTIVITY

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

2 ACCOUNTING POLICIES

The Company's Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006, IFRIC interpretations and, as far as it is consistent with IAS, with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC") in October 2019. The accounting policies adopted in the preparation of these Financial Statements are summarised below.

a) Basis of accounting – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of these Financial Statements. In making their assessment the Directors have reviewed income and expense projections, reviewed the liquidity of the investment portfolio and considered the Company's ability to meet liabilities as they fall due. This conclusion also takes into account the Director's assessment of the continuing risks arising from COVID-19.

The Company's Going Concern Statement above takes account of all events and conditions up to 30 June 2022 which is at least twelve months from the date of approval of these Financial Statements.

b) Adoption of new and revised International Financial Reporting Standards – the accounting policies adopted are consistent with those of the previous financial year, other than those stated below. Their adoption has not had any material impact on the disclosures or the amounts reported in these Financial Statements.

- IAS 1 Presentation of Financial Statements (amendments);
- IAS 8 Accounting Policies, Changes in Accounting estimates and errors (amendments);
- Revisions to the Conceptual Framework for Financial Reporting; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform – Phase 1.

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

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

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 (I) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

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

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

Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The unlisted investments are valued at fair value 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 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 gains/(losses) on investments held at fair value through profit or loss in the capital column of the Income Statement and has disclosed them in Note 10 below.

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

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

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

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

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

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

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

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

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

- Gains and losses on the disposal of investments and derivatives instruments;
- Changes in the fair value of investments and derivative instruments, held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Variable investment management fees;
- 75% of base investment management fees;
- 75% of finance costs;

- Dividends receivable which are capital in nature;
- Taxation charged or credited relating to items which are capital in nature; and
- Other expenses which are capital in nature.

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

3 INCOME

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Investment income		
Overseas dividends	20,257	22,333
Overseas scrip dividends	755	187
	-----	-----
	21,012	22,520
	=====	=====
Derivative income		
Dividends received on long CFDs	11,444	8,047
Interest received on CFDs	245	968
	-----	-----
	11,689	9,015
	=====	=====
Other income		
Interest received on collateral and deposits	80	1,481
	-----	-----
Total income	32,781	33,016
	=====	=====

Special dividends of £29,083,000 (2020: £1,822,000) have been recognised in capital.

4 INVESTMENT MANAGEMENT FEES

	Year ended 31 March 2021			Year ended 31 March 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee – base	4,119	12,356	16,475	3,031	9,094	12,125
Investment management fee – variable	–	2,116	2,116	–	(2,685)	(2,685)
	-----	-----	-----	-----	-----	-----
	4,119	14,472	18,591	3,031	6,409	9,440
	=====	=====	=====	=====	=====	=====

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

The Company charges base investment management fees at an annual rate of 0.90% of net assets. In addition, there is a +/-0.20% variation fee based on the Company's NAV per share performance relative to the Company's Benchmark Index. Fees are payable monthly in arrears and are calculated on a daily basis.

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

5 OTHER EXPENSES

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Allocated to revenue:		

AIC fees	21	21
Custody fees	323	226
Depositary fees	69	64
Directors' expenses	1	48
Directors' fees*	160	168
Legal and professional fees	145	120
Marketing expenses	195	175
Printing and publication expenses	48	74
Registrars' fees	63	52
Secretarial and administration fees payable to the Investment Manager	100	100
Other expenses	95	81
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	40	48
	-----	-----
	1,260	1,177
	=====	=====
Allocated to capital:		
Legal and professional fees	108	–
	-----	-----
Other expenses	1,368	1,177
	=====	=====

* 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 2021			Year ended 31 March 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest paid on bank loan, collateral and overdrafts	529	1,585	2,114	876	2,628	3,504
Interest paid on CFDs	1,548	4,646	6,194	2,374	7,121	9,495
Dividends paid on short CFDs	176	527	703	340	1,022	1,362
	-----	-----	-----	-----	-----	-----
	2,253	6,758	9,011	3,590	10,771	14,361
	=====	=====	=====	=====	=====	=====

7 TAXATION

	Year ended 31 March 2021			Year ended 31 March 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
a) Analysis of the taxation charge for the year						
Overseas taxation	760	–	760	488	–	488
	-----	-----	-----	-----	-----	-----
Taxation charge for the year (see Note 7b)	760	–	760	488	–	488
	=====	=====	=====	=====	=====	=====

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19% (2020: 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 2021			Year ended 31 March 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before taxation	25,149	966,226	991,375	25,218	(107,805)	(82,587)
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19% (2020: 19%)	4,778	183,583	188,361	4,791	(20,483)	(15,692)
Effects of:						
Capital (gains)/losses not taxable*	–	(187,637)	(187,637)	–	17,219	17,219
Income not taxable	(3,992)	–	(3,992)	(4,278)	–	(4,278)
Expenses not deductible	–	995	995	–	1,551	1,551

Excess expenses	(786)	3,059	2,273	(513)	1,713	1,200
Overseas taxation	760	–	760	488	–	488
	-----	-----	-----	-----	-----	-----
Taxation charge (Note 7a)	760	–	760	488	–	488
	=====	=====	=====	=====	=====	=====

* 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 £24,593,000 (2020: £22,320,000), in respect of excess expenses of £129,434,000 (2020: £117,472,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the unrecognised deferred tax asset by £7,766,000.

8 EARNINGS/(LOSS) PER ORDINARY SHARE

	Year ended 31 March 2021	Year ended 31 March 2020
Revenue earnings per ordinary share	4.70p	4.51p
Capital earnings/(loss) per ordinary share	186.11p	(19.67p)
	-----	-----
Total earnings/(loss) per ordinary share	190.81p	(15.16p)
	=====	=====

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

	£'000	£'000
Revenue profit after taxation for the year	24,389	24,730
Capital profit/(loss) after taxation for the year	966,226	(107,805)
	-----	-----
Total profit/(loss) after taxation for the year	990,615	(83,075)
	=====	=====
	Number	Number
Weighted average number of ordinary shares held outside Treasury	519,159,905	548,133,431
	=====	=====

9 DIVIDENDS PAID TO SHAREHOLDERS

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Dividend paid		
Dividend of 4.25 pence per ordinary share paid for the year ended 31 March 2020	22,127	–
Dividend of 3.85 pence per ordinary share paid for the year ended 31 March 2019	–	21,153
	-----	-----
	22,127	21,153
	=====	=====
Dividend proposed		
Dividend proposed of 4.68 pence per ordinary share for the year ended 31 March 2021	24,124	–
Dividend proposed of 4.25 pence per ordinary share for the year ended 31 March 2020	–	22,292
	-----	-----
Total dividends paid	24,124	22,292
	=====	=====

The Directors have proposed the payment of a dividend for the year ended 31 March 2021 of 4.68 pence per ordinary share which is subject to approval by shareholders at the Annual General Meeting on 20 July 2021 and has not been included as a liability in these Financial Statements. The dividend will be paid on 27 July 2021 to shareholders on the register at the close of business on 18 June 2021 (ex-dividend date 17 June 2021).

10 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 £'000	2020 £'000
Total investments*	2,167,275	1,289,807
Opening book cost	1,188,495	1,194,625
Opening investment holding gains	101,312	228,536
Opening fair value of investments	1,289,807	1,423,161
Movements in the year		
Purchases at cost	1,161,499	482,280
Sales – proceeds	(1,009,419)	(558,293)
Gains/(losses) on investments	725,388	(57,341)
Closing fair value	2,167,275	1,289,807
Closing book cost	1,701,567	1,188,495
Closing investment holding gains	465,708	101,312
Closing fair value of investments	2,167,275	1,289,807

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

The Company received £1,009.4m (2020: £558.3m) from investments sold in the year. The book cost of these investments when they were purchased was £648.4m (2020: £488.4m). 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 gains/(losses) on investments were as follows:

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Purchases transaction costs	2,343	901
Sales transaction costs	1,157	773
	3,500	1,674

The portfolio turnover rate for the year was 59.8% (2020: 37.6%). 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 2021 £'000	Year ended 31 March 2020 £'000
Net gains/(losses) on derivative instruments		
Realised gains/(losses) on CFDs	291,953	(118,418)
Realised (losses)/gains on futures	(20,269)	7,895
Realised (losses)/gains on options	(13,449)	13,327
Movement in investment holding gains on CFDs	13,146	62,482
Movement in investment holding losses on futures	(1,032)	(2,436)
Movement in investment holding (losses)/gains on options	(3,597)	3,553
	266,752	(33,597)

	2021 Fair value £'000	2020 Fair value £'000
Fair value of derivative instruments recognised on the Balance Sheet*		
Derivative instrument assets	33,296	39,152
Derivative instrument liabilities	(22,208)	(45,183)
	----- 11,088 =====	----- (6,031) =====

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

	Fair value £'000	2021 Asset exposure £'000	Fair value £'000	2020 Asset exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	(4,021)	707,808	(10,694)	446,471
Short CFDs	9,398	82,102	2,047	12,524
Short CFD (hedging exposure)	62	(9,287)	940	(25,370)
Futures (hedging exposure)	(4,205)	(118,125)	(3,173)	(87,510)
Put options	1,098	4,132	-	-
Put options (hedging exposure)	8,756	(79,040)	4,849	(41,706)
	----- 11,088 =====	----- 587,590 =====	----- (6,031) =====	----- 304,409 =====

12 OTHER RECEIVABLES

	2021 £'000	2020 £'000
Amounts receivable on settlement of derivatives	11,627	-
Securities sold for future settlement	10,805	274
Accrued income	188	1,037
Other receivables	129	96
	----- 22,749 =====	----- 1,407 =====

13 OTHER PAYABLES

	2021 £'000	2020 £'000
Amounts payable on settlement of derivatives	20,111	-
Securities purchased for future settlement	8,866	8,350
Investment management, secretarial and administration fees	2,103	782
Finance costs payable	270	-
Accrued expenses	587	723
	----- 31,937 =====	----- 9,855 =====

14 BANK LOAN – REPAYABLE AFTER MORE THAN ONE YEAR

	2021 £'000	2020 £'000
Fixed rate unsecured US dollar loan		
US dollar 100,000,000 fixed at a rate of 2.606%	72,474	80,299
	----- 72,474 =====	----- 80,299 =====

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

15 SHARE CAPITAL

	Number of shares	2021 £'000	Number of shares	2020 £'000
Issued, allotted and fully paid				
Ordinary shares of 1 penny each held outside Treasury				
Beginning of the year	538,809,043	5,388	549,574,480	5,496
Ordinary shares repurchased into Treasury	(23,345,560)	(233)	(10,765,437)	(108)
	-----	-----	-----	-----
End of the year	515,463,483	5,155	538,809,043	5,388
	=====	=====	=====	=====
Ordinary shares of 1 penny each held in Treasury*				
Beginning of the year	32,545,437	325	21,780,000	217
Ordinary shares repurchased into Treasury	23,345,560	233	10,765,437	108
Ordinary shares cancelled from Treasury	(300,000)	(3)	-	-
	-----	-----	-----	-----
End of the year	55,590,997	555	32,545,437	325
	=====	=====	-----	-----
Total share capital		5,710		5,713
		=====		=====

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

During the year, the Company repurchased 23,345,560 (2020: 10,765,437) ordinary shares and held them in Treasury. The cost of repurchasing these shares of £58,558,000 (2020: £24,313,000) 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 2020	5,713	211,569	914	307,049	710,565	37,237	1,273,047
Gains on investments (see Note 10)	-	-	-	-	725,388	-	725,388
Gains on derivative instruments (see Note 11)	-	-	-	-	266,752	-	266,752
Foreign exchange losses on other net assets	-	-	-	-	(12,401)	-	(12,401)
Foreign exchange gains on bank loan	-	-	-	-	7,825	-	7,825
Investment management fees (see Note 4)	-	-	-	-	(14,472)	-	(14,472)
Other expenses (see Note 5)	-	-	-	-	(108)	-	(108)
Finance costs (see Note 6)	-	-	-	-	(6,758)	-	(6,758)
Revenue profit on ordinary activities after taxation for the year	-	-	-	-	-	24,389	24,389
Dividends paid to shareholders (see Note 9)	-	-	-	-	-	(22,127)	(22,127)
Repurchase of ordinary shares (see Note 15)	-	-	-	(58,558)	-	-	(58,558)
Cancellation of ordinary shares from Treasury (see Note 15)	(3)	-	3	-	-	-	-
	-----	-----	-----	-----	-----	-----	-----
At 31 March 2021	5,710	211,569	917	248,491	1,676,791	39,499	2,182,977
	=====	=====	=====	=====	=====	=====	=====

The capital reserve balance at 31 March 2021 includes investment holding gains on investments of £465,708,000 (2020: gains of £101,312,000) as detailed in Note 10 above. See Note 2 (s) above for further details. The revenue, capital and other reserves are distributable by way of dividend.

17 NET ASSET VALUE PER ORDINARY SHARE

	2021	2020
Net assets	£2,182,977,000	£1,273,047,000
Ordinary shares held outside of Treasury at year end	515,463,483	538,809,043
Net asset value per ordinary shares	423.50p	236.27p
	=====	=====

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 Managers, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, economic and geopolitical, investment performance, pandemic, gearing, discount control, key person, economic, social and governance ("ESG") and cybercrime risks. Other risks identified are tax and regulatory and operational risks, including those relating to third party service providers covering investment management, marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. Risks identified are shown 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 raised. In addition, the Company has derivative instruments and an unsecured fixed rate loan facility for US\$100,000,000 expiring on 14 February 2023. The Company has drawn down the whole of this facility as disclosed in Note 14 above.

Interest rate risk exposure

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

	2021 £'000	2020 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	711,829	457,165
Bank loan	72,474	80,299
	-----	-----
	784,303	537,464
	=====	=====
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	100,849	40,881
Amounts held at futures clearing houses and brokers	19,872	39,495
Cash at bank	66,404	38,523
	-----	-----
	187,125	118,899
	=====	=====
Net exposure to financial instruments that bear interest	597,178	418,565
	=====	=====

Foreign currency risk

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

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

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

Currency exposure of financial assets

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

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

1 The asset exposure of long CFDs after the netting of hedging exposures.

2 Other receivables include amounts held at futures clearing houses and brokers.

	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	2020 Total £'000
Currency					
Canadian dollar	144	–	–	–	144
Chinese renminbi	145,293	–	–	19,109	164,402
Hong Kong dollar	596,560	267,060	12,300	19,382	895,302
South Korean won	–	–	–	7	7
Taiwan dollar	30,155	–	–	24	30,179
UK sterling	28,600	–	96	–	28,696
US dollar	489,055	24,825	28,506	1	542,387
	-----	-----	-----	-----	-----
	1,289,807	291,885	40,902	38,523	1,661,117
	=====	=====	=====	=====	=====

1 The asset exposure of long CFDs after the netting of hedging exposures.

2 Other receivables include amounts held at futures clearing houses and brokers.

Currency exposure of financial liabilities

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

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

Currency	Asset exposure of short derivative instruments*	US dollar bank loan	Other payables	2020 Total
	£'000	£'000	£'000	£'000
Hong Kong dollar	7,286	–	7,167	14,453
Taiwan dollar	–	–	172	172
UK sterling	–	–	1,573	1,573
US dollar	5,238	80,299	943	86,480
	-----	-----	-----	-----
	12,524	80,299	9,855	102,678
	=====	=====	=====	=====

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required. The Company has the facility to borrow up to US\$100,000,000 (2020: US\$100,000,000) until 14 February 2023. The current borrowing is shown in Note 14 above.

Counterparty risk

Certain derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's ("ISDA") market standard derivative legal documentation. These are known as Over The Counter ("OTC") trades. As a result, the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Managers employ, this risk is minimised by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and evaluates derivative instrument credit risk exposure.

Collateral

For OTC and exchange traded derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 March 2021, £15,589,000 (2020: £13,217,000) 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: UBS AG £6,639,000 (2020: £nil), Goldman Sachs International Ltd £4,153,000 (2020: £1,148,000), Morgan Stanley & Co. International Ltd £2,739,000 (2020: £nil), J.P. Morgan Securities plc £2,058,000 (2020: £nil) and HSBC Bank plc £nil (2020: £12,069,000). As at 31 March 2021, £19,872,000 (2020: £39,495,000), 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 £14,117,000 (2020: £38,395,000) in cash, HSBC Bank plc £5,755,000 (2020: £nil) in cash and Morgan Stanley & Co. International Ltd £nil (2020: £1,100,000).

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 of recognised financial liabilities set off on the balance sheet	Net amount of financial assets presented on the balance sheet	Related amounts not set off on balance sheet	2021 Net amount
	£'000	£'000	Financial instruments	£'000
CFDs	23,442	23,442	(12,025)	2,007
Put options	9,854	9,854	–	3,431
	-----	-----	-----	-----
	33,296	33,296	(12,025)	5,438

		Gross amount of recognised financial assets set off on the balance sheet	Net amount of financial liabilities presented on the balance sheet	Financial instruments	Related amounts not set off on balance sheet	2021
	Gross amount £'000	£'000	£'000	£'000	Margin account pledged as collateral £'000	Net amount £'000
Financial liabilities						
CFDs	(18,003)	–	(18,003)	12,025	5,755	(223)
Futures (exchange traded)	(4,205)	–	(4,205)	–	4,205	–
	-----	-----	-----	-----	-----	-----
	(22,208)	–	(22,208)	12,025	9,960	(223)
	=====	=====	=====	=====	=====	=====

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

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

Credit risk

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

Derivative instrument risk

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

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

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

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at the Balance Sheet date, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the profit after taxation for the year and decreased the net assets of the Company by £1,312,000 (2020: increased the loss after taxation and decreased the net assets by £846,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial assets and liabilities held and currency exchange rates ruling at the Balance Sheet date, a strengthening of the UK sterling exchange rate by 10% against other currencies, with all other variables held constant, would have decreased the profit after taxation for the year and decreased the net assets of the Company (2020: increased the loss and decreased the net assets) by the following amounts:

	2021	2020
Currency	£'000	£'000
Canadian dollar	–	13
Chinese renminbi	35,570	14,946
Hong Kong dollar	134,953	80,077
Japanese yen	1,880	–
South Korean won	1	1
Taiwan dollar	3,369	2,728
US dollar	56,114	41,446
	-----	-----
	231,887	139,211
	=====	=====

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 increased the profit after taxation for the year and increased the net assets of the Company (2020: decreased the loss and increased the net assets) by the following amounts:

	2021	2020
Currency	£'000	£'000
Canadian dollar	–	16
Chinese renminbi	43,474	18,267
Hong Kong dollar	164,943	97,872
Japanese yen	2,298	–
South Korean won	1	1
Taiwan dollar	4,117	3,334
US dollar	68,584	50,656
	-----	-----
	283,417	170,146
	=====	=====

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 increased the profit after taxation for the year and increased the net assets of the Company by £200,081,000 (2020: decreased the loss after taxation and increased the net assets by £120,866,000). 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 increased the profit after taxation for the year and increased the net assets of the Company by £16,646,000 (2020: decreased the loss after taxation and increased the net assets by £8,115,000). 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 increased the profit

after taxation for the year and increased the net assets of the Company by £41,512,000 (2020: decreased the loss after taxation and increased the net assets by £27,936,000). A decrease of 10% in share prices of the investments underlying the derivative instruments would have had an equal but opposite effect.

Fair value of financial assets and liabilities

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

	2021		2020	
	Fair value £'000	Book value £'000	Fair value £'000	Book value £'000
Fixed rate unsecured loan of US dollar 100,000,000	74,224	72,474	82,687	80,299
	=====	=====	=====	=====

Fair value of hierarchy

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

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

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

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

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

Level 3 Investments (unlisted and delisted investments)

	2021	2020
	£'000	£'000
Pony.ai	28,939	25,695
Chime Biologics Convertible Bond 2.00% 16/03/2024	25,366	–
Venturous Holdings	25,366	–
DJI International	23,086	20,696
SenseTime	19,198	9,508
Xiaoju Kuaizhi (Didi Chuxing)	17,203	17,699
ByteDance	15,204	7,548
Full Truck Alliance	12,102	–
Shanghai Yiguo	–	–
4 listed investments whose listings are currently suspended	–	–
	-----	-----
	166,464	81,146
	=====	=====

Pony.ai

Pony.ai develops artificial intelligence and autonomous driving technology solutions for transportation and is an unlisted company. The valuation at 31 March 2021 is based on the company's financial reports, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2021, its fair value was £28,939,000.

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 2021 is based on the cost of the investment when it was purchased in March 2021. As at 31 March 2021, its fair value was £25,366,000.

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 2021 is based on the cost of the investment when it was purchased in December 2020. As at 31 March 2021, its fair value was £25,366,000.

DJI International

DJI International is a manufacturer of drones and is an unlisted company. The valuation at 31 March 2021 is as follows: the D shares valuation is based on the pending buyback offer rate with a discount for time-value and the B shares valuation is based on the company's performance, the macro-environment and benchmarking the position to a range of comparable market data. As at 31 March 2021, its fair value was £23,086,000.

Sensetime

SenseTime develops application technology and is an unlisted company. The valuation at 31 March 2021 is based on the price of shares when US\$628m of funding was raised in October 2020. As at 31 March 2021, its fair value was £19,198,000.

Xiaoju Kuaizhi (Didi Chuxing)

Xiaoju Kuaizhi (Didi Chuxing) is a leading Chinese e-commerce company providing transport services and is an unlisted company. The valuation at 31 March 2021 is based on the company's performance, benchmarking the position to a range of comparable market data, financing and the macro-environment. As at 31 March 2021, its fair value was £17,203,000.

ByteDance

ByteDance develops application software and is an unlisted company. The valuation at 31 March 2021 is based on the price of shares when US\$5bn of funding was raised in February 2021. As at 31 March 2021, its fair value was £15,204,000.

Full Truck Alliance

Full Truck Alliance provides specialized freight trucking services and is an unlisted company. The valuation at 31 March 2021 is based on the cost of the investment when it was purchased in November 2020. As at 31 March 2021, its fair value was £12,102,000. Since the end of the year, Full Truck Alliance's valuation has been increased. See Note 21 below for further details.

Shanghai Yiguo

Shanghai Yiguo operates an e-commerce platform, selling fruit and vegetables online to customers in China and is an unlisted company. The company has commenced liquidation proceedings and following internal review, the valuation at £nil remained appropriate as at 31 March 2021.

Companies whose listings are suspended

Four listed companies in the portfolio have had their listing suspended: DBA Telecommunication (Asia) Limited (suspended July 2014), China Animal Healthcare Limited (suspended March 2015), BNN Technology Limited (suspended September 2017) and G3 Exploration (suspended October 2020). As at 31 March 2021, each holding has been valued at £nil.

	2021	2020
	Level 3	Level 3
	£'000	£'000
Movements in level 3 investments during the year		
Level 3 investments at the beginning of the year	81,146	66,703
Purchases at cost	63,847	33,206
Unrealised profits/(losses) recognised in the Income Statement	21,471	(18,763)

Level 3 investments at the end of the year

166,464

81,146

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

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

	2021		2020	
	Gross gearing Exposure £'000	% ¹	Net gearing Exposure £'000	% ¹
Investments	2,167,275	99.3	2,167,275	99.3
Long CFDs	707,808	32.4	707,808	32.4
Total long exposures before hedges	2,875,083	131.7	2,875,083	131.7
Less: short derivative instruments hedging the above	(206,452)	(9.4)	(206,452)	(9.4)
Total long exposures after the netting of hedges	2,668,631	122.3	2,668,631	122.3
Short CFDs	82,102	3.7	(82,102)	(3.7)
Put options	4,132	0.2	(4,132)	(0.2)
Gross Asset Exposure/net exposure	2,754,865	126.2	2,582,397	118.4
Net Assets	2,182,977		2,182,977	
Gearing²		26.2%		18.4%

1 Exposure to the market expressed as a percentage of Net Assets.

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

	2020		2020	
	Gross gearing Exposure £'000	% ¹	Net gearing Exposure £'000	% ¹
Investments	1,289,807	101.3	1,289,807	101.3
Long CFDs	446,471	35.1	446,471	35.1
Total long exposures before hedges	1,736,278	136.4	1,736,278	136.4
Less: short derivative instruments hedging the above	(154,586)	(12.2)	(154,586)	(12.2)
Total long exposures after the netting of hedges	1,581,692	124.2	1,581,692	124.2
Short CFDs	12,524	1.0	(12,524)	(1.0)
Gross Asset Exposure/net exposure	1,594,216	125.2	1,569,168	123.2
Net Assets	1,273,047		1,273,047	
Gearing ²		25.2%		23.2%

1 Exposure to the market expressed as a percentage of Net Assets.

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

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 and FIL Investments International. They are all Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report. During the year, management fees of £18,591,000 (2020: £9,440,000), and accounting, administration and secretarial fees of £100,000 (2020: £100,000) were payable to the Managers. At the Balance Sheet date, management fees of £2,094,000 (2020: £774,000), and accounting, administration and secretarial fees of £8,000 (2020: £8,000) were accrued and included in other payables. Fidelity also provides the Company with marketing services. The total amount payable for these services was £195,000 (2020: £175,000). At the Balance Sheet date, £17,000 (2020: £20,000) for marketing services was accrued and included in other payables.

Disclosures of the Directors' interests in the shares of the Company and fees and taxable expenses, relating to reasonable travel expenses, payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £17,000 (2020: £18,000) of employers' National Insurance contributions were paid by the Company. At the Balance Sheet date, Directors' fees of £14,000 (2020: £57,000) were accrued and payable.

21 POST BALANCE SHEET EVENT

The valuation of Full Truck Alliance was increased by 71.7% in May 2021 as the result of a share buy back by the company. If this price increase had been applied at 31 March 2021, the uplift in the value of Full Truck Alliance would have increased the net assets of the Company by 0.40%. Since the year end, the company has filed for an IPO.

ALTERNATIVE PERFORMANCE MEASURES

TOTAL RETURN

Total return is considered to be an Alternative Performance Measure (as defined in the Glossary to the Annual Report). 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 2021 and 31 March 2020.

	Net asset value per share	Share price
2021		
31 March 2020	236.27p	216.00p
31 March 2021	423.50p	419.00p
Change in the year	+79.2%	+94.0%
Impact of dividend reinvestment	+2.7%	+3.2%
Total return for the year	+81.9%	+97.2%
	=====	=====
	Net asset value per share	Share price
2020		
31 March 2019	255.03p	235.00p
31 March 2020	236.27p	216.00p
Change in the year	-7.4%	-8.1%
Impact of dividend reinvestment	+1.5%	+1.6%
Total return for the year	-5.9%	-6.5%
	=====	=====

ONGOING CHARGES

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

	2021 £'000	2020 £'000
Investment management fees (£'000)	16,475	12,125
Other expenses (£'000)	1,368	1,177
Ongoing charges (£'000)	17,843	13,302
	=====	=====
Variable management fee (£'000)	2,116	(2,685)
Average net assets (£'000)	1,836,578	1,344,131

Ongoing charges ratio	0.97%	0.99%
Ongoing charges ratio including variable management fee	1.09%	0.79%
	=====	=====

GEARING

Gearing is considered to be an Alternative Performance Measure. See Note 19 to the Financial Statements above for details of the Company's gearing.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 March 2021 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 2020 and 2021 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 2020 is derived from the statutory accounts for 2020 which have been delivered to the Registrar of Companies. The 2021 Financial Statements will be filed with the Registrar of Companies in due course.

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

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

ENDS