FIDELITY CHINA SPECIAL SITUATIONS PLC

Annual Report for the year ended 31 March 2021

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

The Board is proposing to amend the Investment Objective of the Company to:

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

Money Observer Rated Fund 2020
Fidelity China Special Situations IT
Asia-Pacific Equities

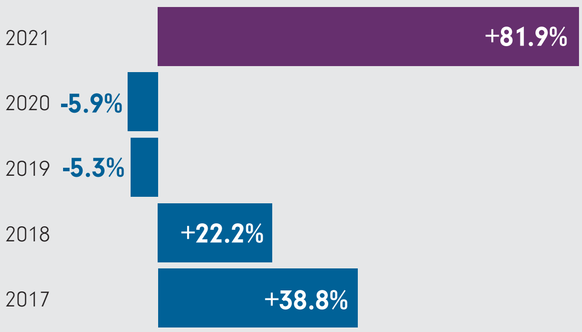
ELITE RATED by FundCalibre.com

2020 Investment Week Fund Manager of the Year Awards 2020
WINNER
Global Group of the Year

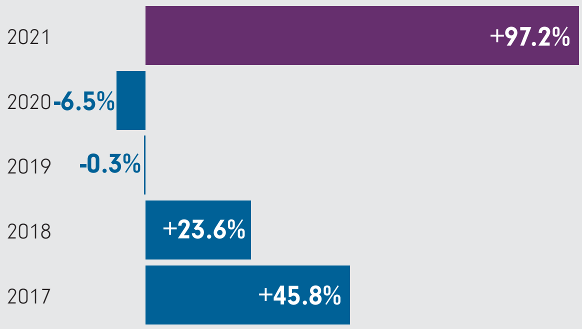
The Year at a Glance

In the reporting year, the Company's Net Asset Value per Share returned 81.9% and the Share Price 97.2%, whilst the Benchmark Index return was 29.1% (all performance data on a total return basis).

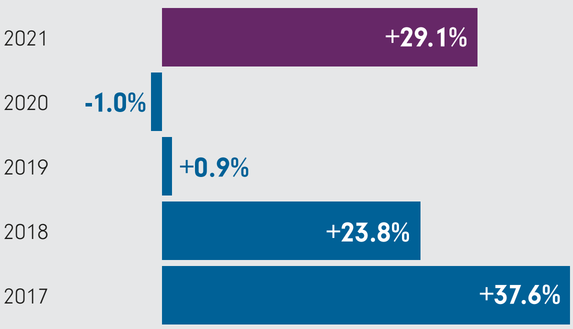
Net Asset Value per Share total return[1,2]
Year ended 31 March



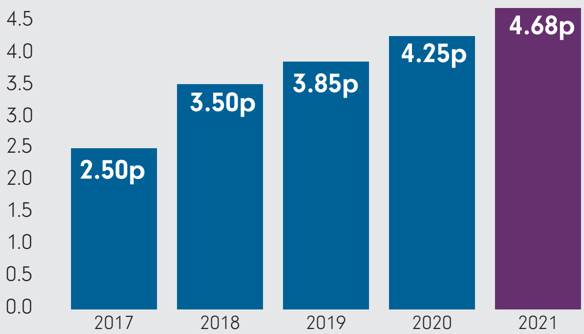
Share Price total return[1,2]
Year ended 31 March



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



Dividend per Share
Year ended 31 March



1 Includes reinvested income.
2 Alternative Performance Measures. See page 92.
3 The Company's Benchmark Index.

As at 31 March 2021

Equity Shareholders' Funds

£2,183.0m

Market Capitalisation

£2,159.8m

Capital Structure
Ordinary Shares of 1 penny held outside Treasury

515,463,483

Summary of the key aspects of the Investment Policy

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

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

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

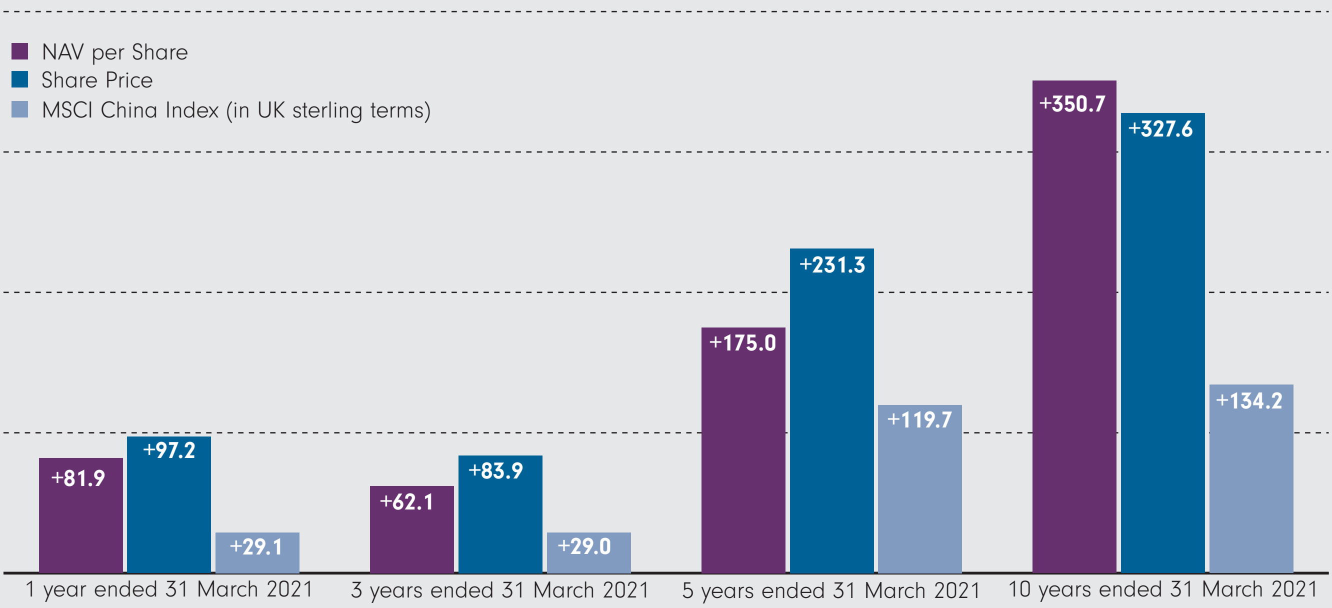
The Company operates a variable management fee arrangement which is calculated by referencing performance relative to the MSCI China Index (in UK sterling terms).

Financial Highlights

	2021	2020
Assets as at 31 March		
Gross Asset Exposure	**£2,754.9m**	£1,594.2m
Net Assets	**£2,183.0m**	£1,273.0m
Gross Gearing[1,2]	**26.2%**	25.2%
Net Gearing[1,2]	**18.4%**	23.2%
Net Asset Value ("NAV") per Share[2]	**423.50p**	236.27p
Share Price and Discount as at 31 March		
Share Price at year end	**419.00p**	216.00p
Share Price – year high	**498.00p**	253.00p
Share Price – year low	**212.00p**	185.00p
Discount at year end[2]	**(1.1%)**	(8.6%)
Discount – year high	**(13.2%)**	(17.7%)
Premium – year high/(Discount – year low)	**2.3%**	(5.9%)
Earnings for the year ended 31 March – see page 64		
Revenue Earnings per Share[2,3]	**4.70p**	4.51p
Capital Earnings/(Loss) per Share[2,3]	**186.11p**	(19.67p)
Total Earnings/(Loss) per Share[2,3]	**190.81p**	(15.16p)
Ongoing Charges for the year to 31 March[2,4]	**0.97%**	0.99%
Variable Management Fee	**0.12%**	-0.20%
Ongoing Charges including Variable Management Fee for the year to 31 March[2,4]	**1.09%**	0.79%

1 See Note 19 on pages 90 and 91. Defined in the Glossary to the Annual Report on pages 98 and 99.
2 Alternative Performance Measures.
3 Based on the weighted average number of shares held outside of Treasury during the year.
4 Ongoing charges (excluding finance costs and taxation) expressed as a percentage of average net asset values for the year (prepared in accordance with guidance issued by the Association of Investment Companies ("AIC")).

Standardised Performance Total Return[1] (%)



1 Includes reinvested income.

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

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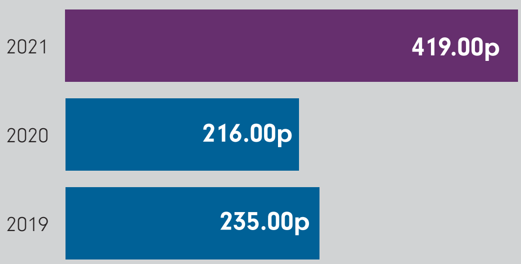
Share Price as at 31 March



Ten Year Record
Read more on page 25

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Chairman's Statement

I have pleasure in presenting the Annual Report of Fidelity China Special Situations PLC for the year ended 31 March 2021.

Nicholas Bull, Chairman

£2,183.0
(As at 31 March 2021)
Equity Shareholders' Funds

+81.9%
(Year ended 31 March 2021)
Net Asset Value per Share (total return)

+97.2%
(Year ended 31 March 2021)
Share Price (total return)

+29.1%
(Year ended 31 March 2021)
Benchmark Index (total return)

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 on pages 20 to 22 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 on page 6.

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 on pages 18 and 19.

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 on pages 16 and 17 and a proposal to increase the cap on unlisted investments is set out on pages 5 and 27.

Chairman's Statement continued

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 on pages 34 to 37.

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 on pages 28 to 31.

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 on pages 90 and 91.

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 page 25 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.

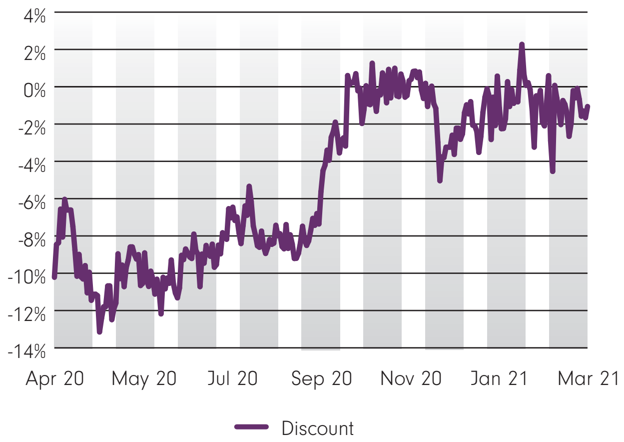
The Board recommends a final dividend of 4.68 pence per share for the year ended 31 March 2021 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 20 July 2021. This represents an increase of 10.1% over the 4.25 pence paid in respect of the prior year. The dividend will be 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 on page 39.

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 on page 44.

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 on page 38 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 on page 38, 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 on page 3, 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 on page 96.

Chairman's Statement continued

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 ("FII").

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 on page 39.

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 on pages 42 and 43.

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.

Nicholas Bull
Chairman
7 June 2021

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 on pages 93 and 94 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.

Portfolio Manager's Review

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

Question

How has the Company performed in the year under review?

Answer

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 on page 24. 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-beneficaries 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

Portfolio Manager's Review continued

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.

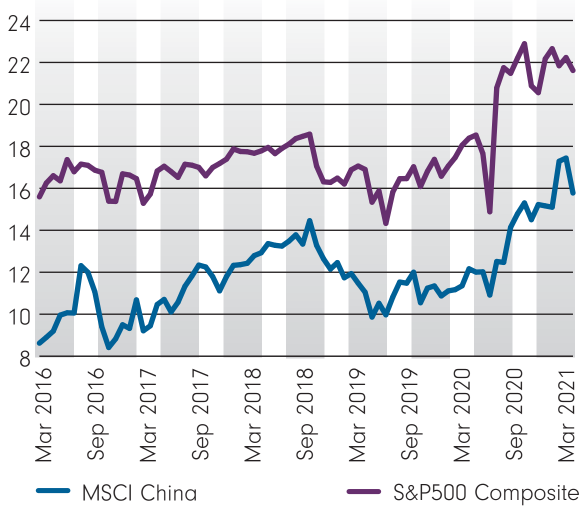
Question

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

Answer

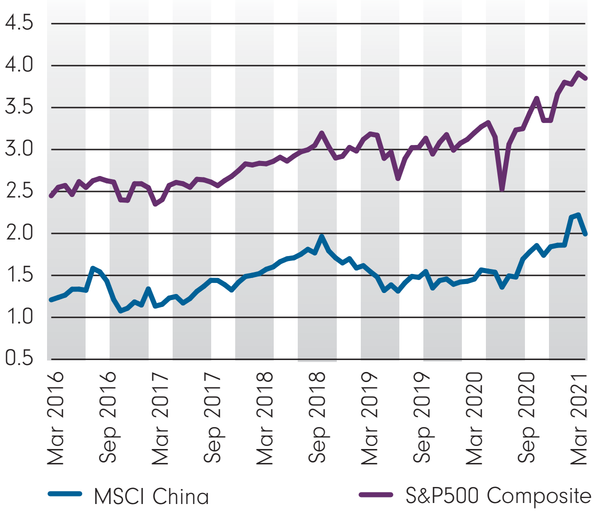
As Chinese equities have been one of the best performing asset classes during 2020, valuations are currently not as attractive as they were at the start of the review period. However, as the following charts indicate, relative to other markets such as the US, Chinese stocks continue to trade at a significant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

12 Month Forward Price-to-Earnings



Source: CICC

12 Month Forward Price-to-Book



Source: CICC

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 facilities 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

Portfolio Manager's Review continued

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 are on page 17.

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 on pages 34 to 37.

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.

Portfolio Manager's Review continued

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.

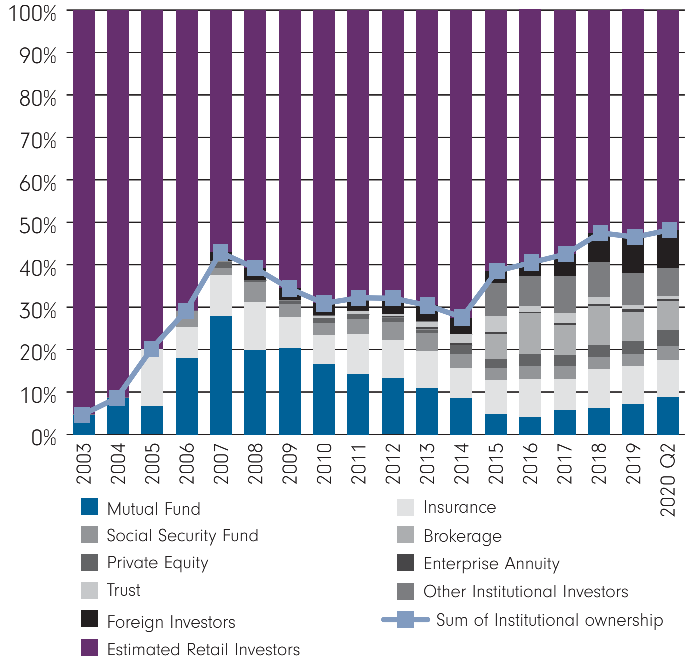
Dale Nicholls
Portfolio Manager
7 June 2021

An Evolving Corporate Landscape in China – in charts

Changing patterns of ownership

A striking feature of the shareholder registers of Chinese corporates has been the steady decline in ownership concentration, which has opened the door for non-controlling interests to play a more active role in the governance of companies. Despite prevailing stereotypes, the market has gradually rebalanced away from being retail-driven: individual investors owned 95 per cent of free-float shares in 2003, but this fell to 70 per cent in 2010 and stands at just over 50 percent today. Foreign participation has jumped over the last few years as China opens its financial borders, and this has helped bring domestic practices more in line with global standards.

Institutional ownership rises in China (as a % of free-float)

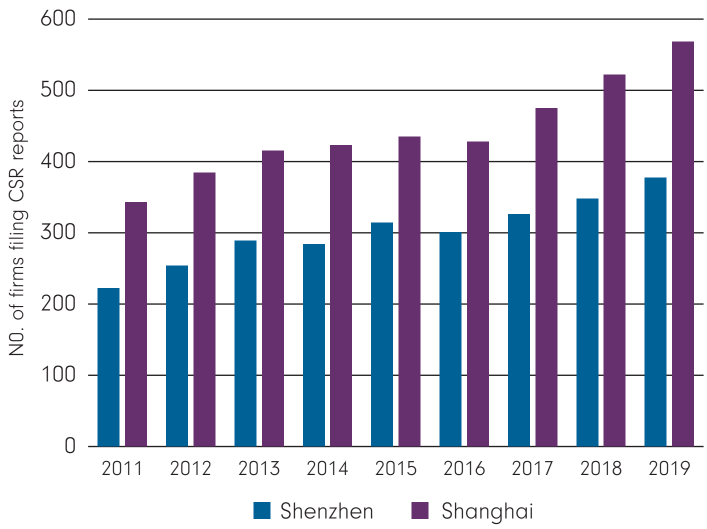


Source: PRI, Fidelity International, ZD Proxy, November 2020.

Increased transparency

Not only are companies becoming more responsive in matters of voting, but they are also becoming better on ESG issues and making increased and improved disclosures. Although ESG disclosure is not yet mandatory in China, a growing number of listed companies are making voluntary filings. Last year, a total of 945 onshore firms disclosed their ESG performance in Corporate Social Responsibility reports, accounting for more than a quarter of A-share companies. That is up from 801 firms in 2017.

More China-listed companies are publishing CSR reports



Source: Fidelity International, Syntao Finance, November 2020

Unlisted Investments

Xiaoju Kuaizhi ('Didi Chuxing')

(Purchased: August 2015)

Xiaoju Kuaizhi, popularly known as 'Didi Chuxing', offers a wide range of transportation options for more than 550m users – including 'Taxi', 'Express', 'Premier', 'Luxe', 'Bus', 'Designated Driving', 'Enterprise Solutions', 'Bike Sharing', E-Bike Sharing' and 'Car Rental', as well as food delivery. It has millions of drivers and partners with names like Grab, Lyft, Ola, 99, Taxify and Careem in a global ride hailing network.

DJI International

(Purchased: May 2018)

DJI International is a manufacturer of drones. It also designs and manufactures camera gimbals, action cameras, camera stabilisers, flight platforms and propulsion systems and flight control systems. DJI benefits from direct access to suppliers, raw materials and a young, creative talent pool. Drawing on these resources, it has grown from a single small office in 2006 to a global workforce. It has offices in the United States, Germany, the Netherlands, Japan, South Korea, Beijing, Shanghai, and Hong Kong.

SenseTime

(Purchased: June 2018)

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

ByteDance

(Purchased: November 2018)

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

Pony.ai

(Purchased: March 2020)

Founded in Fremont, California in 2016 by James Peng and Lou Tiancheng, both former developers for Baidu in Silicon Valley, Pony.ai has pioneered autonomous vehicle technology, launching and offering a public-facing robotaxi service in California and China. The outbreak of COVID-19 saw the company respond by launching a self-driving delivery service in Irvine, California, shipping packages and groceries during lockdown. An electric robotaxi fleet was repurposed as an autonomous delivery service for purchases made on the Los Angeles-based e-commerce platform Yamibuy.

Venturous Holdings

(Purchased: December 2020)

Venturous Holdings is a so-called deep tech conglomerate, its mission to make cities smart – more liveable, sustainable and productive, contributing to the buildout of an All-Digital Urban Economy in China.

The Venturous team also provides strategic advice to CEOs and their management teams, which covers corporate architecture designs, strategies, market expansions, capital plans, business model expansions, partnerships and ecosystems.

Full Truck Alliance

(Purchased: November 2020)

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

Chime Biologics

(Purchased: March 2021)

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

Beisen

(Purchased: April 2021)

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

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

Top 10 Holdings

as at 31 March 2021

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

Industry Information Technology

Tencent Holdings

% of Net Assets **11.7%**

Tencent Holdings is one of the largest internet and technology companies in the world. Its business spans social network, music, web portals, e-commerce, mobile games, internet services, payment systems, smartphones, and multiplayer online games, which are all among the world's biggest and most successful in their respective categories. Tencent's applications are hosted on its WeChat platform. In 2020, the company established its Comprehensive Security Fund (RMB1.5bn) and the Global Anti-Pandemic Fund (US$100m) to support the fight against COVID-19.

Industry Consumer Discretionary

Alibaba Group Holding

% of Net Assets **10.6%**

Alibaba Group Holding is a Chinese multinational e-commerce, retail, internet, AI and technology conglomerate. It runs the biggest e-commerce platform in the world and in 2020 was named as the fifth-largest artificial intelligence company. Ant Group, an unconsolidated related party, provides payment services and offers financial services for consumers and merchants on Alibaba's platforms. As at the end of June 2020, the conglomerate had a user reach of over 1bn global annual active consumers, including 807m consumers in China and 194m consumers outside China.

Industry Financials

Ping An Insurance

% of Net Assets **2.9%**

Ping An Insurance is a leading technology-powered retail financial services group, which leverages innovative technologies to support a range of sectors including financial services, health care, auto services and smart city services. The company conducts its life and health insurance business through Ping An Life, Ping An Annuity, and Ping An Health. Within financial services, Ping An has built multiple financial innovation platforms, including OneConnect and E-wallet, to address the comprehensive financial demands of its customers, linking assets to funds through open platforms and open marketplaces.

Industry Information Technology

WuXi AppTec

% of Net Assets **2.8%**

WuXi AppTec is a leading pharmaceutical, biopharmaceutical and medical device capability and technology platform company with 26,000 employees globally, including more than 21,000 dedicated scientists. Through its 29 Research & Development (R&D) sites worldwide, the company provides comprehensive platform capabilities in small molecule R&D and manufacturing, biologics R&D and manufacturing, cell and gene therapy R&D and manufacturing, medical device testing, and molecular testing and genomics.

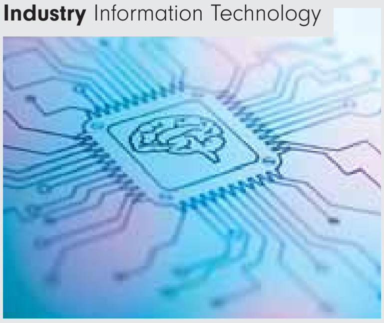
Industry Materials

SKSHU Paint Company

% of Net Assets **2.6%**

SKSHU Paint Company is one of China's largest paint manufacturers. It focuses mainly on the development of environmental-friendly interior emulsion paint, weather-resistant exterior wall paint, wood paint, furniture paint and adhesive. The company has continued to gain market share helped by industry dynamics coupled with increasing demand.

Industry Information Technology



21Vianet Group

% of Net Assets **2.6%**

21Vianet Group is one of China's leading internet data centre service providers. The company aims to capitalise on both wholesale and scale retail market opportunities. Among the continuing drivers for growth in the internet data centre services market are: the strong growth in mobile internet penetration, the internet of things and artificial intelligence; the need for improved resilience which requires specialised buildings; demand for data centres driven by the considerable growth in cloud computing; the trend for outsourcing as more companies are switching from on-premise data centres to multi-tenant environments.

Industry Financials

Noah Holdings

% of Net Assets **2.5%**

Noah Holdings is a leading independent wealth and asset management service provider in China with a focus on investment and asset allocation services for high net worth individuals. In the first nine months of 2020, Noah distributed RMB73.4bn (US$10.8 billion) of financial products. Through Gopher Asset Management, Noah had assets under management of RMB155.7bn (US$22.9bn) as at 30 September 2020.

Industry Financials

China Pacific Insurance Group

% of Net Assets **2.1%**

China Pacific Insurance Group is one of the largest property and life insurance companies in China. It offers a broad range of protection, investment and wealth management services. It has one of the largest agent forces in China. The company was founded in 1991 and is headquartered in Shanghai. It operates its businesses primarily in the domestic market.

Industry Information Technology

Kuaishou Technology

% of Net Assets **2.1%**

Kuaishou Technology is a short video social platform for users to record and share their contributions. It boasts a range of authentic and diverse video content coming from its highly interactive community. The company encourages its users to: "Capture the world, share your story." The company had a very successful IPO in January 2021 and is one of the most popular social platforms in China.

Industry Information Technology

Hutchison China MediTech

% of Net Assets **1.8%**

Hutchison China MediTech is a biopharmaceutical company targeting the global market for novel oral oncology and immunology drugs. Its innovation platform, Hutchison MediPharma has been the main driver of creating and developing its portfolio of drug candidates since 2002. The group has around 500 scientists and staff focusing on discovering, developing and commercialising targeted therapeutics and immunotherapies in oncology and autoimmune diseases. The company and its joint ventures manufacture and sell about 4.7bn doses of medicines a year.

Forty Largest Holdings
as at 31 March 2021

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

	Asset Exposure £'000	% of Net Assets[1]	Fair Value £'000
Long Exposures – shares unless otherwise stated			
Tencent Holdings (shares and long CFDs) Internet, mobile and telecommunications service provider	254,409	11.7	160,872
Alibaba Group Holding (shares and long CFDs) e-commerce group	230,437	10.6	155,354
Ping An Insurance (long CFD) Financial services company	64,127	2.9	(797)
WuXi AppTec (long CFDs) Pharmaceutical, biopharmaceutical and medical device outsourcing provider	61,667	2.8	33
SKSHU Paint Company (shares and equity linked notes) Paint manufacturing company	57,479	2.6	57,479
21Vianet Group Internet and data center service provider	56,993	2.6	56,993
Noah Holdings Asset managers	54,816	2.5	54,816
China Pacific Insurance Group (long CFDs) Insurance company	46,573	2.1	(1,203)
Kuaishou Technology Internet media services	45,034	2.1	45,034
Hutchison China MediTech Pharmaceutical and healthcare group	38,571	1.8	38,571
Asia Cuanon Technology (shares and equity linked notes) Development, manufacturing and sales of decorated insulation products	37,759	1.7	37,759
Crystal International Group Clothing manufacturer	36,137	1.7	36,137
Monalisa Group Manufacturer of ceramic products	35,797	1.6	35,797
Trip.com Group (shares and long CFD) Travel services provider	34,965	1.6	7,716
Beijing Oriental Yuhong Waterproof Technology (shares and equity linked notes) Waterproof system provider	33,489	1.5	33,489
China Life Insurance Company (shares and long CFDs) Insurance company	31,996	1.5	1
China Lesso Group Holdings (long CFD) Manufacturer of building materials and interior decoration products	31,549	1.4	3,002
iClick Interactive Asia Group Online marketing and enterprise digital operation solution provider	31,190	1.4	31,190
Innovent Biologics (long CFDs) Biopharmaceutical company	30,572	1.4	(817)
Hisense Home Appliances Group Manufacturer and distributor of household appliances	30,382	1.4	30,382

	Asset Exposure £'000	% of Net Assets[1]	Fair Value £'000
Pony.ai (unlisted) Developer of artificial intelligence and autonomous driving technology solutions	28,939	1.3	28,939
Zhejiang Dahua Technology Provider of video surveillance products and services	28,724	1.3	28,724
Tongdao Liepin Group Provider of technology and data driven intellectual talent services platform	28,642	1.3	28,642
Intron Technology Holdings Automotive electronics solutions provider	28,586	1.3	28,586
Kweichow Moutai Moutai liquor producer and distributor	27,263	1.2	27,263
Renrui Human Resources Technology Holdings Human resources solutions provider	27,108	1.2	27,108
Baozun Digital technology and solutions company	26,411	1.2	26,411
China Foods Processor and distributor of food and beverages	26,108	1.2	26,108
Gree Electric Appliances of Zhuhai Appliance manufacturer	25,921	1.2	25,921
Chime Biologics Convertible Bond 2.00% 16/03/2024 (unlisted) Contract Development and Manufacturing Organization (CDMO)	25,366	1.2	25,366
Venturous Holdings (unlisted) Investment company	25,366	1.2	25,366
Vipshop Holdings e-commerce company specialising in online discount sales	25,345	1.2	25,345
Chailease Holding Provider of leasing and financial services	24,028	1.1	24,028
NetEase Internet technology company providing online services	23,760	1.1	23,760
DJI International (unlisted) Manufacturer of drones	23,086	1.1	23,086
Lenovo Group (long CFD) Multinational technology company	22,292	1.0	2,056
Sinotrans (shares and long CFDs) Logistics, storage and terminal services provider	22,015	1.0	9,209
Peijia Medical Provider of innovative medical products and solutions	21,802	1.0	21,802
Shenzhen Yuto Packaging Technology High-end brand packaging solutions provider	21,413	1.0	21,413
RS Technologies Silicon wafer manufacturer	21,049	1.0	21,049
Forty largest long exposures (2020: 94.4%)	**1,747,166**	**80.0**	**1,251,990**
Other long exposures (2020: 42.0%)	1,127,917	51.7	911,264
Total long exposures before hedges (147 companies)	**2,875,083**	**131.7**	**2,163,254**

Forty Largest Holdings continued

	Asset Exposure £'000	% of Net Assets[1]	Fair Value £'000
Less: hedging exposures			
Hang Seng China Enterprises Index (future)	(91,992)	(4.2)	(3,362)
MSCI China Free Index (put options)	(79,040)	(3.6)	8,756
Hang Seng Index (future)	(26,133)	(1.2)	(843)
S&P/BNY Mellon China Select ADR Index (short CFD)	(9,287)	(0.4)	62
Total hedging exposures	**(206,452)**	**(9.4)**	**4,613**
Total long exposures after the netting of hedges	**2,668,631**	**122.3**	**2,167,867**
Short exposures			
Short CFDs (11 holdings)	82,102	3.7	9,398
Put options (3 holdings)	4,132	0.2	1,098
Total short exposures	**86,234**	**3.9**	**10,496**
Gross Asset Exposure[2]	**2,754,865**	**126.2**	
Portfolio Fair Value[3]			**2,178,363**
Net current assets (excluding derivative instruments) less non-current liabilities			4,614
Net Assets			**2,182,977**

1 Asset Exposure expressed as a percentage of Net Assets.
2 Gross Asset Exposure comprises market exposure to investments of £2,167,275,000 plus market exposure to derivative instruments of £587,590,000.
3 Portfolio Fair Value comprises investments of £2,167,275,000 plus derivative assets of £33,296,000 less derivative liabilities of £22,208,000.

A full list of the Company's holdings at 31 March 2021 will be available on the Company's pages of the Manager's website at www.fidelity.co.uk/china from the day of the AGM on 20 July 2021.

Distribution of the Portfolio
as at 31 March 2021

Sector	% of Net Assets %[1]	Benchmark Index £'000
Consumer Discretionary	36.4	33.9
Communication Services	26.1	20.5
Financials	15.7	14.4
Information Technology	14.5	6.0
Industrials	13.9	4.7
Healthcare	13.5	6.7
Materials	8.0	2.2
Consumer Staples	3.7	4.4
Energy	2.2	1.2
Real Estate	0.8	2.0
Utilities	0.8	4.0
Total excluding hedging	**135.6**	**100.0**
Hedging	(9.4)	–
Total including hedging	**126.2**	**100.0**
Share Type		
Listed in Hong Kong	42.7	35.2
Listed in US	25.4	31.0
China "A" Shares	20.5	11.9
China "H" Shares	20.2	17.6
Unlisted	7.6	–
Red Chips	5.1	4.2
Listed in United Kingdom	1.9	–
Listed in Taiwan	1.5	–
Listed in Japan	1.1	–
China "B" Shares	0.2	0.1
Total	**126.2**	**100.0**
Size of Company (Market Cap)		
Large – above £5bn	52.3	91.7
Medium – between £1bn – £5bn	38.9	8.3
Small – below £1bn	27.4	–
Unlisted	7.6	–
Total	**126.2**	**100.0**

1 Asset Exposure expressed as a percentage of Net Assets.

Attribution Analysis

Analysis of NAV total return for the year ended 31 March 2021	%
Impact of:	
MSCI China Index (in Hong Kong dollar terms)	+44.0
Stock Selection (in Hong Kong dollar terms)	+47.1
Gearing (in Hong Kong dollar terms)	+11.1
Currency translation into sterling	-18.3
Share Repurchases	+0.5
Other Costs	-1.7
Cash	-0.8
NAV total return for the year ended 31 March 2021	**+81.9**

Ten Highest Contributors to NAV total return	%
Tencent Holdings	+7.3
China Meidong Auto Holdings	+6.8
21Vianet Group	+4.7
SKSHU Paint Company	+4.0
Yadea Group Holdings	+3.6
WuXi AppTec	+3.0
Kuaishou Technology	+2.1
Innovent Biologics	+2.1
Weimob	+2.1
KE Holdings	+2.0

Ten Highest Detractors to NAV total return	%
Hang Seng Hong Kong Indicies	-3.1
China Overseas Land & Investment	-0.6
Pinduoduo	-0.4
B-Soft	-0.3
Gome Retail Holdings	-0.3
Zepp Health Corporation	-0.3
China Online Education	-0.3
Fanhua	-0.2
Autohome	-0.2
Li Auto	-0.2

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

Ten Year Record

For the year ended 31 March	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Investment Performance										
Net Asset Value per Share total return (%)[1]	**+81.9**	-5.9	-5.3	+22.2	+38.8	+0.0	+45.3	+19.5	+15.7	-18.5
Share Price total return (%)[1]	**+97.2**	-6.5	-0.3	+23.6	+45.8	-4.5	+39.9	+14.1	+15.0	-26.4
MSCI China Index total return (in UK sterling terms) (%)	**+29.1**	-1.0	+0.9	+23.8	+37.6	-16.2	+39.3	-6.9	+12.2	-12.6
Assets										
Gross Asset Exposure (£m)	**2,754.9**	1,594.2	1,767.1	1,806.6	1,586.9	1,155.3	1,189.1	806.6	774.2	628.5
Net Assets (£m)	**2,183.0**	1,273.0	1,401.6	1,502.9	1,243.8	908.5	944.1	656.2	634.2	559.0
Gross Gearing (%)[1]	**26.2**	25.2	26.1	20.2	27.6	27.2	25.9	22.9	22.1	12.4
Net Gearing (%)[1]	**18.4**	23.2	20.9	14.2	22.4	27.2	21.1	18.9	18.6	11.9
Net Asset Value per Share (pence)[1]	**423.50**	236.27	255.03	272.55	225.36	164.18	165.27	114.84	97.09	84.72
Share Price data at year end										
Share Price (pence)	**419.00**	216.00	235.00	239.00	195.70	136.00	143.60	103.80	92.00	80.80
Discount (%)[1]	**1.1**	8.6	7.9	12.3	13.2	17.2	13.1	9.6	5.2	4.6
Earnings and Dividends paid										
Revenue Earnings per Share (pence)[1]	**4.70**	4.51	4.06	3.80	2.92	2.07	1.41	1.18	1.25	0.99
Capital Earnings/(Loss) per Share (pence)[1]	**186.11**	(19.67)	(18.21)	45.86	60.01	(2.24)	50.17	16.39	11.76	(20.33)
Total Earnings/(Loss) per Share (pence)[1]	**190.81**	(15.16)	(14.15)	49.66	62.93	(0.17)	51.58	17.57	13.01	(19.34)
Dividend per Share (pence)	**4.68**	4.25	3.85	3.50	2.50	1.80	1.30	1.15	1.00	0.75
Ongoing Charges										
Ongoing Charges (excluding variable element of the management fee) (%)[1]	**0.97**	0.99	1.02	1.11	1.16	1.20	1.29	1.45	1.80	1.70
Variable Management Fee	**0.12**	(0.20)	(0.09)	0.00	n/a	n/a	n/a	n/a	n/a	n/a
Ongoing Charges (including variable management fee)[1]	**1.09**	0.79	0.93	1.11	1.16	1.20	1.29	1.45	1.80	1.70

1 Alternative Performance Measures.

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

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and Portfolio Manager's Review on pages 2 to 14 form part of the Strategic Report.

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

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

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

As mentioned in the Chairman's Statement on page 5, the Board is seeking shareholder approval to increase the limit on unlisted investments from 10% of Net Assets plus Borrowings to 15% and to reflect the growing importance of unlisted investments by amending the above Investment Objective. Details of the changes to the Investment Policy and the revised Investment Objective can be found in the Appendix to the Notice of Meeting on page 96.

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

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

The Company's investment objective, strategy and principal activity have remained unchanged throughout the year ended 31 March 2021.

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

The Portfolio Manager has identified the growth of the middle class and a refocusing on China's economy towards domestic consumption as key drivers of its economy and the stock market in the coming years; he therefore focuses on those products and services that cater for this growth within China.

The Portfolio Manager may invest in companies listed in China and Chinese companies listed elsewhere. He may also invest in companies with significant interests in China. The Company is also able to invest up to 10% of the portfolio in unlisted companies with a view to their Initial Public Offering, thereby providing investors in the Company with some of the broadest access to investment opportunities in China.

Investment Policy
The Company invests in a diversified portfolio consisting primarily of securities issued by companies listed in China and Chinese companies listed on other stock exchanges. The Company may also obtain exposure to other listed companies which have significant interests in China.

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

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

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

Unlisted Investments
The Company is permitted to invest up to 10% of Net Assets plus Borrowings in unlisted securities which carry on business, or have significant interests, in China.

As at 31 March 2021, the Company held nine (2020: six) unlisted investments with a fair value of £166,464,000 (2020: £81,146,000) representing 7.4% (2020: 6.0%) of Net Assets plus Borrowings.

As mentioned in the Chairman's Statement on page 3, the Board is seeking shareholder approval for a change to the Investment Policy to increase the unlisted securities limit from 10% to 15% of Net Assets plus Borrowings. Details of the proposed changes to the Investment Policy can be found in the Appendix to the Notice of Meeting on page 96.

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

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

As at 31 March 2021, the Company's exposure to short derivative instruments represented 13.0% (2020: 12.3%) of Net Assets plus Borrowings.

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

As at 31 March 2021, the Company's largest exposure to any single counterparty from all derivative activities was 0.5% (2020: 1.1%) of Net Assets plus Borrowings.

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

As at 31 March 2021, the Company held no investments in other listed investment companies (2020: nil).

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

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

During the year, the Gross Asset Exposure of the Company did not exceed the Net Assets of the Company by more than 30%. As at 31 March 2021, Gross Asset Exposure in excess of Net Assets was 26.2% (2020: 25.2%).

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

Performance
The Company's performance for the year ended 31 March 2021, including a summary of the year's activities, and details on trends and factors that may impact future performance, are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 14. The Forty Largest Holdings, the Distribution of the Portfolio, the Attribution Analysis and the Ten Year Record are on pages 20 to 25.

Results and Dividends
The Company's results for the year ended 31 March 2021 are set out in the Income Statement on page 64. The revenue earning was 4.70 pence and the capital earning was 186.11 pence, giving total earnings of 190.81 pence per ordinary share.

Under Section 1159 of the Corporation Tax Act 2010, the Company is not able to retain more than 15% of its net income in any reporting year to qualify as an investment company. The Directors recommend that a final dividend of 4.68 pence (2020: 4.25 pence) per ordinary share be paid on 27 July 2021 to shareholders who appear on the register as at close of business on 18 June 2021 (ex-dividend date 17 June 2021).

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

	Year ended 31 March 2021 %	Year ended 31 March 2020 %
Net Asset Value per Share total return[1]	**+81.9**	-5.9
Share Price total return[1]	**+97.2**	-6.5
MSCI China Index total return	**+29.1**	-1.0
Discount to Net Asset Value	**(1.1)**	(8.6)
Ongoing Charges[1]	**0.97**	0.99

1 Alternative Performance Measures. See page 92.

The Board also monitors the factors contributing to investment results, as set out in the NAV Attribution Analysis table on page 24. Long-term performance is also monitored and is set out in the Ten Year Record on page 25.

Strategic Report continued

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	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. 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. 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 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 on pages 2 to 14. 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 on pages 81 to 90 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.

Principal Risks	Description and Risk Mitigation
	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 on pages 2 to 14.
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.

Strategic Report continued

Principal Risks	Description and Risk Mitigation
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 on pages 34 to 37.
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 which is included in the Directors' Report on pages 39 and 40.

PROMOTING THE SUCCESS OF THE COMPANY

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

As an externally managed Investment Trust, the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services 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 on pages 26 and 27.

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 on page 103 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.

Strategic Report continued

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

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance ("ESG") issues aligns with the investment objective to deliver long-term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail on pages 34 to 37.

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 on page 39.

Board Diversity

The Board's search for new non-executive directors is based on the benefits of having a diverse range of skills, knowledge, experience, perspectives and background, including gender. The Board's intention will always be to appoint the best person for the job and it confirms that there will be no discrimination on the grounds of gender, social and ethnic background and cognitive strengths.

The Board's overriding intention is to ensure that it is made up of the best combination of people in order to achieve long-term capital growth for the Company's shareholders from an actively managed portfolio of investments. To this effect, the Board, as part of its succession plan, will continue to appoint individuals who, together as a Board, will aim to ensure the continued optimal promotion of the Company in the marketplace. In terms of diversity, there were three female and two male Directors on the Board as at 31 March 2021. The Board's composition exceeds the target of 33% of women on FTSE 350 company boards by 2020 set by the Hampton-Alexander Review. This is the independent review body which aims to increase the number of women on FTSE 350 boards. The Board also meets the recommendations of the Parker Review Committee for each FTSE 250 company to have at least one director from an ethnic minority background by 2024 so as to improve the ethnic and cultural diversity of UK company boards.

Board Apprentice Scheme

The Board once again participated in the Board Apprentice Scheme (the "Scheme") and offered Kal Foley-Khalique, the successful candidate, the opportunity to observe the workings of the Board and its Committees for a period of one year starting on 1 December 2020. The objective of the Scheme is to increase diversity on boards. The Board Apprentice will not receive a fee but it is intended that the experience gained will assist her ambition to become a non-executive director elsewhere at a point in the future.

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

The Board has contracted with Fidelity to provide the Company with investment management and administrative services. The Board believes that ESG considerations are an important input into the assessment of the value of its investments. The investment universe is undergoing significant structural change and is likely to be impacted by increasing regulation as a result of climate change and other social and governance factors. The Board is committed to reviewing how the Manager applies ESG factors in the investment process. The Fidelity group of companies (including the Manager and Investment Manager) sets out its commitment to responsible investing, and provides a copy of its detailed Responsible Investing at **www.fidelity.co.uk/responsible-investing**. Further information on Fidelity International's approach to ESG in the investment process and sustainable investing can be found on pages 34 to 37 and are part of this Strategic Report.

Socially Responsible Investment

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

Corporate Engagement

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

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

Future Developments
Some trends likely to affect the Company in the future are common to many investment companies together with the impact of regulatory change and emerging risks. The factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 14.

By Order of the Board
FIL Investments International
Secretary
7 June 2021

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 on page 35. 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)

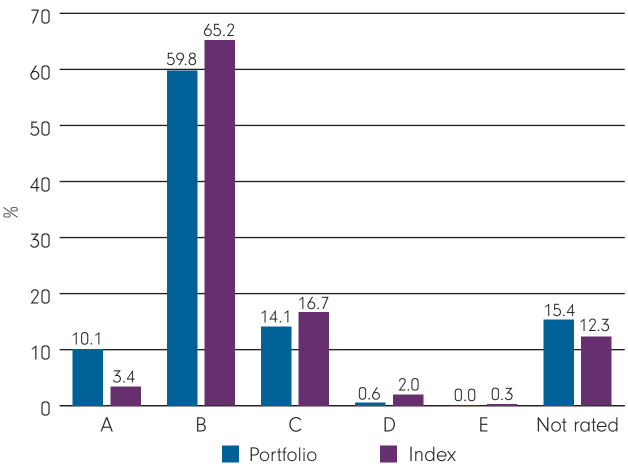
Fidelity International operates analyst training and development programmes which include modules on ESG themes, topics and strategies and attendance at external seminars on the trending ESG issues in the market globally as well as conferences to explore new ways of integrating ESG into the investment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

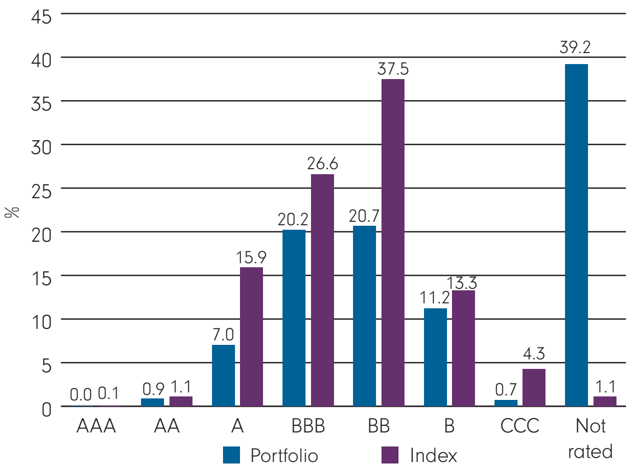
The ESG ratings and associated company reports are included on Fidelity International's centralised research management system. This is an integrated desktop database, so that each analyst has a first-hand view of how each company under their coverage is rated according to ESG factors. In addition, ESG 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 below show a breakdown of the underlying stocks in the Company's portfolio using MSCI and Fidelity International's own ESG ratings.

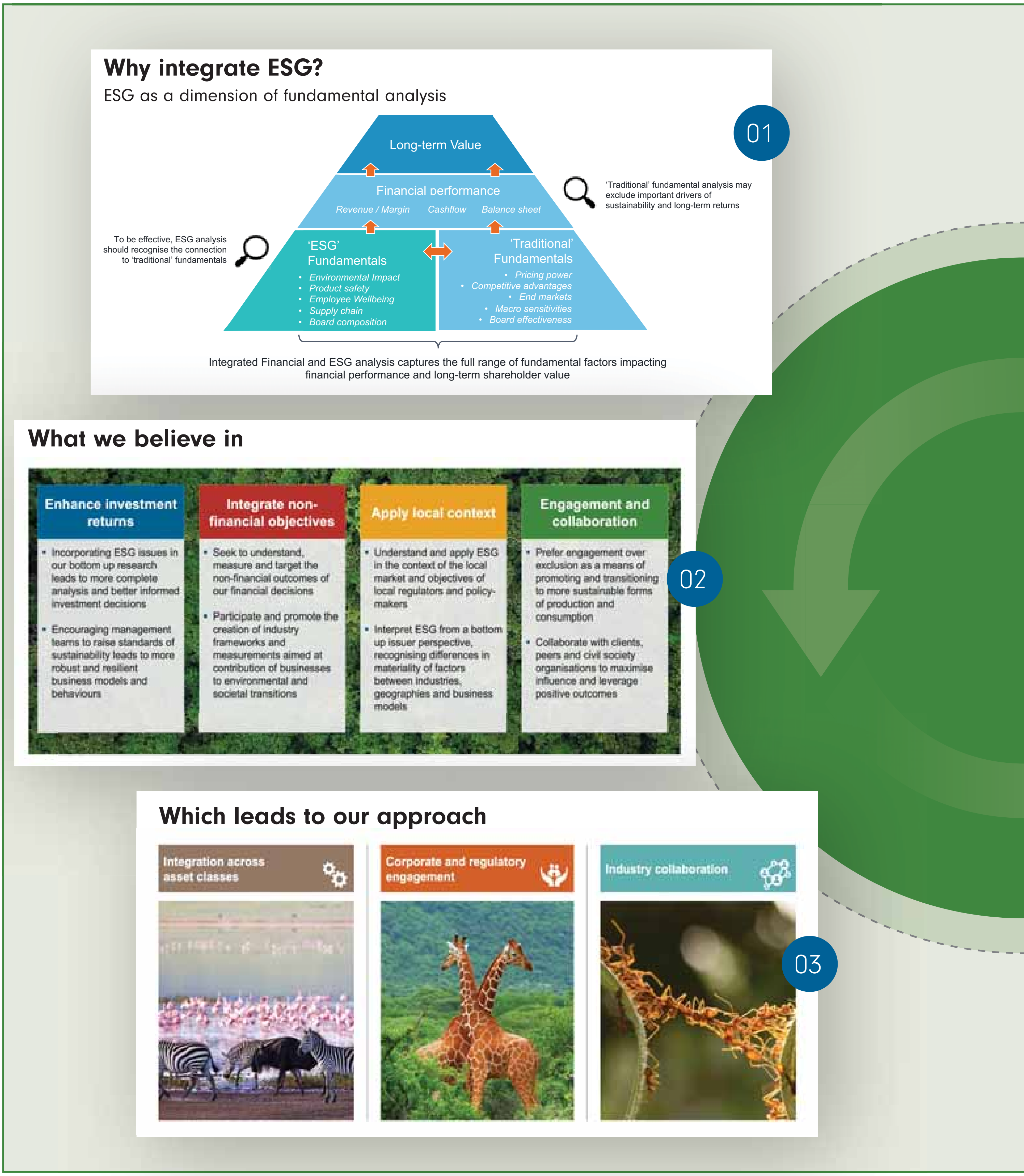
Fidelity International's proprietary ESG ratings



MSCI ESG ratings



ESG and Sustainable Investing at Fidelity International



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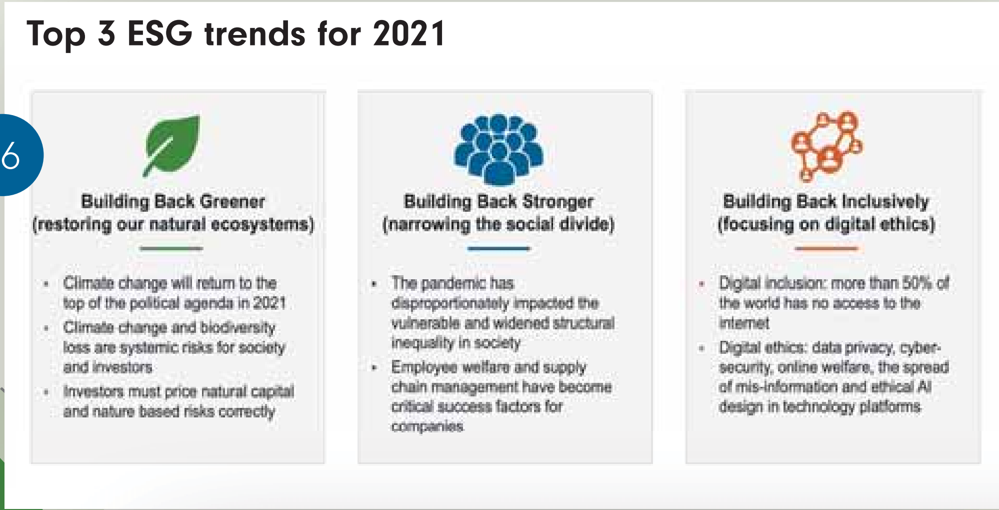

Top 3 ESG trends for 2021
Building Back Greener
(restoring our natural ecosystems)
• Climate change will return to the top of the political agenda in 2021
• Climate change and biodiversity loss are systemic risks for society and investors
• Investors must price natural capital and nature based risks correctly
Building Back Stronger
(narrowing the social divide)
• The pandemic has disproportionately impacted the vulnerable and widened structural inequality in society
• Employee welfare and supply chain management have become critical success factors for companies
Building Back Inclusively
(focusing on digital ethics)
• Digital inclusion: more than 50% of the world has no access to the internet
• Digital ethics: data privacy, cyber-security, online welfare, the spread of mis-information and ethical AI design in technology platforms

05


Fidelity Sustainability Ratings
Built using our fundamental platform
Fidelity Sustainability Rating
Why our own ratings?
Does not solely rely on public disclosures
More forward looking
Fundamental analysis
Allows fuller coverage
How we make them
Collaborative input across 180 equity and fixed income analysts
Rated relative to peer group on a standardised scale
Forward looking assessment of a company's ESG trajectory
Quantify impact on valuation
Ranked A – E
99 Sub-sectors
5 – 8 KPIs each

04


Fidelity's Sustainable Investing Approach
Sustainability Ratings
Proprietary sustainability rating constructed by fundamental research analysts
Sustainable Solutions
Deliver solutions to our clients in order to achieve their sustainability objectives
Investment Research
Global cross-asset class investment and research network
Active Stewardship
We engage with companies to improve their sustainable footprint and create societal value
Corporate Sustainability
Improving our own sustainability footprint

Board of Directors

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

I M N

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

Mike Balfour
Director
Appointed 1 October 2018

A I M N

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

Vanessa Donegan
Director
Appointed 1 September 2020

A I M N

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

Elisabeth Scott
Senior Independent Director
(since 22 July 2016)
Appointed 1 November 2011

A I M N

Ms Scott is a non-executive Director of Dunedin Income Growth Investment Trust PLC and Allianz Technology Trust PLC. She is non-executive Chairman of India Capital Growth Fund Limited and the Chair of the Association of Investment Companies (AIC). She is a past non-executive Director of Pacific Horizon Investment Trust PLC. She worked in the asset management industry in Hong Kong from 1992 to 2008, where she was Managing Director and Country Head of Schroder Investment Management (Hong Kong) Limited and Chairman of the Hong Kong Investment Funds Association.

Linda Yueh
Director
Appointed 1 June 2019

A M N

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

Alastair Bruce
Director
To be appointed 1 July 2021

A M N

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

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

Committee membership key

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

* Investment Committee disbanded on 1 June 2021.

Directors' Report

The Directors have pleasure in presenting their report and the audited Financial Statements of the Company for the year ended 31 March 2021.

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

Management Company

FIL Investment Services (UK) Limited ("FISL") is the Company's appointed Alternative Investment Fund Manager (the "AIFM"/"Manager"). FISL, as the Manager, delegated investment management (other than in unlisted securities) of the Company to FIL Investment Management (Hong Kong) Limited ("FIMHK") and for unlisted securities and the role of company secretary to FIL Investments International ("FII").

Both of these Management Agreements were in place until 31 May 2021. However, with a new fee arrangement in place, and having reviewed requirements going forward, the Board has decided to replace the previous two Management Agreements with one simpler Agreement with effect from 1 June 2021. FISL continues to be the Manager and has delegated all of the investment management, including for the unlisted securities, to FIMHK. The role of company secretary will continue to be delegated to FII.

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

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

Management Fees for the Reporting Year

The Company has had a variable management fee ("VMF") arrangement since 1 July 2018. The annual base fee is 0.90% of Net Assets per annum, with a +/-0.20% variation fee based on the Company's NAV per share performance relative to the MSCI China Index (in UK sterling terms) (the Company's Benchmark Index). The maximum fee that the Company could pay was 1.10% of Net Assets, but if the Company underperforms against the MSCI China Index, then the overall fee could fall as low as 0.70% of Net Assets. The VMF element is calculated daily by referencing the performance of the Company's NAV to the performance of the MSCI China Index. The period used to assess the performance is from 1 July 2018 until a three year history has been established after which period, the performance period will start to roll on a three year basis. The variable element of the fee will increase or decrease 0.033% for each percentage point of three year NAV per ordinary share outperformance or underperformance over the MSCI China Index to a maximum of +0.20% or a minimum of -0.20%.

The variable management fee charge for the year ended 31 March 2021 was 0.12% rather than the maximum 0.20% following outperformance of the Company's NAV in the reporting year. This was due to prior underperformance of the NAV which resulted in a credit that needed to be clawed back before the variable charge became applicable.

The total management fee for the year ended 31 March 2021 was £18,591,000 (2020: £9,440,000) as detailed in Note 4 on page 73. This was made up of a base fee of £16,475,000 (2020: £12,125,000) and a charge of £2,116,000 (2020: credit £2,685,000) on the variable element based on the performance of the NAV against the Benchmark Index.

Revised Management Fee

The Board has agreed a new fee arrangement with the Manager from 1 April 2021. The revised fee arrangement is on a tiered basis of 0.90% on the first £1.5 billion of Net Assets reducing to 0.70% of Net Assets over £1.5 billion. The variable element from the current fee structure will remain unchanged. In addition, the fixed annual fee of £100,000 for services other than portfolio management has been removed. There is no change to the investment process as a result of the revised fee.

The Board

Nicholas Bull, Mike Balfour, Elisabeth Scott and Linda Yueh all served on the Board throughout the year ended 31 March 2021 and up to the date of this report. Vanessa Donegan was appointed to the Board on 1 September 2020. Peter Pleydell-Bouverie did not stand for re-election at the AGM on 23 July 2020 and left the Board on that date. A brief description of all serving Directors as at the date of this report is shown on page 38 and indicates their qualifications for Board membership.

In line with the Board's succession plan, Elisabeth Scott will not be seeking re-election at the AGM on 20 July 2021. As her successor as a non-executive Director, Alastair Bruce has been appointed to the Board with effect from 1 July 2021.

Directors' and Officers' Liability Insurance

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

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

Directors' Report continued

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 in the Strategic Report on page 29. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement on page 31.

Auditor's Appointment
A resolution to reappoint Ernst & Young LLP as Auditor to the Company will be proposed at the AGM on 20 July 2021.

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

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

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

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

Registrar, Custodian and Depositary Arrangements
The Company has appointed Link Group as its Registrar to manage the Company's share register, JPMorgan Chase Bank as its Custodian, which is primarily responsible for safeguarding the Company's assets, and J.P. Morgan Europe Limited as its Depositary, which is primarily responsible for the oversight of the custody of investment funds and the protection of investors' interests. Fees paid to these service providers are disclosed in Note 5 on page 73.

Share Capital
The Company's share capital comprises ordinary shares of 1 penny each which are fully listed on the London Stock Exchange. As at 31 March 2021, the issued share capital was 571,054,480 (2020: 571,354,480) of which 55,590,997 (2020: 32,545,437) shares were held in Treasury. Shares in Treasury do not have voting rights, therefore the total number of shares with voting rights was 515,463,483 (2020: 538,809,043).

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

Share Issues
No shares were issued during the year ended 31 March 2021 (2020: nil) and none have been issued since the year end and as at the date of this report.

The authorities to issue shares and to disapply pre-emption rights expire at the AGM on 20 July 2021 and resolutions to renew these authorities will be put to shareholders at this AGM.

Share Repurchases
During the year ended 31 March 2021, the Company repurchased 23,345,560 (2020: 10,765,437) shares for holding in Treasury. In the reporting year, 300,000 (2020: nil) shares were cancelled from Treasury. No shares were repurchased for cancellation. Since the year end and as at the date of this report, no shares have been repurchased into Treasury or for cancellation.

The authority to repurchase shares expires at the AGM on 20 July 2021 and a resolution to renew the authority to repurchase shares, either for cancellation or to buy into Treasury, will be put to shareholders at this AGM.

Substantial Share Interests
As at 31 March and 30 April 2021, notification had been received that the shareholders listed in the table below held more than 3% of the voting share capital of the Company.

Shareholders	31 March 2021 %	30 April 2021 %
Fidelity Platform Investors	**23.83**	23.83
Hargreaves Lansdown	**14.43**	14.46
Lazard Asset Management	**10.12**	9.84
Allan & Gill Gray Foundation	**7.06**	7.06
City of London Investment Management	**5.27**	5.01
Interactive Investor	**4.23**	4.34

An analysis of shareholders as at 31 March 2021 is detailed in the table below.

Shareholders as at 31 March 2021	% of voting share capital
Retail Investors[1]	**66.52**
Mutual Funds	**12.32**
Pension Funds	**11.47**
Charities	**7.06**
Insurance Funds	**2.30**
Other	**0.33**
Total	**100.00**

1 Includes Fidelity Platform Investors (23.83%).

Additional Information Required in the Directors' Report
Information on proposed dividends, financial instruments and disclosure on Streamlined Energy and Carbon Reporting (SECR) is set out in the Strategic Report on pages 26 to 33.

ANNUAL GENERAL MEETING

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

As mentioned in the Chairman's Statement on page 7, with travel restrictions in place, the Portfolio Manager will not be able to fly from Asia to London to attend the AGM and thus while we will be hosting a physical AGM, 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 on pages 93 and 94 and voting on the resolutions therein. It will be held at **11.00 am on 20 July 2021 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 Chairman and Portfolio Manager 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.

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

Proxy Voting
Link Group, the Registrar, introduced a paperless proxy voting process in 2018. However, in view of the ongoing public health impact of COVID-19 and your well-being as shareholders, we are sending a paper Proxy Form to all shareholders who hold shares on the main share register. This will assist shareholders to vote in advance of the meeting should they decide not to attend in person.

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

At the AGM on 20 July 2021, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on pages 93 and 94, including the items of special business summarised below.

Authority to Allot Shares
Resolution 11 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £571,054. If passed, this resolution will enable the Directors to allot a maximum of 57,105,448 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company (including Treasury Shares) as at 7 June 2021, and to impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so. Any shares issued would be at NAV per ordinary share or at a premium to NAV per ordinary share.

Authority to Disapply Pre-Emption Rights
Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash up to an aggregate nominal value of £571,054 (including Treasury shares) (approximately 10% of the issued ordinary share capital of the Company as at 7 June 2021 and equivalent to 57,105,448 ordinary shares).

Authority to Repurchase Shares
Resolution 13 is a special resolution which renews the Company's authority to purchase up to 14.99% (77,267,975) of the ordinary shares in issue (excluding Treasury shares) on 7 June 2021, either for immediate cancellation or for retention as Treasury shares at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be made at the discretion of the Directors and within guidelines set from time to time by them in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per ordinary share.

Directors' Report continued

Proposed Changes to the Company's Articles of Association

Resolution 14 is a special resolution regarding the adoption of the New Articles of Association ("**New Articles**") by the Company.

Summarised below are the principal changes proposed to be introduced through the adoption of new Articles by the Company. A copy of the proposed New Articles showing all the changes as against the current Articles of Association is available for inspection at **www.fidelity.co.uk/china**, together with a copy of the current Articles of Association and a 'clean' copy of the New Articles (which do not highlight the amendments), from the date of this report until the end of the AGM (and at the AGM itself for the duration of the meeting and for at least 15 minutes prior to the meeting). The documents are also available for inspection at Charles Russell Speechlys LLP, 5 Fleet Place, London EC4M 7RD until the close of the AGM. However, given the ongoing COVID-19 pandemic and potential restrictions, we would ask you to inspect the documents through the website rather than in person and to contact us by email at **investmenttrusts@fil.com** should you wish to inspect any documents in person.

Hybrid general meetings

The Company will continue to follow guidelines and consider the safety of those attending shareholder meetings during the pandemic, but also wants to provide the very best experience for shareholders in the longer-term and be mindful of potential future restrictions.

Once it becomes safe and practicable to hold physical meetings again, it is not proposed to pursue fully "virtual" meetings, where there is no physical location that shareholders can attend and attendance is only through electronic means.

The Board value the opportunity to meet and exchange views with shareholders and a physical meeting will remain the preferred format as long as Government guidance permits it, but the Board is also keen to provide additional virtual facilities in the future for those shareholders who may not wish to or are unable to attend AGMs in person.

It is therefore proposed to provide for the ability to hold "hybrid" meetings, where there is a primary physical location with the facility for shareholders who wish to do so to attend through electronic means.

The New Articles therefore permit (but do not require) the Company to hold "hybrid" general meetings, and add further flexibility to hold meetings across more than one physical location, but there would always be a primary physical location from which the chair of the meeting would conduct proceedings. This will facilitate wider attendance by shareholders, but with the continued option for shareholders to attend a physical meeting in person should they wish to do so.

Various consequential and related changes have been made throughout the New Articles to reflect and facilitate these amendments.

Retirement of Directors at Annual General Meetings

In line with best practice and the UK Corporate Governance Code, for a number of years all Directors have offered themselves for re-election at every AGM (other than those very recently appointed or who retire at the AGM).

At present, this is not a requirement under the Company's current Articles, which provide "retirement by rotation" provisions under which Directors appointed since the previous AGM, who have held office for the previous two AGMs without being re-elected, or who have held office for nine or more years are required to retire.

The New Articles have been simplified to provide that Directors retire at each AGM, but may offer themselves for re-election.

Directors' Fees

The Board considers it is appropriate to increase the limit on Directors' fees (Fee Cap), which was set when the Company launched in April 2010 at £50,000 per annum per Director, and to express the Fee Cap as an aggregate amount for all Directors to provide greater flexibility. The proposed new Fee Cap is £350,000 in aggregate per annum. The Board considers that the increase and change to an aggregate Fee Cap will provide sufficient head-room to enable the Board to execute any succession plans for the future. The Board is satisfied that this new Fee Cap is in-keeping with current market practice.

Regulatory restrictions and information requirements

Various international requirements for the exchange of information in relation to tax reporting have been brought in over recent years which the Company is required to comply with, such as pursuant to the U.S. Foreign Account Tax Compliance Act of 2010 (FATCA) and the OECD common reporting standard. For example, under the UK International Tax Compliance Regulations 2015, investment trust companies are required to provide information to HMRC on certain investors who purchase their shares and to provide information annually to the local tax authority on the tax residency of certain non-UK based shareholders.

The New Articles therefore include provisions to give the ability to the Company to require shareholders to co-operate in respect of the exchange of information to allow the Company to comply with its obligations and avoid related penalties being imposed upon it (including potentially having to pay withholding tax to the US Internal Revenue Service). The New Articles also update and clarify related provisions which provide for potentially onerous requirements affecting the Company as a result of international laws. In each case, the Company has powers to seek information and to procure or prevent the transfer of shares in order to avoid the impact of such penalties and/or onerous obligations being imposed upon it.

Administrative updates

These consist of the removal of the current article 62 (Eligibility of Interested Persons) and various minor clarificatory amendments. The current article 62 was put in place when FIL Limited had a proprietary holding of shares in the Company to prevent FIL Limited voting on its own account when it had a material interest in the business. FIL Limited no longer has a proprietary holding and does not direct the voting of shares through the Fidelity Platform, and this restriction is no longer considered necessary.

Proposed changes to the Investment Policy and Investment Objective

Resolution 15 is an ordinary resolution regarding the proposed changes to the Company's Investment Policy and Investment Objective to increase the limit on unlisted investments from 10% of Net Assets plus Borrowings to 15% and to reflect the growing importance of unlisted investments. The full text and the marked-up changes are in the Appendix to the Notice of Meeting on page 96.

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

By Order of the Board
FIL Investments International
Secretary
7 June 2021

Corporate Governance Statement

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

Corporate Governance Codes

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

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

Statement of Compliance

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

THE BOARD

Board Composition

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

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

Biographical details of all Directors are on page 38.

Board's Succession Plan

The Board has a clearly defined succession plan in place. Peter Pleydell-Bouverie stepped down at the AGM on 23 July 2020 and was replaced by Vanessa Donegan on 1 September 2020. Elisabeth Scott will step down from the Board at the AGM on 20 July 2021 when she will have completed nine years. As her replacement as a non-executive Director, Alastair Bruce has been appointed to the Board with effect from 1 July 2021. Ms Scott will be replaced by Linda Yueh as Senior Independent Director on 20 July 2021. Nicholas Bull will step down at the AGM in 2022 when he will have served six years as a Director and six years as Chairman. He will be replaced as Chairman by Mike Balfour. The Board consider that Mr Bull continues to be independent. As part of the succession plan, Mr Bruce will take over as Chairman of the Audit and Risk Committee when Mr Balfour takes over as Chairman after the AGM in 2022.

Tenure Policy

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

Board Responsibilities and Board Meetings

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

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

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

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table on page 45 gives the attendance record for the meetings held during the reporting year. The Portfolio Manager and key representatives of the Investment Managers are in attendance at these meetings.

Board's Attendance Record for the Reporting Year

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

1 Appointed on 1 September 2020.
2 Retired on 23 July 2020.

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

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

In addition to the formal Board and Committee meetings, the Board normally undertakes an annual due diligence trip to China in order to meet with the management of existing and potential investee companies and also meet with Fidelity's research and analysts teams. However, because of travel restrictions due to the global pandemic, the due diligence trip to China scheduled to take place in October 2020 was unable to go ahead and instead the Board carried out a series of due diligence sessions virtually. Further information on the virtual due diligence meetings is in the Chairman's Statement on page 3.

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

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

Director Training
Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction on the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities to the Company. Directors also receive regular briefings from, amongst others, the AIC, the Company's Independent Auditor and the Company Secretary, regarding any proposed developments or changes in law or regulations that affect the Company and/or the Directors.

Election and Re-Election of Directors
All newly appointed Directors stand for election by the shareholders at the AGM following their appointment by the Board. As the Company is a constituent member of the FTSE 350 Index, all other Directors are subject to annual re-election. Directors standing for election and re-election at this year's AGM are listed with their details on page 38. The terms and letters of appointment of Directors are available for inspection at the registered office of the Company.

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

As a FTSE 350 Company and in accordance with provision 21 of the 2018 UK Corporate Governance Code, the Board carries out an externally facilitated evaluation every third year. Accordingly for the year ended 31 March 2021, the performance and contribution of the Chairman, each Director and the Manager was carried out using an external evaluation company, Lintstock Ltd., which had no connection with the Company or the Manager. It was concluded that the Chairman, each Director and the Manager had been effective and continues to demonstrate commitment to their roles. The tenure of individual Directors is also considered during the evaluation process.

The next external evaluation will be for the year ending 31 March 2024.

Corporate Governance Statement continued

Directors' Remuneration and Share Interests

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

BOARD COMMITTEES

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

Audit and Risk Committee

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

Full details of the Audit and Risk Committee are disclosed in the Report of the Audit and Risk Committee on pages 53 to 55.

Investment Committee

Composition

The Investment Committee (the "Committee") is chaired by Vanessa Donegan and consists of all of the Directors, except for Linda Yueh. Representatives of Fidelity's Fair Value Committee, with the requisite investment experience, attend the Committee meetings on an advisory basis.

Role and Responsibilities

The Committee is charged with reviewing and monitoring the ongoing performance of the unlisted investments, discussing with the Investment Managers the strategy for the investment portfolios, and in particular reviewing pre-IPO investment opportunities. Once investments are made in unlisted companies, the Committee is responsible for reviewing and challenging the valuations proposed by the Manager's Fair Value Committee and agreeing the valuations with the Audit and Risk Committee and reporting to the Board as appropriate.

Until 31 May 2021, the Committee met quarterly and as and when required. As part of the process of amalgamating the previous two Management Agreements into one, the Board has also decided to disband the Investment Committee with effect from 1 June 2021 with its role being undertaken by the Board and the Audit and Risk Committee in the future.

Management Engagement Committee

Composition

The Management Engagement Committee (the "Committee") is chaired by Nicholas Bull and consists of all of the Directors.

Role and Responsibilities

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

Managers' Reappointment

Ahead of the forthcoming AGM, the Committee has reviewed the performance of the Manager and the fee basis and concluded that it is in the interests of shareholders that the appointment of the Manager should continue. Details of the fee arrangements for the reporting year, and the revised fee with effect from 1 April 2021, are in the Directors' Report on page 39.

Nomination and Remuneration Committee

Composition

The Nomination and Remuneration Committee (the "Committee") is chaired by Elisabeth Scott and consists of all of the Directors because the Board deems them all to be independent. The Committee will be chaired by Linda Yueh when Ms Scott steps down from the Board on 20 July 2021.

Role and Responsibilities

The Committee is charged with reviewing the composition, size and structure of the Board and makes recommendations to the Board as appropriate. It is charged with nominating new Directors for consideration by the Board, and in turn for approval by shareholders. The search for a candidate is carried out against a set of objective criteria, with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds and cognitive strengths. New Directors are appointed on the basis of merit. When Peter Pleydell-Bouverie retired from the Board on 23 July 2020, Sapphire Partners, who have no connection with the Company, were engaged to assist the Board in recruiting a new independent non-executive director with a strong investment background to replace him. As a result of this process, Vanessa Donegan was appointed on the Board on 1 September 2020.

Sapphire Partners were also engaged to assist the Board in recruiting Elisabeth Scott's replacement for when she steps down from the Board on 20 July 2021. As a result, Alastair Bruce was appointed to the Board with effect from 1 July 2021 as a non-executive Director. Linda Yueh will succeed Ms Scott as Senior Independent Director on 20 July 2021.

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

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

Succession Planning

The Committee is responsible for succession planning and for Directors' appointments. Details of the Board's succession plan for the next year is detailed on page 44.

ACCOUNTABILITY AND AUDIT

Financial Reporting

Set out on page 52 is a statement by the Directors of their responsibilities in respect of the preparation of the Annual Report and Financial Statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report to the Members on pages 56 to 63.

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

Risk Management and Internal Controls

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

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

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. This process also assists in identifying any new emerging risks and the action necessary to mitigate their potential impact. The Board confirms that this is an effective robust ongoing process in order to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 March 2021 and up to the date of this report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial Business Reporting" guidance.

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

Whistle-Blowing Procedure

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

Bribery Act 2010

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

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

Criminal Finances Act 2017

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

Responsibility as Institutional Shareholder

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

Relations with Shareholders

Communication with shareholders is given a high priority by the Board and it liaises with the Manager and the Company's broker who are in regular contact with the Company's major institutional investors to canvass shareholder opinion and to communicate its views to shareholders. All Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and, where appropriate, other Board Directors are available to meet with shareholders to discuss strategy and governance. The Board regularly monitors the

Corporate Governance Statement continued

shareholder profile of the Company and receives regular reports from the Manager on meetings attended with shareholders and any concerns raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and its shareholders. If any shareholder wishes to contact a member of the Board directly, they should either email the Company Secretary at **investmenttrusts@fil.com** or write to the address provided on page 103. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, the Senior Independent Director or the Board as a whole, as appropriate.

As the global pandemic continues, the Board is following a different format for the AGM on 20 July 2021. Ahead of the AGM, online presentations by the Chairman and the Portfolio Manager will be held at 9.30 am on 8 July 2021 which will cover a review of the reporting year and the outlook over the coming months. You will also have the opportunity to put your questions to both the Chairman and the Portfolio Manager live. Details will be made available nearer the time at **www.fidelity.co.uk/china**. We encourage all investors who have any questions or comments to contact the Secretary 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 and we will respond in due course.

As the Portfolio Manager will not be able to travel from Asia to London because of travel restrictions, the AGM itself on 20 July 2021 will be restricted to the formal business of the meeting and voting on the resolutions to be proposed. Protecting the health of everyone must be paramount and attendance at the AGM will be restricted to shareholders and platform investors and on this occasion guests will not be admitted. The Notice of Meeting on pages 93 to 96 sets out the business of the AGM and the special business resolutions are explained more fully on pages 41 to 43 of the Directors' Report. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Notice of Meeting and related papers are sent to shareholders at least 20 working days before the AGM.

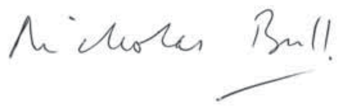
Voting Rights in the Company's Shares

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

Articles of Association

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

A special resolution to alter the Company's Articles of Association is being proposed at this year's AGM on 20 July 2021. Further details of the proposal are in the Directors' Report on pages 42 and 43.



On Behalf of the Board
Nicholas Bull
Chairman
7 June 2021

Directors' Remuneration Report

Chairman's Statement
The Directors' Remuneration Report for the year ended 31 March 2021 has been prepared in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of non-executive Directors and has no employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore not disclosed in this report.

An ordinary resolution to approve the Directors' Remuneration Report will be put to shareholders at the AGM on 20 July 2021. The Company's Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on pages 56 to 63.

Directors' Remuneration
The annual fee structure with effect from 1 April 2021 is as follows: Chairman – £45,000; Senior Independent Director – £36,000; Chairman of the Audit and Risk Committee – £38,000; Chairman of the Investment Committee – £36,000; and Director – £30,000. Prior to this, the fee structure had remained unchanged since 1 April 2015, and was as follows: Chairman – £42,000; Senior Independent Director – £31,500; Chairman of the Audit and Risk Committee – £32,000; Chairman of the Investment Committee – £31,500; and Directors – £26,500. Directors' remuneration is reviewed on an annual basis to ensure that it remains competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

The Board has a Remuneration Policy which is subject to a binding vote, in the form of an ordinary resolution at every third AGM. A binding vote means that if it is not successful, the Board will be obliged to revise the policy and seek further shareholder approval at a General Meeting specially convened for that purpose. The current policy, which was approved at the AGM on 23 July 2020, is set out below.

The Remuneration Policy
The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this overall limit, and based on the recommendations of the Nomination and Remuneration Committee, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role individual Directors fulfil. Other than fees and reasonable travel expenses incurred in attending to the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long-term incentive schemes or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

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

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

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

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

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

Voting on the Remuneration Policy
The Remuneration Policy (the "Policy"), as set out above, was approved at the AGM on 23 July 2020 with 99.84% of votes cast in favour, 0.11% of votes cast against and 0.05% of votes withheld. The next vote will be put to shareholders at the AGM in 2023. The Policy has been followed throughout the year ended 31 March 2021 and up to the date of this report.

Voting on the Directors' Remuneration Report
At the AGM held on 23 July 2020, 99.83% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 March 2020, 0.11% of votes were cast against and 0.06% of votes were withheld.

The Directors' Remuneration Report for the year ended 31 March 2021 will be put to shareholders at the AGM on 20 July 2021, and the votes cast will be disclosed on the Company's pages of the Manager's website at: **www.fidelity.co.uk/china**.

Single Total Figure of Directors' Remuneration
The single total aggregate Directors' remuneration for the year under review was £161,496 (2020: £172,411). This includes expenses incurred by Directors in attending to the affairs of the Company and are considered by HMRC to be a taxable expense. Information on individual Directors' fees and taxable Directors' expenses are shown in the table on the next page.

Directors' Remuneration Report continued

	2022 Projected Total (£)	**2021 Fees (Audited) (£)**	**2021 Taxable Expenses* (Audited) (£)**	**2021 Total (Audited) (£)**	2020 Fees (Audited) (£)	2020 Taxable Expenses* (Audited) (£)	2020 Total (Audited) (£)
Remuneration of Directors							
Nicholas Bull	45,000	**42,000**	**–**	**42,000**	42,000	–	42,000
Mike Balfour[1]	38,000	**32,000**	**1,186**	**33,186**	30,294	4,515	34,809
David Causer[2]	n/a	**n/a**	**n/a**	**n/a**	10,215	–	10,215
Vanessa Donegan[3]	31,000	**18,375**	**–**	**18,375**	n/a	n/a	n/a
Peter Pleydell-Bouverie[4]	n/a	**9,935**	**–**	**9,935**	31,500	304	31,804
Elisabeth Scott[5]	10,948	**31,500**	**–**	**31,500**	31,500	–	31,500
Linda Yueh[6]	34,175	**26,500**	**–**	**26,500**	22,083	–	22,083
Alastair Bruce[7]	22,500	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a
Total	181,623	**160,310**	**1,186**	**161,496**	167,592	4,819	172,411

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

1 Appointed as Audit and Risk Committee Chairman on 24 July 2019.
2 Retired on 24 July 2019.
3 Appointed on 1 September 2020. Chair of the Investment Committee until 31 May 2021.
4 Retired on 23 July 2020.
5 Retiring on 20 July 2021.
6 Appointed on 1 June 2019. To be appointed as Senior Independent Director on 20 July 2021.
7 To be appointed on 1 July 2021.

Expenditure on Remuneration and Distributions to Shareholders

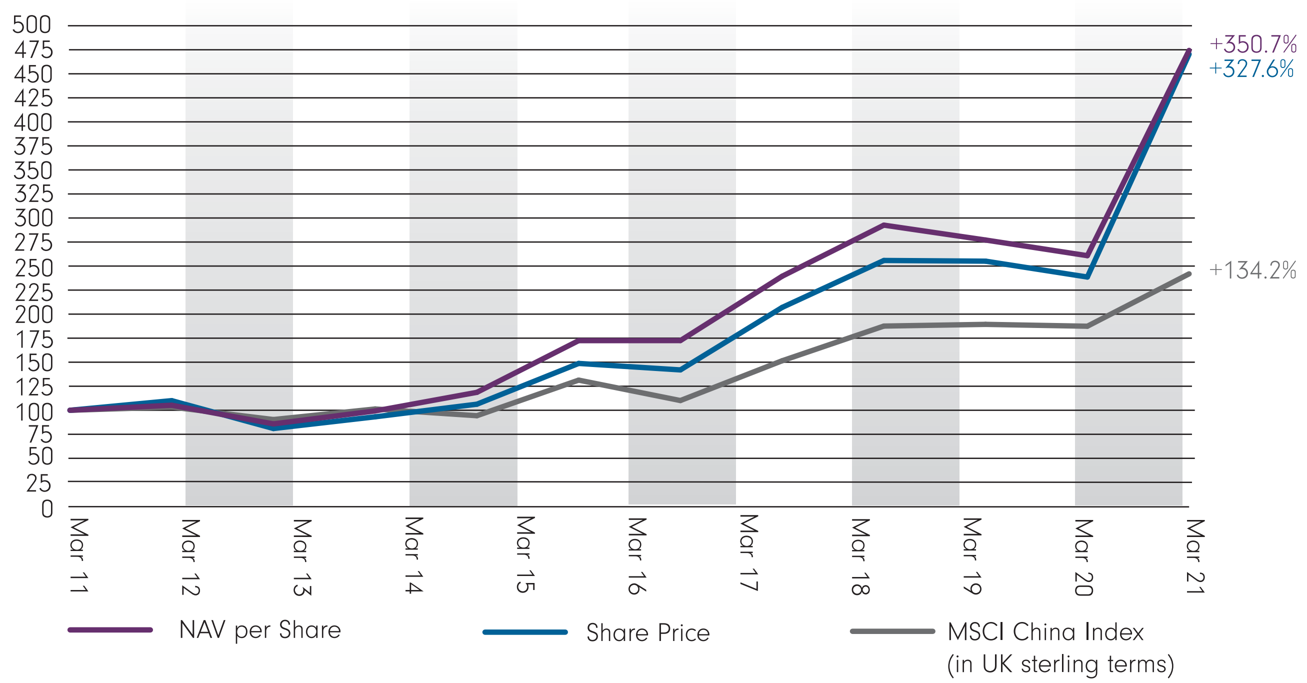
The table below shows the total amount paid out on Directors' remuneration and in distributions to shareholders. The projected Directors' remuneration for the year ending 31 March 2022 is disclosed in the table above.

	31 March 2021 £	31 March 2020 £
Expenditure on Remuneration:		
Aggregate of Directors' Fees	**161,496**	172,411
Distribution to Shareholders:		
Dividend payments	**22,127,000**	21,153,000
Shares repurchased	**58,558,000**	24,313,000

Performance

The Company's NAV per share total return and share price total return performance are measured against the return of the MSCI China Index (in UK sterling terms) as this is the most appropriate Benchmark in respect of its asset allocation. The graph below shows performance for ten years to 31 March 2021.

Total return performance for ten years to 31 March 2021



Directors' Interest in Ordinary Shares

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

Directors' Shareholdings (Audited)

	31 March 2021	31 March 2020	Change during year
Nicholas Bull	**110,804**	110,804	–
Mike Balfour	**65,000**	65,000	–
Vanessa Donegan[1]	**5,128**	n/a	5,128
Peter Pleydell-Bouverie[2]	**n/a**	93,758	n/a
Elisabeth Scott	**19,819**	19,819	–
Linda Yueh	**2,318**	2,318	–
Alastair Bruce[3]	**n/a**	n/a	n/a

1 Purchase of shares.
2 Retired on 23 July 2020.
3 To be appointed on 1 July 2021.

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

On behalf of the Board

Nicholas Bull

Nicholas Bull
Chairman
7 June 2021

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

Nicholas Bull
Chairman

Report of the Audit and Risk Committee

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

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting, the appropriateness of the risk management and internal controls processes and the effectiveness of the independent audit process and how this has been assessed for the year ended 31 March 2021.

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

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

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

- Establishing with the Auditor the nature and scope of the audit, reviewing the Auditor's quality control procedures and reporting, the effectiveness of the audit process and the Auditor's independence and objectivity with particular regard to the provision of non-audit services;

- Responsibility for making recommendations on the appointment, reappointment and removal of the Auditor;

- Reviewing the effectiveness of the Company's risk management and internal control systems (including financial, operational and compliance controls), considering the scope of the work undertaken by the Manager's Internal Audit department, including review of the work performed by Internal Audit, and reviewing the Company's procedures for detecting fraud;

- Monitoring the integrity of the Company's half-yearly and annual financial statements to ensure they are fair, balanced and understandable;

- Reviewing the existence and performance of all controls operating in the Company, including the review of internal controls reporting of its service providers; and

- Reviewing the relationship with and the performance of third party service providers (such as the Registrar, Custodian and Depositary).

Meetings and Business considered by the Committee
Since the date of the last Annual Report (3 June 2020), the Committee has met three times and the Auditor attended all of the meetings.

The following matters were reviewed at each Committee meeting:

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

Report of the Audit and Risk Committee continued

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

December 2020	• The Half-Yearly Report and Financial Statements and recommendation of its approval to the Board • The Going Concern Statement • Review of Fidelity's Investment Trusts AAF Controls Report from PricewaterhouseCoopers LLP • Introduction to the new Audit Partner
February 2021	• The Auditor's engagement letter and audit plan for the Company's year ending 31 March 2021 • Review of emerging risks that could affect the Company, in particular the continuing risks from COVID-19 • Internal Audit reporting, including review of the internal audit plan • Cybersecurity update
June 2021	• The Auditor's findings from the audit of the Company • The Auditor's performance, independence and reappointment • Compliance with Corporate Governance and regulatory requirements • The Annual Report and Financial Statements and recommendation of its approval to the Board • The Viability, Fair, Balanced and Understandable and Going Concern Statements, including the impact of COVID-19 on the Company's performance, prospects and operations • The final dividend payment to be recommended to the Board and shareholders for approval

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

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

Recognition of Investment Income	Investment income is recognised in accordance with Accounting Policy Note 2 (f) on page 69. The Manager provided detailed revenue forecasts which the Committee reviewed and sought explanations for any significant variances to these forecasts. In addition, the Committee noted that there were no significant judgements in relation to the classification of special dividends received. The Committee reviewed the internal audit and compliance monitoring reports received from the Manager, including the AAF report prepared by PricewaterhouseCoopers LLP on behalf of the Manager, to satisfy itself that adequate systems were in place for properly recording the Company's investment income.

Valuation, existence and ownership of investments (including derivatives and other unlisted investments)	The valuation of investments (including derivatives) is in accordance with Accounting Policy Notes 2 (l) and 2 (m) on pages 70 and 71. The Committee took comfort from the Depositary's regular oversight reports that investment related activities are conducted in accordance with the Company's investment policy. The Committee received reports from the Manager, the Depositary and an additional internal controls report ("AAF" report) prepared on behalf of the Manager from PricewaterhouseCoopers LLP which concluded that controls around the valuation, existence and ownership of investments operate effectively. The valuation of the Company's unlisted investments is proposed by the Manager's Fair Value Committee ("FVC") to the Investment Committee and further reviewed by the Audit and Risk Committee. It receives reporting from the FVC and reviews and challenges the proposed valuation methodologies for all unlisted investments. The FVC's proposals include recommendations from Duff & Phelps, an external company that provides global financial information and services and detailed input from the Fidelity International analysts covering the unlisted companies. In addition, the Auditor reviewed the valuations of the unlisted investments in the Company's portfolio and reported its findings at the June 2021 Audit and Risk Committee meeting.
Management fee calculation	The Company has a variable management fee structure in place. At each Committee meeting, the Manager reports on the accruals for the variable part of the fee that have been included in the Company's NAV and confirms that it has been calculated in accordance with the Management Agreements. These variable management fee accruals are reviewed by the Committee. It also receives reporting on the work carried out by the Auditor that the Company's variable management fee has been calculated in accordance with the terms of the Management Agreements.

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

Independence and Effectiveness of the Audit Process
Ernst & Young LLP acted as the Company's Auditor for the year ended 31 March 2021.

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

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

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

- The fulfilment by the Auditor of the agreed audit plan, including the audit team's approach to significant risks;
- The audit findings report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ended 31 March 2021; and
- Feedback from the Manager on the audit of the Company.

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

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

Audit Fees
Fees paid to the Auditor for the audit of the Company's Financial Statements are disclosed in Note 5 on page 73. The audit fee for the reporting year was £40,000 (2020: £48,000).

Mike Balfour
Chairman of the Audit and Risk Committee
7 June 2021

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

Opinion
We have audited the Financial Statements of Fidelity China Special Situations PLC for the year ended 31 March 2021 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related Notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the Financial Statements:

- give a true and fair view of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

- We confirmed our understanding of the Company's going concern assessment process and engaged with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.
- We inspected the Directors' assessment of going concern, including the revenue forecast, for the period to 30 June 2022. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- We reviewed the factors and assumptions, including the impact of the COVID-19 pandemic, as applied to the revenue forecast and the liquidity assessment of the investments. We considered the appropriateness of the methods used to calculate the revenue forecast and determined, through testing of the methodology and calculations, that the methods utilised were appropriate to be able to make an assessment for the Company.
- In relation to the Company's borrowing arrangements, we inspected the Directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Company's portfolio. We recalculated the Company's compliance with debt covenants in the scenarios assessed by the Directors and performed reverse stress testing in order to identify what factors would lead to the Company breaching the financial covenants.
- We considered the mitigating factors included in the revenue forecasts and covenant calculations that are within the control of the Company. We reviewed the Company's assessment of the liquidity of investments held and evaluated the Company's ability to sell those investments to cover the working capital requirements should its revenue decline significantly.
- We reviewed the Company's going concern disclosures included in the Annual Report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 30 June 2022 which is at least twelve months from when the Financial Statements are authorised for issue.

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

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

Overview of our audit approach

Key audit matters	• The risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement • The risk of incorrect valuation or ownership of unlisted securities • The risk of incorrect valuation or ownership of listed securities and listed derivatives
Materiality	• Overall materiality of £21.83m which represents 1% of the Company's net asset value as at 31 March 2021

An overview of the scope of our audit

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

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

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

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Income Statement *Refer to the Report of the Audit and Risk Committee (page 54); Accounting Policies (page 69); and Note 3 of the Financial Statements (page 72).* The Company has reported revenue of £32.8m (2020: £33.0). During the year, the Company received six special dividends amounting to £30.0m (2020: £3.0m), of which £0.9m (2020: £1.2m) was classified as revenue and £29.1m (2020: £1.8m) as capital. There is a risk of incomplete or inaccurate recognition of revenue through failure to recognise proper income entitlements or to apply an appropriate accounting treatment. In addition to the above, the Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Income Statement. .	We performed the following procedures: • Walked through the revenue recognition and classification of special dividends processes and obtained an understanding of the design and implementation of the controls; • For a sample of dividends received, we recalculated the income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend rate as agreed to an independent data vendor. We agreed the amounts received to bank statements and, where applicable, we agreed the exchange rates to an external source; • To test completeness of recorded income, we tested that all expected dividends for a sample of investee companies had been recorded as income with reference to investee company announcements obtained from an independent data vendor; • For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 March 2021. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the amount receivable and agreed the subsequent cash receipts to post-year end bank statements where applicable; • We identified the special dividends greater than our testing threshold and assessed the appropriateness of the Company's classification of the special dividends with reference to publicly available information.	The results of our procedures identified no material misstatement in relation to incomplete or inaccurate revenue recognition, including incorrect classification of special dividends as revenue or capital in the Income Statement.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incorrect valuation or ownership of unlisted securities *Refer to the Report of the Audit and Risk Committee (page 55); Accounting Policies (pages 70 and 71); and Note 18 of the Financial Statements (pages 89 and 90).* At 31 March 2021 the Company had nine unlisted investments with a value of £166.5m (2020: six amounted to £81.1m). We considered that the degree of subjectivity, including the level of management judgement and the risk that the valuation does not reflect the most up to date information, results in a fraud risk over misstatement of the valuation of unlisted securities. The valuation of the unlisted investments is approved by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Manager's Fair Value Committee. The unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ("IPEV").	We performed the following procedures: • Walked through the investment valuation process in relation to the unlisted holdings and obtained an understanding of the design and implementation of the controls; • For a sample of unlisted investments held at the year-end, our specialist Valuations and Business Modelling team reviewed and challenged the valuations. This included: • Reviewing the latest valuation papers prepared by the Manager and Duff & Phelps, a third party service provider; • Assessing whether the valuations have been performed in line with the IPEV guidelines; • Assessing the appropriateness of the data inputs and challenging the assumptions used to support the valuations; and • Assessing other facts and circumstances, such as market movement and comparative information, that could have an impact on the fair market value of the investments. • For the remaining unlisted investments, we obtained and assessed the valuation papers to support the valuation of the investments as at 31 March 2021; • Agreed the cost of the new investments to supporting share purchase agreements and traced the payments to bank statement; • Agreed 100% of exchange rates to relevant independent data vendors; and • Agreed 100% of unlisted investment holdings in the portfolio to third party confirmations received from the Depositary.	The results of our procedures identified no material misstatement in relation to incorrect valuation or ownership of unlisted securities.

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

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Incorrect valuation or ownership of listed securities and listed derivatives *Refer to the Report of the Audit and Risk Committee (page 55); Accounting Policies (pages 70 and 71); and Notes 10 and 11 of the Financial Statements pages 76 and 77).* The valuation of listed investment portfolio and listed derivatives as at the year-end was £2,011.9m (2020: £1,202.7m) comprising £2,000.8m (2020: £1,208.7m) of listed investments, and £11.1m of net listed derivatives (2020: (£6.03)m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, including incorrect application of exchange rates, or failure to maintain proper legal title to the investments held by the Company could have a significant impact on the portfolio valuation and return generated for shareholders. The fair value of the listed investments and quoted derivatives are determined using listed market prices at close of business on the reporting date.	We performed the following procedures: • Walked through the investment valuation process; • For all listed investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year-end; • We inspected the stale pricing report to identify prices that have not changed and verified whether the quoted price is a valid fair value; and • We compared the Company's investment holdings at 31 March 2021 to independent confirmations received directly from the Company's Custodian, Depositary and Brokers held at year-end.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation or ownership of the listed securities and listed derivatives.

In the prior year, our Auditor's report included a key audit matter in relation to the impact of COVID-19. The impact of COVID-19 on going concern continued to be relevant to our audit of the Company and we considered this as part of our overall work on going concern which is set out under "Conclusions relating to going concern".

Our application of materiality

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

Materiality

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

We determined materiality for the Company to be £21.8m (2020: £12.7m), which is 1% (2020: 1%) of the Company's net asset value. We believe that net asset value provides us with materiality aligned to the key measure of the Company's performance.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £16.4m (2020: £9.6m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold for the revenue column of the Income Statement of £1.3m (2020: £1.3m) being 5% (2020: 5%) of profit before tax.

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £1.1m (2020: £0.6m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Corporate Governance Statement

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

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

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 39 and 40;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 31;
- Directors' statement on fair, balanced and understandable set out on page 52;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 28;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 47; and
- The section describing the work of the Audit and Risk Committee set out on page 53.

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

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the International Accounting Standards, the Companies Act 2006, the Listing Rules, the Corporate Governance Code, the Association of Investment Companies' Statement of Recommended Practice and Section 1158 of the Corporation Tax Act 2010.

- We understood how Fidelity China Special Situations PLC is complying with those frameworks through discussions with the Audit and Risk Committee and the Company Secretary and a review of the Company's documented policies and procedures.

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

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

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

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

  The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 March 2016 to 31 March 2021.

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

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

Use of our report

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

Susan Dawe
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
Statutory Auditor
Edinburgh
7 June 2021

Notes:

1. The maintenance and integrity of the Fidelity International website is the responsibility of Fidelity International; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Income Statement
for the year ended 31 March 2021

		Year ended 31 March 2021			Year ended 31 March 2020		
	Notes	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 on pages 68 to 91 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 pages 68 to 91 form an integral part of these Financial Statements.

STRATEGY
GOVERNANCE
FINANCIAL
INFORMATION FOR SHAREHOLDERS

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 on pages 64 to 91 were approved by the Board of Directors on 7 June 2021 and were signed on its behalf by:

Nicholas Bull

Nicholas Bull
Chairman

The Notes on pages 68 to 91 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 Notes on pages 68 to 91 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 in the Directors' Report on pages 39 and 40 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 theses 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 Note2 (l) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

2 Accounting Policies continued

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 staring 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.

Notes to the Financial Statements continued

2 Accounting Policies continued

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.

2 Accounting Policies continued

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.

Notes to the Financial Statements continued

2 Accounting Policies continued

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 on page 39.

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 on page 50.

STRATEGY GOVERNANCE FINANCIAL INFORMATION FOR SHAREHOLDERS

Notes to the Financial Statements continued

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.

7 Taxation continued

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).

Notes to the Financial Statements continued

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

Notes to the Financial Statements continued

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

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

	2021 Number of shares	2021 £'000	2020 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.

Notes to the Financial Statements continued

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 in the Strategic Report on pages 28 to 31.

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

Notes to the Financial Statements continued

18 Financial Instruments continued

Foreign currency risk

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

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

- movements in currency exchange rates affecting the value of investments and 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:

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

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

18 Financial Instruments continued

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

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

Currency exposure of financial liabilities

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

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

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

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

Notes to the Financial Statements continued

18 Financial Instruments continued

Other price risk

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

The Investment 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 on the next page:

18 Financial Instruments continued

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

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

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

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

Notes to the Financial Statements continued

18 Financial Instruments continued

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Investment 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:

Currency	**2021 £'000**	2020 £'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

18 Financial Instruments continued

Based on the financial assets and liabilities held and the exchange rates ruling at the Balance Sheet date, a weakening of the UK sterling exchange rate by 10% against other currencies would have 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:

Currency	2021 £'000	2020 £'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 on pages 26 to 33.

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 Fair value £'000	2021 Book value £'000	2020 Fair value £'000	2020 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.

Notes to the Financial Statements continued

18 Financial Instruments continued

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

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

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

Financial assets at fair value through profit or loss	Level 1 £'000	Level 2 £'000	Level 3 £'000	2020 Total £'000
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)

18 Financial Instruments continued

Level 3 Investments (unlisted and delisted investments)

	2021 £'000	2020 £'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 on page 91 for further details.

Notes to the Financial Statements continued

18 Financial Instruments continued

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.

Movements in level 3 investments during the year	2021 Level 3 £'000	2020 Level 3 £'000
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 on pages 26 and 27. The principal risks and their management are disclosed in the Strategic Report on pages 28 to 31 and in Note 18 above.

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

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

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

19 Capital Resources and Gearing continued

	2020			
	Gross gearing		Net gearing	
	Exposure £'000	%[1]	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 on page 39. 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 on pages 50 and 51. 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 on page 97). 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.

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

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

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 on pages 90 and 91 for details of the Company's gearing.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity China Special Situations PLC will be held at 155 Bishopsgate, London EC2M 3YD on Tuesday, 20 July 2021 at 11.00 am for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 March 2021.
2. To declare that a final dividend for the year ended 31 March 2021 of 4.68 pence per ordinary share be paid to shareholders who appear on the register as at close of business on 18 June 2021.
3. To re-elect Mr Mike Balfour as a Director.
4. To elect Mr Alastair Bruce as a Director.
5. To re-elect Mr Nicholas Bull as a Director.
6. To elect Mrs Vanessa Donegan as a Director.
7. To re-elect Dr Linda Yueh as a Director.
8. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 49) for the year ended 31 March 2021.
9. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
10. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following special business resolutions of which Resolutions 11 and 15 will be proposed as an ordinary resolutions and Resolutions 12, 13 and 14 as special resolutions.

Authority to Allot Shares and Disapply Pre-Emption Rights
Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of ordinary shares (or sell any ordinary shares which the Company elects to hold in Treasury) for cash without first offering such shares to existing ordinary shareholders pro-rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company (including Treasury shares) in issue on 7 June 2021. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority in order to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so. Any ordinary shares held in Treasury would be re-issued at no less than net asset value ("NAV") per ordinary share, or at a premium to NAV per ordinary share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per ordinary share.

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company ("relevant securities") up to an aggregate nominal amount of £571,054 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 7 June 2021) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury Shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authority to expire at the conclusion of the next Annual General Meeting ("AGM") of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.
12. THAT, subject to the passing of Resolution 11, as set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 11 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £571,054 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 7 June 2021); and

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

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

Authority to Repurchase Shares
Resolution 13 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue (excluding Treasury shares) on 7 June 2021, either for immediate cancellation or for retention as Treasury shares, at the determination of the Board. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. Purchases of ordinary shares will be at the discretion of the Directors and within guidelines set by them from time to time in the light of prevailing market conditions. Purchases will only be made in the

Notice of Meeting continued

market at prices below the prevailing NAV per ordinary share, thereby resulting in an increased NAV per ordinary share.

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

    a) the maximum number of shares hereby authorised to be purchased shall be 77,267,975;

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

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

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

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

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

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

Adoption of New Articles of Association

Resolution 14 is a special resolution that relates to the adoption of new Articles of Association by the Company to make changes in relation to general meetings, retirement of Directors, Directors' fees, regulatory restrictions and information requirements and other administrative updates, as described further in the Directors' Report on pages 42 and 43.

14. THAT with effect from the passing of this resolution, the draft Articles of Association produced to the meeting and, for the purpose of identification, initialled by the Chairman, be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

Changes to the Investment Policy and Investment Objective

Resolution 15 is an ordinary resolution which, if approved, will amend the Company's Investment Policy and Investment Objective. The full text of both the Investment Policy and Investment Objective and the marked-up changes are in the Appendix to this Notice of Meeting on page 96.

15. THAT the changes to the Investment Policy and Investment Objective, as set out in the Appendix to this Notice of Meeting on page 96 and, for the purposes of identification, a copy of which will be initialled by the Chairman, be and are hereby approved and adopted with immediate effect.

By Order of the Board
FIL Investments International
Secretary
7 June 2021

Notes to the Notice of Meeting:

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

2. A Form of Proxy is enclosed and must be returned to the Registrar at the address on the form to arrive not later than 11.00 am on Friday, 16 July 2021. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.

3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrar, PXS 1, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.

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

5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11.00 am on Friday, 16 July 2021. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s)

for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrar no later than 11.00 am on Friday, 16 July 2021.

6. Proxymity Voting – If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to **www.proxymity.io**. Your proxy must be lodged by no later than 11.00 am on Friday, 16 July 2021 in order to be considered valid. Before you can appoint a proxy via this process, you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

7. All members are entitled to attend and vote at the AGM and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at close of business on Friday, 16 July 2021. Shareholders are urged to vote using the proxy form provided or electronically where permitted by your nominee or platform.

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

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

10. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), members must be entered on the Register of Members by close of business on Friday, 16 July 2021. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.

11. As at 7 June 2021 (the latest practicable date prior to the publication of this document), the Company's issued share capital consisted of 571,054,480 ordinary shares carrying one vote each. The number of shares held by the Company in Treasury was 55,590,997. Therefore, the total number of shares with voting rights in the Company was 515,463,483.

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

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

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

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

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

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

Appendix

Proposed change to the Investment Objective

The proposed new Investment Objective for the Company, as proposed in resolution 15 on page 94 of this Annual Report is set out below. The change to the existing objective is marked in black-line.

INVESTMENT OBJECTIVE

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

Proposed change to the Investment Policy

The proposed new Investment Policy for the Company, as proposed in resolution 15 on page 94 of this Annual Report is set out below. The change to the existing policy is marked in black-line.

INVESTMENT POLICY

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

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

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

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

Unlisted Securities

The Company is permitted to invest up to ~~10%~~ **15%** of ~~Gross Assets~~ Net Assets plus Borrowings in unlisted securities which carry on business, or have significant interests, in China.

Borrowing and Gearing Policy

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

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

Glossary to the Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

BROKER
The Company's broker is Peel Hunt LLP.

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

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

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

CHINESE RENMINBI
Currency of the PRC.

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

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

COLLATERAL
Assets provided as security.

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

Glossary to the Annual Report continued

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

DEBT
Bank borrowings and long contracts for difference.

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

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

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

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

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

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

FIL
FIL Limited and each of its subsidiaries.

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

FIDELITY
FIL Investments International.

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

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

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

GROSS GEARING
Gross Asset Exposure in excess of Net Assets.

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

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

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

INVESTMENT MANAGER
FIL Investment Management (Hong Kong) Limited.

INVESTMENT MANAGERS
Until 31 May 2021, represents the Investment Manager and the Unlisted Investment Manager.

LINK GROUP
The Company's Registrar.

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

MANAGEMENT AGREEMENTS
Together, represents the Management Agreement and the Unlisted Management Agreement.

MANAGER

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

MSCI CHINA INDEX

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

MSCI CHINA MID CAP INDEX

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

MSCI CHINA SMALL CAP INDEX

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

NASDAQ

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

NET ASSETS

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

NET ASSETS PLUS BORROWINGS

Net Assets plus bank loans. Can also be described as total assets less current liabilities.

NET ASSET VALUE (NAV)

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

NET ASSET VALUE (NAV) PER ORDINARY SHARE

The NAV per ordinary share is calculated as Shareholders' Funds divided by the number of ordinary shares in issue.

NET GEARING

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

NET MARKET EXPOSURE

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

ONGOING CHARGES (EXCLUDING VARIABLE MANAGEMENT FEE ELEMENT)

Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of the average daily net asset values for the reporting year.

OPTIONS

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

P CHIPS

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

PEEL HUNT LLP

The Company's Broker.

PORTFOLIO

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

PORTFOLIO MANAGER

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

PRC

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

PRE-EMPTION RIGHTS

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

PREMIUM

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

PROSPECTUS

The Prospectus of the Company dated 7 January 2011.

QFII

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

Glossary to the Annual Report continued

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

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

RESERVES
- **Share premium account** represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend and it cannot be used to fund share repurchases.
- **Capital redemption reserve** represents the nominal value of ordinary shares repurchased and cancelled. It cannot be used to fund share repurchases and is not distributable by way of dividend.
- **Other reserve** is a distributable premium reserve created on 21 April 2010 when High Court approval was given for the share premium account to be cancelled. As a result, £452,232,000 was transferred from the share premium account to the other reserve. It can be used to fund share repurchases.
- **Capital reserve** represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend.
- **Revenue reserve** represents the net revenue surpluses recognised in the revenue column of the Income Statement that have not been distributed as dividends to shareholders. It is distributable by way of dividend.

RETURN
The return generated in a given period from investments:

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

SECRETARIAL AGREEMENT
The agreement between the Secretary and Company regarding the provision of company secretarial and administrative services.

SECRETARY
FIL Investments International.

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

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

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

Medium – between £1bn – £5bn

Small – below £1bn

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

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

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

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

UNLISTED INVESTMENT MANAGER
Until 31 May 2021, FIL Investment Services (UK) Limited was the Company's Unlisted Investment Manager. It had delegated this function to FIL Investments International. With effect from 1 June 2021, the Unlisted Investment Manager is FIL Investment Management (Hong Kong) Limited.

UNLISTED MANAGEMENT AGREEMENT
The agreement between the Company and FIL Investment Services (UK) Limited for the management of the unlisted investments. Until 31 May 2021, FIL Investment Services (UK) Limited had delegated this function to FIL Investments International. With effect from 1 June 2021, this will be FIL Investment Management (Hong Kong) Limited.

VARIABLE INTEREST ENTITY ("VIE")

A variable interest entity ("VIE") structure is designed to facilitate foreign investment in sectors of the Chinese domestic economy which prohibit foreign ownership. The essential purpose of the VIE structure is to convey the economic benefits and operational control of ownership without direct equity ownership itself. As the controlling interest is not based on having the majority of voting rights, there may be a risk to an investor of being unable to enforce their ownership rights in certain circumstances.

VARIABLE MANAGEMENT FEE (VMF)

The Company has a Variable Management Fee (VMF) structure. Until 31 March 2021, the base fee was 0.90% of Net Assets per annum plus a +/- 0.20% variation fee based on performance relative to the Company's Benchmark Index (the MSCI China Index). The maximum fee that the Company could pay was 1.10% of Net Assets, but if the Company had underperformed against the Benchmark Index, then the overall fee could have been as low as 0.70% of Net Assets.

With effect from 1 April 2021, the base fee is on a tiered basis of 0.90% on the first £1.5 billion of Net Assets, reducing to 0.70% of Net Assets over £1.5 billion. The variable element of the fee remains unchanged.

WARRANTS

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

Shareholder Information

Investing in Fidelity China Special Situations PLC

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

CONTACT INFORMATION

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

Shareholders on the main share register

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

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

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

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

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

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

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

Fidelity Platform Investors

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

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

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

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

General Enquiries

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

Telephone: **01737 837846**

Email: **investmenttrusts@fil.com**

Website: **www.fidelityinvestmenttrusts.com**

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

ShareGift

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

Managers and Advisors

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

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

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

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

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

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

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

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

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

Company Information

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

The Company is a member of the Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning **020 7282 555** (email address: **enquiries@theaic.co.uk**).

Price Information

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

Investors can also obtain current share price information by telephoning Fidelity for free on **0800 41 41 10** or FT Cityline on **0905 817 1690** (voice activated service) (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters Code for Fidelity China Special Situations PLC is FCSS, the SEDOL is B62Z3C7 and the ISIN is GB00B62Z3C74.

Net Asset Value ("NAV") Information

The Company's NAV is calculated and released to the London Stock Exchange on a daily basis.

Capital Gains Tax

All UK individuals under present legislation are permitted to have £12,300 of capital gains in the current tax year 2021/2022 (2020/2021: £12,300) before being liable for capital gains tax. Capital gains tax is charged at 10% and 20% dependant on the total amount of taxable income.

Shareholder Information continued

General Data Protection Regulation ("GDPR")

What personal data is collected and how it is used

The Company is an investment trust which is a public limited company and has certain regulatory obligations such as the requirement to send documents to its shareholders, for example, the Annual Report and other documents that relate to meetings of the Company. The Company will therefore collect shareholders' personal data such as names, addresses and identification numbers or investor codes and will use this personal data to fulfil its statutory obligations.

Any personal data collected will be kept securely on computer systems and in some circumstances on paper. Personal information is kept secure in line with Fidelity's Information Security policies and standards. If you are unhappy with how we have used your personal data, you can complain by contacting the UK Data Protection Officer at Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Sharing personal data

In order to assist the Company in meeting its statutory requirements, the Company delegates certain duties around the processing of this data to its third party service providers, such as the Company's Registrar and Printers. The Company has appointed Fidelity to undertake marketing activities for the Company and their privacy statement can be found on the Company's website at **https://investment-trusts.fidelity.co.uk/privacy-policy/**

The Company's agreements with the third party service providers have been updated to be compliant with GDPR requirements. The Company confirms to its shareholders that their data will not be shared with any third party for any other purpose, such as for marketing purposes. In some circumstances, it may be necessary to transfer shareholders' personal data across national borders to Fidelity Group entities operating in the European Economic Area ("EEA"). Where this does occur, the European standard of protections will be applied to the personal data that is processed. Where personal data is transferred within the Fidelity Group, but outside of the EEA, that data will subsequently receive the same degree of protection as it would in the EEA.

How long will personal data be kept for?

We will keep the personal data for as long as is necessary for these purposes and no longer than we are legally permitted to do so.

Requesting access, making changes to your personal data and other important information

Shareholders can access the information that the Company holds about them or ask for it to be corrected or deleted by contacting Fidelity's UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Managers' Directive ("AIFMD"), the Board has appointed FIL Investment Services (UK) Limited ("FISL") as the Company's Alternative Investment Fund Manager ("AIFM"). FISL has delegated the investment management (other than in unlisted securities) to FIL Investment Management (Hong Kong) Limited ("FIMHK") and for the unlisted securities and the company secretarial function to FIL Investments International ("FII"). Details of current Management Agreements can be found in the Directors' Report on page 39. With effect from 1 June 2021, all investment management, including for the unlisteds, is carried out by FIMHK. On the same date, the two previous Management Agreements were also simplified into one new Management Agreement to reflect the changes. The company secretarial function continues to be delegated to FII.

The table below discloses information required by the Alternative Investment Fund Managers' Regulations 2013.

Function	AIFM Role and Responsibility	AIFMD Disclosure
Investment management	The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investment Management (Hong Kong) Limited (other than the unlisted securities) and for unlisted securities to FIL Investments International. The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.	Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 26 and 27.
Risk management	The AIFM has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management. The Company has a Risk Management Process Document which is agreed with the Board and demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independence safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing. The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.	The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of risk management and internal controls and for reviewing its effectiveness. Further details can be found in the Strategic Report on pages 28 to 31 and in Note 18 to the Financial Statements on pages 81 to 90.
Valuation of illiquid assets	AIFMD requires the disclosure of the percentage of the Alternative Investment Fund's assets which are subject to special arrangements arising from their illiquid nature and any new arrangements for managing the liquidity of the Company.	As at the date of this report, none of the Company's assets is subject to special arrangements arising from its illiquid nature.

Alternative Investment Fund Manager's Disclosure continued

Function	AIFM Role and Responsibility	AIFMD Disclosure
Leverage	The Company uses leverage to increase its exposure primarily to the stock markets of China and currently holds long derivatives to achieve this. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times. There are two methods of calculating leverage – the Gross Method which does not reduce exposure for hedging; and the Commitment Method which does reduce exposure for hedging.	The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method. At 31 March 2021, actual leverage was 1.51 for the Gross Method and 1.38 for the Commitment Method.
Liquidity management	The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.	No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 18 on page 84.
Remuneration of the AIFM	The AIFM operates under the terms of Fidelity's Global Remuneration Policy Statement. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).	Details of Fidelity International's Global Remuneration Policy can be found at **www.fidelityinternational.com/global/remuneration/default.page**

EU Securities Financing Transactions Regulation ("SFTR")
The following disclosures relate to contracts for difference ("CFDs") held by the Company which may be considered Total Return Swaps under the SFTR, which came into force on 12 January 2016.

As at 31 March 2021, all CFDs were contracted bilaterally with open maturities:

Broker	Fair Value £'000	Percentage of Net Assets	Collateral held by the broker £'000	Collateral held by the Company £'000
Goldman Sachs International (UK)	**6,160**	**0.28%**	**4,153**	**–**
HSBC Bank plc (UK)	**(5,978)**	**(0.27%)**	**–**	**5,755**
J.P. Morgan Securities plc (UK)	**1,856**	**0.09%**	**2,058**	**–**
Morgan Stanley & Co International (UK)	**1,542**	**0.07%**	**2,739**	**–**
UBS AG (UK)	**1,859**	**0.09%**	**6,639**	**–**

Collateral held by the broker was denominated in US dollars and held in a segregated account on behalf of the Company with a maturity of one day. The total return for the year ended 31 March 2021 from CFDs was a gain of £309,891,000.

To find out more about Fidelity China Special Situations PLC, visit our new website www.fidelity.co.uk/china where you can read articles and watch videos on the Company.

www.fidelityinvestmenttrusts.com

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