

## **Fidelity China Special Situations PLC**

### **Final Results for the year ended 31 March 2019**

#### **Financial Highlights:**

- Fidelity China Special Situations PLC recorded a Net Asset Value (NAV) total return of -5.3% for the year ended 31 March 2019, underperforming the MSCI China Index (the Company's Benchmark Index) return of +0.9%. The Company's share price total return was -0.3%. The NAV and share price performance (on a total return basis) over Dale Nicholls' 5 year tenure and since launch is well ahead of the Index.
- The Company increased its dividend by 10% to 3.85 pence per ordinary share.
- The Board has decided to adopt a formal discount control policy whereby it will seek to maintain the discount in single digits in normal market conditions.
- The revised Variable Management Fee has contributed to the reduction in the Ongoing Charge for the year of 1.02%.

#### **Contacts**

##### **For further information, please contact:**

Bonita Guntrip  
Senior Company Secretary  
01737 837320  
FIL Investments International

## Chairman's Statement

In 2018/19 China displayed two of its enduring characteristics: volatility in the stock market and economic growth continuing at a rate in excess of 6% per annum. Following a strong performance the previous year, the Company's share price fell during the year and then recovered to finish close to where it had started. All of this demonstrates that, with China, patience is rewarded and an investment in the Company should be viewed over the medium to long-term.

During 2018, the concerns about trade and policies put in place in China to restrict growth in credit clearly impacted business sentiment and growth and this contributed to the weaker stock market. Since the end of 2018, more stimulative policy, particularly for the private sector, has supported the economy and the stock market has performed markedly better in the opening months of 2019.

China's growth rate of 6.6% for 2018 continues to run way in excess of developed market economies. Increasingly investors are seeing the benefit of having a portion of their overall portfolio dedicated to China and our Company was designed, from the start, to fill that need.

As investors focus more on China itself, rather than seeing it as merely another emerging market, more dedicated China funds have been launched and I want to set out clearly how we differentiate ourselves.

First, as an investment trust, we are closed ended. This enables our Portfolio Manager, Dale Nicholls, to invest in smaller and mid-sized stocks where he sees the best growth even if they are somewhat illiquid; and for us to invest in unlisted stocks which we can hold for a period of years in anticipation of them becoming quoted on a stock market. Furthermore, we are able to add a level of gearing to the portfolio to enhance returns.

Second, we have focused on the inherent growth in the New China Economy. The middle class in China continues to grow in size and in its spending power. The economy is increasingly driven by consumption and our approach from the start has been to build a diversified portfolio of stocks across the consumer sector.

Third, we have avoided certain parts of the stock market, in particular the banks and the larger State Owned Enterprises, many of which are components of our Benchmark Index, unless there is a compelling investment case for specific stocks.

Dale Nicholls is supported by a large team of analysts in China enabling him to identify and invest in companies that are not well researched and therefore potentially undervalued. In the debate between active and passive management I firmly believe that, when investing in an emerging market like China, active management is rewarded. The performance of the Company over five years and since launch against our Benchmark Index reflects this.

### Risks

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

### Performance Review

Over the reporting year, the Company's NAV total return was -5.3%, underperforming the MSCI China Index (the Company's Benchmark Index) return of +0.9%. The Company's share price total return was -0.3%. The year was adversely affected by the general underperformance of small and mid-cap stocks but, as Dale Nicholls comments in his report below, aggregate earnings for the companies in the portfolio are expected to grow over 20% in the current financial year.

Despite the one year returns, the NAV and share price performance (on a total return basis) over Dale Nicholls' 5 year tenure as Portfolio Manager and since launch to 31 March 2019, remain well ahead of the Index (see table below).

Total returns (%)	5 years	Since launch <sup>1</sup>
NAV per ordinary share <sup>2</sup>	+133.6	+177.1
Share price <sup>2</sup>	+140.0	+155.1
MSCI China Index	+100.7	+89.4
	-----	-----

1 Launch date 19 April 2010.

2 Alternative Performance Measures.

### MSCI and China 'A' Shares

The Company's Benchmark Index is the MSCI China Index (in UK sterling terms) against which we measure our performance.

On 28 February 2019, the MSCI announced that it will increase the weight of China 'A' shares in the MSCI Indices, which includes the MSCI China, by increasing the inclusion factor from 5% to 20% in three steps:

- Step 1 in May 2019 increased the index inclusion factor of all China 'A' Large Cap shares in the MSCI Indices from 5% to 10% and added ChiNext Large Cap shares with a 10% inclusion factor;
- Step 2 in August 2019 will increase the inclusion factor of all China 'A' Large Cap shares in the MSCI Indices from 10% to 15%; and
- Step 3 in November 2019 will increase the inclusion factor of all China 'A' Large Cap shares in the MSCI Indices from 15% to 20% and add China 'A' Mid Cap shares, including eligible ChiNext shares, with a 20% inclusion factor to the MSCI Indices.

This increased weighting reflects China's growing significance in the world's financial markets in line with its importance as an economic leader. The consequent increase in attention and focus by investors around the world should enhance the demand for China stocks to the benefit of our Company.

### Due Diligence visit to China

The Board undertook its annual due diligence visit to China in November 2018, visiting Beijing, Hangzhou and Shanghai. During the trip we met members of Fidelity International's investment and research teams and spent time with the analysts who cover the individual stocks in which we are invested.

In each city we met economists and industry experts as well as with the executive management teams of 12 companies, each of which we visited with Dale Nicholls and the relevant Fidelity research analyst.

Among the portfolio names we saw were Alibaba, China's largest e-commerce and cloud provider; 21Vianet, one of the country's biggest independent operators of internet data centres; CICC, a leading investment bank; Hollysys, a controls systems provider; Zhejiang Sanhua, a manufacturer of thermal controls components; and Focus Media, the country's largest operator of indoor and cinema advertising. We also met the management team at Wuxi Biologics, a contract development and manufacturing organisation for biologic drugs, as well as senior executives at China Renaissance, a rapidly expanding investment bank.

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

Our visit reconfirmed our confidence in the Portfolio Manager and his team of research analysts.

#### **Unlisted Companies**

The Company is permitted to invest up to 10% of its Gross Assets in unlisted companies. Starting with BNN Technology (known as DJI Holdings pre-IPO) in May 2011 (IPO in July 2014) and then Alibaba Group in September 2012 (IPO in 2014), we have invested in nine unlisted companies ahead of their planned IPO, four of which have now listed.

At the start of the year we held four investments representing 4.3% of Gross Asset Exposure. During the year, two were listed on the stock exchange and we made three new investments. At the end of the year, we held five investments representing 4.8% of the Company's Gross Asset Exposure.

#### **Gearing**

The Company has a three-year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US\$150,000,000. The interest rate is fixed at 3.01% per annum until the facility terminates on 14 February 2020.

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

At 31 March 2019, the Company's gearing, defined as the Gross Asset Exposure in excess of Net Assets, was 26.1% (2018: 20.2%). Net gearing which nets off short positions was 20.9% (2018: 14.2%). The level of gearing is determined by the Manager within the limit set by the Company's Prospectus of 30%.

#### **Dividend**

The Board recommends a final dividend of 3.85 pence per ordinary share for the year ended 31 March 2019 for approval by shareholders at the Annual General Meeting ("AGM") to be held on 24 July 2019. This represents an increase of 10% over the 3.50 pence paid in respect of the prior year. The dividend will be payable on 30 July 2019 to shareholders on the register on 28 June 2019 (ex-dividend date 27 June 2019).

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

The Board has taken a conservative approach to paying dividends and over time, the Company's revenue reserve has been built up in order to potentially smooth dividend growth, if necessary, in future years.

#### **Discount Management**

The Board recognises that the Company's share price is affected by the interaction of supply and demand in the market and investor sentiment towards China and the performance of the NAV per share. Recognising these factors, the Board regularly reviews the level of the Company's discount and the ways in which it can be managed so that the shares can trade at a level closer to the NAV.

The Company's discount narrowed from 12.3% at the start of the reporting year to 7.9% at the end of its reporting year. During this period, the Board authorised the repurchase of 1,840,000 ordinary shares to be held in Treasury. These share repurchases will have benefited shareholders as the NAV per share has been enhanced slightly by purchasing shares at a discount. Since the year end and as at the date of this report, the Company has not repurchased any further ordinary shares into Treasury or for cancellation.

Since the year end and up to 31 May 2019, the discount has traded in the range of 5.8% to 9.8% and has therefore been below 10% for a period of 2 months. Against this backdrop, the Board has decided to adopt a formal discount control policy whereby it will seek 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.

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

#### **Fidelity as Manager**

The Board has contracted with Fidelity to provide the Company with investment management and administrative services. In reviewing Fidelity, the Board notes Fidelity's leadership position in fund management in China where it employs a significant number of analysts on the ground in both Shanghai and Hong Kong. Furthermore, the performance of the Portfolio Manager, Dale Nicholls, since his appointment five years ago, has been well ahead of the Benchmark Index making the Company one of the best performing specialist China funds available to investors.

#### **Management Fees**

As mentioned in last year's Annual report and effective from 1 July 2018, the Board agreed a new fee arrangement with FIL Investment Services (UK) Limited, the Company's Alternative Investment Fund Manager (the "Manager"). The new fee reduced the annual base fee of 1.00% of Net Assets to 0.90% of Net Assets per annum. In addition and effective from 1 October 2018, there is a +/- 0.20% variation fee based on the Company's NAV per share performance relative to the Company's Benchmark Index. The maximum fee that the Company will pay is 1.10% of Net Assets, but if the Company underperforms against the Benchmark Index, then the overall fee could fall as low as 0.70% of Net Assets. The revised management fee provides an overall reduction from the previous management fee structure.

The base management fee paid from 1 April to 30 June 2018 was at 1.00% of Net Assets and for the remaining nine months to 31 March 2019, it was at the revised rate of 0.90%. The variable element of the new fee structure, which was effective from 1 October 2018, was -0.09%. Full details of the new fee calculation are set out in the Directors' Report in the Annual Report.

#### **Ongoing Charges**

The Ongoing Charge for the year was 1.02% (2018: 1.11% (restated)). The variable fee element of the management fee was a credit of 0.09%, therefore the Ongoing Charge including the variable fee was 0.93%. The prior year Ongoing Charge of 1.35% has been restated to 1.11% from the methodology recommended by MiFID II, which included interest on bank loans and overdrafts, to the methodology recommended by the AIC which excludes such costs. I am pleased to report that the revised management fee has contributed to the reduction in the Ongoing Charge for this year.

#### **Board of Directors**

As reported last year, John Ford did not stand for re-election at last year's AGM and left the Board on 25 July 2018 and we thank him for his contribution.

David Causer has served on the Board since the Company's IPO on 19 April 2010, and having completed nine years, will step down from the Board at the conclusion of this year's AGM on 24 July 2019. I would like to thank him on behalf of the Board and all of the Company's stakeholders for his unfailing dedication and attention to detail as Chairman of the Audit and Risk Committee and for his wisdom as a Board member. He will be missed.

Mike Balfour was appointed to the Board on 1 October 2018. His appointment was through a specialist consultancy firm hired to identify a new Director. Mike has over 30 years' experience in financial services and is a member of the Institute of Chartered Accountants of Scotland. He is a non-executive Director of Standard Life Investment Property Income Trust plc, Martin Currie Global Portfolio Trust plc and Perpetual Income and Growth Investment Trust plc. He is Chairman of the Investment Committee of TPT Retirement Solutions and sits on its Management Board. 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. Mike's early investment management career was focused on the nascent equity markets of Asia.

As part of the Board's succession plan, Mike will succeed David as Audit and Risk Committee Chairman on 24 July 2019 following the AGM.

Vera Hong Wei resigned from the Board on 31 October 2018 and the Board appointed a specialist consultancy firm to identify a new Director. I am pleased to welcome Linda Yueh as a new member of the Board with effect from 1 June 2019. Linda is an economist, corporate lawyer, financial broadcaster and author and brings a diverse range of skills to the Board. She is an experienced non-executive Director of FTSE companies and her core skills include her grasp of the larger macro-economic trends transforming conditions in the global economy and reshaping markets, in particular the geo-economic factors on equity and debt markets. Much of her academic work has focused on China and she has written several books about it. Further details are included in her biography in the Annual Report.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies, all Directors, with the exception of Mike Balfour and Linda Yueh, are subject to annual re-election at the forthcoming AGM. Mike Balfour having been appointed during the reporting year and Linda Yueh on 1 June 2019 are both subject to election at the AGM on 24 July 2019. The Directors' biographies can be found in the Annual Report, and, between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

#### **Board Succession**

The Board has spent a considerable amount of time discussing its succession plan for the next three years. Details of this can be found in the Corporate Governance Statement in the Annual Report.

#### **Environmental, Social and Governance ("ESG")**

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

Environmental standards are increasing too with President Xi putting a focus on this, both in power generation on a macro scale and also on a micro scale, in the discharge practices of manufacturing companies, which has had a significant effect on a number of businesses. Dale Nicholls comments more on this in his Portfolio Manager's Review below.

#### **Outlook**

The Company's objective is to enable shareholders to achieve a capital increase in their investment by participating in China's growing economy.

We weathered the volatility of 2018/19 and I believe that our Portfolio Manager, Dale Nicholls, has positioned the portfolio to benefit from China's annual GDP growth of around 6% and the even greater growth rate of retail consumption.

The Board believes strongly in offering investors some specialist China exposure to include in their portfolio and is confident in the long-term outlook for the shares in Fidelity China Special Situations PLC.

#### **Annual General Meeting – Wednesday, 24 July 2019**

The AGM of the Company will be held at 11.00 am on Wednesday 24 July 2019 at **155 Bishopsgate, London EC2M 3YD**. Full details of the meeting are given in the Annual Report.

This is an opportunity for shareholders to meet the Portfolio Manager, Dale Nicholls, and the Board.

I hope that you are able to join us.

#### **Nicholas Bull**

Chairman  
4 June 2019

## Portfolio Manager's Review

### Question

**2018 was a challenging year for Chinese equities. What were the drivers and what has changed more recently?**

### Answer

The last 12 months have been volatile. The MSCI China Index started the reporting period strongly, rising 11% to mid-June 2018. From then until mid-October 2018, the Index fell 25%. We then saw a 21% bounce to 31 March 2019.

The year started with optimism following a strong 2017 driven by the technology sector, and especially tech giants like Alibaba and Tencent. However, optimism quickly turned to pessimism as President Trump announced trade tariffs of around US\$200bn of Chinese products to the US, with the potential for them to ramp up to 25% on all exports, sparking fears for China's export sector. Through to April 2019, negotiations were seemingly moving in the right direction, but more recently, the decision to go ahead with 25% tariffs on US\$200bn of Chinese exports has been made, with the prospect for the remaining US\$300bn of exports also to be implemented.

While the daily news flow on the negotiations continues to drive gyrations in the market, I would like to stress the limited potential direct impact tariffs are likely to have on the holdings in the portfolio given its low exposure to exporters. Some 90% of the total revenues of the companies in the portfolio come from Greater China, including Hong Kong and Macau.

I remain positive on the prospects for a trade deal being reached, the simple reason being the mutual damage to both economies that a prolonged full-blown trade war would bring, starting with higher prices for US consumers. While incremental lower value-add production capacity is shifting to locations with lower labour costs, China remains entrenched in global supply chains, and the full implementation of the proposed tariffs would cause significant disruption. While some parts of the negotiation will be complex and difficult to reach full consensus, particularly around issues such as government support in strategic sectors, we believe both sides will be increasingly incentivised to reach agreement. To the degree negotiations push towards a more open economy with less support for State Owned Enterprises, this could actually be positive for private sector companies which make up the majority of the portfolio.

The economy began to show real signs of a slowdown in the second half of 2018. While concerns over trade and related uncertainty were clearly impacting the mindsets of company management teams, in my view a more significant factor was the slowdown in credit growth impacting liquidity, particularly for smaller companies. This was particularly evident in the so-called 'shadow banking' areas which have been on a downtrend since the beginning of 2018.

This slowdown in the broader economy was clearly reflected in industrial production which slowed to just over 5% growth, while the manufacturing Purchasing Managers' Index dipped below the 50-point level separating expansion from contraction. Non-manufacturing indices saw less of a slowdown but consumption trends were also impacted, particularly for larger ticket items. The automobile market finished 2018 down 4%, the first decline in over two decades. Retail sales growth, slowed to just over 8%, the slowest rate in the last decade.

These factors certainly impacted sentiment in markets, both for foreign investors and even more so in the domestic market with 'A' share indices correcting 24% from the peak. This drove valuations to levels at or near historical lows for many parts of the market.

Towards the end of 2018, we saw increased government policy action to address the slowdown in the economy. On the monetary side, there were increasingly aggressive cuts in the reserve requirement ratio for banks and strong support for increased lending, particularly for smaller companies, but also for local governments and their financial vehicles. On the fiscal side, we saw increased moves to push ahead with infrastructure programmes, but also changes in income tax policy through raising tax thresholds and increasing the proportion of people who will pay no tax at all.

These measures, combined with increasing signs of progress on the trade negotiation front, shifted sentiment positively from the beginning of 2019. Recent economic indicators have also started to accelerate once again. The sentiment I get from companies on the ground has clearly turned more positive. We need to watch how policy develops going forward. This increased focus of policy on supporting individuals should be a positive for our consumption slant in the portfolio. On the other hand, the pick-up in credit growth raises concerns over the commitment to deleveraging over the mid-term and needs to be monitored.

The slowdown in China needs to be kept in perspective. The economy grew 6.6% in 2018 with faster growth in consumption as part of the structural shift that remains in place for years to come. These are impressive growth rates for any economy, let alone one on track to be the largest in the world. The aggregate growth numbers also mask significant structural shifts that are occurring on the ground. While growth expectations for the companies in the portfolio may have been tempered somewhat, the vast majority still have robust growth prospects. Aggregate earnings for the companies in the portfolio are expected to grow over 20% in the next 12 months. Stock market sentiment in China is often concentrated too much on short-term growth trends relative to the long-term growth prospects for underlying companies, creating opportunities for stock pickers focused on the long-term.

### Question

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

### Answer

The Company posted a Net Asset Value total return of -5.3% over the review period, while the MSCI China Index returned +0.9%. The share price also lagged the market, but recorded a more modest fall of -0.3%. The share price discount to NAV narrowed from 12.3% to 7.9%.

Underperformance over the year predominantly came in the six-month period from 30 April 2018 to 31 October 2018 when the market fell into bear market territory. Larger declines were in the consumer and technology related areas of the portfolio, which is disappointing given this remains the key thrust of the portfolio. Whilst execution by some companies has disappointed, I remain confident in the long-term outlook for the majority of names in the portfolio. Being geared in this environment also hurt performance.

The portfolio saw strong returns from long-term holdings CITIC Telecom, Yihai International and China Meidong Auto. Macau telecom operator, CITIC Telecom, continued to report stable earnings and cash flow and an increase in its dividend payout was well received in the market. Hot pot condiment manufacturer Yihai rose more than 68% over the year as its restaurant partner, Haidilao, continues to roll out new restaurants successfully across China and had a highly successful IPO. Furthermore, Yihai grew third-party sales, especially in condiments used for home cooking. China Meidong Auto is a car dealership that has been held in the portfolio throughout my tenure as Portfolio Manager of the Company. Once again, it reported rising profits, despite a tough environment for auto sales, supported by ongoing growth in the margin-accretive after-sales care and servicing business.

The portfolio also saw a significant return from Aurora Mobile, a mobile data solution platform. This was an unlisted holding added to the portfolio in 2017 which listed in the US in July 2018. The holding's value was increased ahead of its IPO, and while it had a very volatile start, the company has generated significant value for shareholders.

The three largest detractors from relative performance actually came from not owning large, relatively defensive and mostly State Owned Enterprises: China Mobile, CNOOC and Ping An Insurance.

Goodbaby, a baby product manufacturer, also declined over the review period. Its key US distributor, Toys R Us, went into administration and this has severely disrupted its US business, and we are yet to see the benefits of various restructuring efforts which have hurt earnings in the short-term. While admittedly we need to see better execution going forward, the potential for improvement in operations supported by strong brands combined with an attractive valuation, the risk-reward balance is positive for the company from here on. China Pacific Insurance, a larger bet in the portfolio, also underperformed. This has been driven by concerns over margins and investment returns which, I believe are overdone, and with the company near trough valuations, this remains a core holding.

#### **Question**

**How has the Company benefited from its ability to invest in unlisted securities?**

#### **Answer**

The Company continues to be active in the unlisted domain. At the start of the period under review, it held four unlisted holdings: Xiaoju Kuaizhi ('Didi Chuxing'), Meituan Dianping (formerly China Internet Plus Holdings), Shanghai Yiguo ('Yiguo') and Aurora Mobile (known as Jiguang pre-listing). In 2018 Meituan and Aurora listed in Hong Kong and New York respectively. The Company continues to hold Aurora for its strong potential for continued growth by leveraging its access to the broadest data set. Meituan was sold due to the perceived risks relating to increased competition across a range of online services.

The Company added three new unlisted holdings over the year: (i) DJI International, a drone manufacturing company; (ii) Sensetime, China's leading AI company focused on computer vision and deep learning; and (iii) ByteDance, which operates various content platforms globally including Toutiao in China, the leading news aggregator, and Douyin, a strongly growing short video platform, which is also growing strongly overseas under the name TikTok. The Company held 4.8% in unlisted investments at the year end. New opportunities continue to be evaluated but we remain disciplined around valuation.

#### **Question**

**MSCI has announced that it will increase the weight of China 'A' Shares in its indices. How encouraged are you by this?**

#### **Answer**

This was a clear endorsement of the positive changes we have seen in China's capital markets over the last few years. 'A' shares were included in MSCI indices from last year at an inclusion rate of 5%, meaning 'A' shares were only 5% of their true market-cap value. Later in the year, MSCI announced that it will increase the inclusion factor to 20% and add more 'A' share companies to the Index over multiple stages throughout 2019. This means 'A' shares will move from being around 2.5% to more than 10% of MSCI China Index by the end of 2019. This is also recognition of the wide gap between China's weight in global GDP and its representation in global markets. China's market weight in indices is expected to grow in the future, and I believe it is likely to be a key factor behind the biggest asset allocation shift in global equities we will see in the next decade. The portfolio currently holds around 11% in 'A' shares.

#### **Question**

**What have been the key changes to the portfolio during the period under review?**

#### **Answer**

Portfolio turnover for the year stood at 33%. Yihai was the largest disposal as valuations looked stretched after its strong rally. A number of positions related to travel were also trimmed or sold from the portfolio. China International Travel Service (duty free), Shanghai International Airport (airport), and China Lodging (hotel operator) were all decreased. The travel industry still has a robust growth outlook, but valuations looked less compelling as stocks increased in value. Meituan was also a large disposal. Post the IPO lock-in period, the position was sold amid increased competition in online services.

The Company made some significant additions in investment banks. CITIC Securities, China International Capital Corporation ("CICC") and China Renaissance are all new positions. CITIC Securities and CICC are market leading brokers with strong potential growth coming from a significant IPO pipeline, more 'A' share flows from foreign investors and increasing institutional investors entering the financial system. Their scale, experience and established contacts means that they are two of the primary broker companies that investors look to for capital market activity. China Renaissance is a specialist investment bank primarily focused on technology and other developing sectors. Their extensive industry expertise and contacts makes it an intermediary of choice for technology companies looking to enter the market. Elsewhere within financials, the Company has added to its holdings in insurance companies, including a new position in China Taiping Insurance. The insurance sector was badly hit in the 2018 bear market amid concerns for their investment book, moving valuations to historically low levels in many cases, and levels that compare favourably with other global insurers despite far better growth prospects. The long-term opportunity remains attractive as the industry is still in its infancy; it is tied closely to the rise of the middle class and their propensity to protect wealth.

The Company has capitalised on emerging opportunities in the technology sector. Secoo is a leader in luxury e-commerce, building strong relations with well-known global brands, and trades at a significant discount to global peers. Kingsoft is set to benefit from a recovery in on-line game approvals, reduced losses in its cloud business as the market consolidates, and from continued strong growth in its WPS ("Writer, Presentation and Spreadsheets", previously known as Kingsoft Office) software business. Alibaba and Tencent remain core positions in the portfolio - their ecosystems continue to expand and will occupy an even greater share of the Chinese economy.

As mentioned previously, we have also seen activity in the Company's unlisted holdings.

#### **Question**

**How have you been making use of gearing?**

#### **Answer**

Levels of gearing in the portfolio really reflect the opportunities that I see in the market. During periods when opportunities are abundant, I look to put more capital to work. This typically coincides with weak market sentiment, as we saw in late 2018. During this time, I saw particular opportunity in the more market sensitive areas such as investment banks and insurance and added to the long positions in the companies discussed above. Conversely, when markets rally and valuations are less attractive, it often leads to fewer long opportunities and more short opportunities, thus net gearing tends to decrease, as has been the case in the first quarter of 2019. The fact that overall gearing levels remain relatively high reflects the fact that I still see significant value in the market, and believe in leveraging the resources the Company has at its disposal in order to capitalise on those opportunities.

#### **Question**

**Is Corporate Governance improving?**

#### **Answer**

When evaluating how companies are governed, we aim to invest in companies that are fully compliant with local laws and regulations and are good corporate citizens. Going more deeply, our analysis focuses on the degree to which management priorities are aligned with the interests of minority shareholders. Meeting with management teams regularly is a key part of this process. This is part of the reason a large proportion of the portfolio is invested in private sector companies in which management have a significant stake in the business as opposed to State Owned Enterprises.

Engaging with companies on broader Economic, Social and Governance (“ESG”) issues is something we are committing more and more resources to. An example is the engagement that we are having with companies in the whole chain of apparel production, from upstream textiles through to the actual brands. We expect disclosures to improve on how companies are managing their workforce and meeting environmental requirements. Another great example is Alibaba, one of the Company’s top holdings, releasing a detailed report on ESG, driven directly by senior management.

It is worth noting that environmental standards have improved significantly across a range of industries over the past few years.

In many cases, the data available on governance of Chinese companies is inaccurate or simply out of date. We are aware that companies in certain areas may not be fully compliant, but note that those showing improvement, including better disclosure, may often enjoy higher valuations. As investor demand for ESG themes increases, it has the potential to drive the cost of capital lower for companies that deliver strongly in this area.

**Question**

**What is your outlook for the current year?**

**Answer**

China remains a good stock-picking market. Volatility seems likely to continue and macro-economic and geopolitical noise will continue to impact the market from time to time. We remain focused on what matters most - the companies. For those operating in the sectors which are the main focus for the portfolio, such as, consumer, information technology and healthcare, the underlying growth drivers are strong. In these so called “New China” areas levels of innovation remain high - we continue to see new players emerging.

The continuing growth of the middle class is an overarching theme supporting consumption, which remains the biggest driver of growth in China. In addition to rising penetration across a range of categories, we are seeing increasing ‘premiumisation’ and trading up which should not be a surprise as incomes rise. While many foreign players occupy strong market positions, we continue to see local players asserting themselves and building strong businesses from sportswear to toothpaste to coffee chains.

The underperformance of the Company relative to the Benchmark over the period is disappointing but I believe that many of the smaller-sized companies have good potential to be recognised by the market as they continue to grow earnings. We have positive examples of companies such as China Meidong. We are seeing signs of improvements reflected in a strong start to performance in 2019. The Fidelity team continues to work hard to uncover these ideas and follow the execution of their strategies.

While valuations have moved up recently from last year’s lows, there is still significant value to be found, particularly when viewed relative to other markets. China will continue to grow as a proportion of global markets and thus become harder and harder to ignore for international investors. I remain confident in the fundamentals and values of the companies in the portfolio and their ability to grow earnings over the mid-term. This should result in continued growth in the Net Asset Value of the Company. My conviction is also reflected in my personal holding in the Company which has increased over the period.

**Dale Nicholls**

Portfolio Manager

4 June 2019

## Strategic Report

### Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2016 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 risks and uncertainties that the Company faces. 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 faced by the Company. The risks are unchanged from those reported in the prior year apart from some updates and the addition of the “Key Person risk” and the classification of the “Cybercrime risk” as a principal risk.

Principal Risks	Description and Risk Mitigation
<b>Market, Economic and Geopolitical risk</b>	<p>Investing in an emerging market such as the People’s Republic of China (PRC) subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability (such as the ongoing trade wars between the US and China and the ongoing tensions in the Korean peninsula which could have material economic adverse impacts to China and the region), legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Portfolio Manager’s success or failure to protect and increase the Company’s assets against this background is core to the Company’s continued success. The Board reviews material economic, market and legislative changes at each Board meeting.</p> <p>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 2019, 44.8% of the companies in the portfolio had a VIE structure (Benchmark Index: 40.2%).</p>
<b>Investment Performance risk</b>	<p>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.</p> <p>The Company has a clearly defined strategy and investment remit. Borrowing and derivative limits are set by the Board in line with the Company’s Prospectus. The portfolio is managed by a highly experienced Portfolio Manager who is supported by a large team of analysts. The Board relies on the Portfolio Manager’s skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the portfolio against the Company’s Benchmark Index and that of its competitors and the outlook of the markets with the Portfolio Manager. The emphasis is on long-term investment performance and the Board accepts that by targeting long-term results the Company risks volatility in the shorter-term.</p> <p>Performance for the financial year is outlined in the Chairman’s Statement and Portfolio Manager’s Review above.</p>
<b>Key Person risk</b>	<p>There is a risk that the Manager has an inadequate succession plan for key individuals. The loss of the Portfolio Manager could lead to potential performance, operational or regulatory issues. The Manager identifies key dependencies which are then addressed through succession plans. Fidelity has succession plans in place for portfolio managers which have been discussed with the Board.</p>
<b>Discount Control risk</b>	<p>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. 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 Company’s share price, NAV and discount volatility are monitored daily by the Manager and regularly reported to the Board. Further details of the Board’s discount control policy are provided in the Chairman’s Statement above.</p>
<b>Gearing risk</b>	<p>The Company has the ability to invest up to the total of any loan facilities in equities. The principal risk is that the Portfolio Manager fails to use gearing effectively, resulting in a failure to outperform in a rising market or underperform in a falling market. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. The Company has a US\$150,000,000 fixed rate unsecured facility agreement with Scotiabank Europe PLC which has been fully drawn down. In addition, the Company can also use contracts for difference (“CFDs”) to obtain further gearing exposure. The Board regularly considers the level of gearing and gearing risk.</p>
<b>Currency risk</b>	<p>The functional and presentational currency of the Company in which it reports its results is UK sterling. Most of its assets and its income are denominated in other currencies, mainly Hong Kong dollars, US dollars and Chinese renminbi. Consequently, it is subject to currency risk on exchange rate movements between UK sterling and these other currencies. It is the Company’s current policy not to hedge against currency risks. The loan facility is denominated in US dollars and, therefore, the effect of US dollar exchange rate movements on assets denominated in US dollars will be offset by their effect on the loan facility. Further details can be found in Note 19 to the Financial Statements below.</p>
<b>Cybercrime risk</b>	<p>The 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 and the Board is updated on these as part of the reporting it receives from the Manager.</p>

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.

### **Viability Statement**

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long-term capital growth. The Board considers long-term to be at least five years, and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

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

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

The Company's performance has been strong for the five year reporting period to 31 March 2019 with a NAV total return of 133.6%, a share price total return of 140.0% and a Benchmark Index total return of 100.7%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

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

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

### **Going Concern Statement**

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

### **Statement of Directors' Responsibility**

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

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

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

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

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

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

The Directors confirm that to the best of their knowledge:

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

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

Approved by the Board on 4 June 2019 and signed on its behalf by:

**Nicholas Bull**  
Chairman

**Income Statement for the year ended 31 March 2019**

	Notes	year ended 31 March 2019			year ended 31 March 2018		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
<b>Revenue</b>							
Investment income	3	19,359	–	19,359	21,761	–	21,761
Derivative income	3	10,287	–	10,287	7,076	–	7,076
Other income	3	1,264	–	1,264	163	–	163
<b>Total income</b>		30,910	–	30,910	29,000	–	29,000
(Losses)/gains on investments at fair value through profit or loss	10	–	(25,386)	(25,386)	–	212,441	212,441
(Losses)/gains on derivative instruments	11	–	(51,505)	(51,505)	–	45,967	45,967
Foreign exchange gains/(losses) on other net assets		–	3,878	3,878	–	(954)	(954)
Foreign exchange (losses)/gains on bank loans		–	(8,357)	(8,357)	–	12,690	12,690
<b>Total income and (losses)/gains</b>		30,910	(81,370)	(50,460)	29,000	270,144	299,144
<b>Expenses</b>							
Investment management fees	4	(3,195)	(8,348)	(11,543)	(3,548)	(10,645)	(14,193)
Other expenses	5	(1,214)	–	(1,214)	(1,630)	–	(1,630)
<b>Profit/(loss) before finance costs and taxation</b>		26,501	(89,718)	(63,217)	23,822	259,499	283,321
Finance costs	6	(3,490)	(10,470)	(13,960)	(2,161)	(6,485)	(8,646)
<b>Profit/(loss) before taxation</b>		23,011	(100,188)	(77,177)	21,661	253,014	274,675
Taxation	7	(688)	–	(688)	(673)	–	(673)
<b>Profit/(loss) after taxation for the year</b>		22,323	(100,188)	(77,865)	20,988	253,014	274,002
<b>Earnings/(loss) per ordinary share</b>	8	4.06p	(18.21p)	(14.15p)	3.80p	45.86p	49.66p

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

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

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

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

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

**Statement of Changes in Equity for the year ended 31 March 2019**

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Total equity at 31 March 2018</b>		5,713	211,569	914	335,493	918,558	30,619	1,502,866
Repurchase of ordinary shares	17	–	–	–	(4,131)	–	–	(4,131)
(Loss)/profit after taxation for the year		–	–	–	–	(100,188)	22,323	(77,865)
Dividend paid	9	–	–	–	–	–	(19,282)	(19,282)
<b>Total equity at 31 March 2019</b>		5,713	211,569	914	331,362	818,370	33,660	1,401,588
<b>Total equity at 31 March 2017</b>		5,713	211,569	914	336,625	665,544	23,429	1,243,794
Repurchase of ordinary shares	17	–	–	–	(1,132)	–	–	(1,132)
Profit after taxation for the year		–	–	–	–	253,014	20,988	274,002
Dividend paid	9	–	–	–	–	–	(13,798)	(13,798)
<b>Total equity at 31 March 2018</b>		5,713	211,569	914	335,493	918,558	30,619	1,502,866

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

**Balance Sheet as at 31 March 2019**

Company number 7133583

	Notes	31 March 2019 £'000	31 March 2018 £'000
<b>Non-current assets</b>			
Investments at fair value through profit or loss	10	1,423,161	1,495,818
		-----	-----
<b>Current assets</b>			
Derivative instruments	11	19,235	37,518
Amounts held at futures clearing houses and brokers		81,451	30,247
Other receivables	12	737	10,714
Cash and cash equivalents		86,963	80,439
		-----	-----
		188,386	158,918
		-----	-----
<b>Current liabilities</b>			
Derivative instruments	11	(90,161)	(34,841)
Bank loans	13	(115,331)	–
Other payables	14	(4,467)	(10,054)
		-----	-----
		(209,959)	(44,895)
		-----	-----
<b>Net current (liabilities)/assets</b>		(21,573)	114,023
		-----	-----
<b>Total assets less current liabilities</b>		1,401,588	1,609,841
		-----	-----
<b>Non-current liabilities</b>			
Bank loans	15	–	(106,975)
		-----	-----
<b>Net assets</b>		1,401,588	1,502,866
		-----	-----
<b>Equity attributable to equity shareholders</b>			
Share capital	16	5,713	5,713
Share premium account	17	211,569	211,569
Capital redemption reserve	17	914	914
Other reserve	17	331,362	335,493
Capital reserve	17	818,370	918,558
Revenue reserve	17	33,660	30,619
		-----	-----
<b>Total equity</b>		1,401,588	1,502,866
		-----	-----
<b>Net asset value per ordinary share</b>	18	255.03p	272.55p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 4 June 2019 and were signed on its behalf by:

**NICHOLAS BULL**  
Chairman

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

**Cash Flow Statement for the year ended 31 March 2019**

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>Operating activities</b>		
Cash inflow from investment income	19,592	19,148
Cash inflow from derivative income	10,271	7,078
Cash inflow from other income	1,264	163
Cash outflow from Directors' fees	(207)	(148)
Cash outflow from other payments	(13,180)	(17,335)
Cash outflow from the purchase of investments	(452,059)	(438,969)
Cash outflow from the purchase of derivatives	(8,770)	(7,914)
Cash inflow from the sale of investments	502,367	456,943
Cash inflow from the settlement of derivatives	30,959	66,385
Cash outflow from amounts held at futures clearing houses and brokers	(51,204)	(28,178)
	-----	-----
<b>Net cash inflow from operating activities before servicing of finance</b>	<b>39,033</b>	<b>57,173</b>
	-----	-----
<b>Financing activities</b>		
Cash outflow from loan interest paid	(3,538)	(3,487)
Cash outflow from CFD interest paid	(7,380)	(3,180)
Cash outflow from short CFD dividends paid	(2,056)	(1,905)
Cash outflow from the repurchase of Ordinary Shares	(4,131)	(1,132)
Cash outflow from dividends paid to shareholders	(19,282)	(13,798)
	-----	-----
<b>Cash outflow from financing activities</b>	<b>(36,387)</b>	<b>(23,502)</b>
	-----	-----
<b>Increase in cash and cash equivalents</b>	<b>2,646</b>	<b>33,671</b>
	-----	-----
Cash and cash equivalents at the start of the year	80,439	47,722
Effect of foreign exchange movements	3,878	(954)
	-----	-----
<b>Cash and cash equivalents at the end of the year</b>	<b>86,963</b>	<b>80,439</b>
	=====	=====

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

## Notes to the Financial Statements

### 1 Principal Activity

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

### 2 Accounting Policies

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union, the Companies Acts that apply to companies reporting under IFRS, IFRIC interpretations and, as far as it is consistent with IFRS, with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in November 2014, and updated in February 2018 with consequential amendments. The accounting policies adopted in the preparation of these Financial Statements are summarised below.

**a) Basis of accounting** – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative assets and liabilities.

**b) Adoption of new and revised Financial Reporting Standards** – The accounting policies adopted are consistent with those of the previous financial year, other than those stated below.

- IFRS 9: Financial instruments – In the current financial year the Company has adopted IFRS 9. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting.

For investments and derivative instruments there is no change to comparative figures as they were historically held at fair value through profit or loss under IAS 39 and continue to be measured on this basis under IFRS 9.

Receivables that were previously measured at fair value, or amortised cost where applicable, under IAS 39 continue to be valued on the same basis under IFRS 9. The classification of financial liabilities under IFRS 9 remains the same as under IAS 39. Consequently there are no changes to the comparative figures.

IFRS 9 requires the Company to record expected credit losses on all its receivables either on a 12 month or lifetime basis. As the Company has limited exposure to credit risk, this amendment has not had a material impact on the Financial Statements.

- IFRS 15: Revenue from Contracts with Customers – In the current financial year the Company has adopted IFRS 15. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Given the nature of the income streams of the Company, there is no impact to the current measurement and disclosure of revenue.

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

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

**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 and judgements** – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of unlisted investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the possible valuations in the event of a listing and other marketability related risks.

**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 Directors, having regard to the Company's share capital, the predominant currency in which its investors operate and the currency in which expenses are paid, have determined its functional currency to be UK sterling. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities and those carried at fair value and denominated in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. All capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserve.

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

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

**i) Finance costs** – Finance costs comprise interest and fees on bank loans and overdrafts and interest paid on CFDs, which are accounted for on an accruals basis, and dividends paid on short CFDs, which are accounted for on the date on which the

obligation to incur the cost is established, normally the ex-dividend date. Finance costs are allocated 25% to revenue and 75% to capital.

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

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

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

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

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

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

Investments which are not quoted, or are not frequently traded, are stated at the Directors' best estimate of fair value. The Manager's Fair Value Committee, which is independent of the Portfolio Manager's team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment, recent arm's length transactions in the same or similar investments and financial performance of the investment since acquisition.

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

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

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

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

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

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

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

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

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

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

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

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

- Gains and losses on the disposal of investments and derivatives instruments;

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

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash, with the exception of level 3 investments which had unrealised investment holding gains of £5,115,000 (2018: £20,886,000).

### 3 Income

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>Investment income</b>		
Overseas dividends	19,359	20,753
Overseas scrip dividends	–	1,008
	-----	-----
	19,359	21,761
	-----	-----
<b>Derivative income</b>		
Dividends on long CFDs	9,797	7,026
Interest on short CFDs	490	50
	-----	-----
	10,287	7,076
	-----	-----
<b>Other income</b>		
Interest received on collateral and deposits	1,264	163
	-----	-----
<b>Total income</b>	30,910	29,000
	=====	=====

Special dividends of £1,393,000 (2018: £2,111,000) have been recognised in capital.

### 4 Investment Management Fees

	year ended 31 March 2019			year ended 31 March 2018		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Investment management fee – base	3,195	9,585	12,780	3,548	10,645	14,193
Investment management fee – variable	–	(1,237)	(1,237)	–	–	–
	-----	-----	-----	-----	-----	-----
	3,195	8,348	11,543	3,548	10,645	14,193
	=====	=====	=====	=====	=====	=====

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

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

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

## 5 Other Expenses

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
AIC fees	20	20
Custody fees	255	248
Depositary fees	66	68
Directors' expenses	58	57
Directors' fees*	166	164
Legal and professional fees	73	70
Marketing expenses	238	201
Printing and publication expenses	77	50
Registrars' fees	44	54
Secretarial and administration fees payable to the Investment Managers	100	600
Other expenses	85	70
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	32	28
	-----	-----
	1,214	1,630
	=====	=====

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

## 6 Finance Costs

	year ended 31 March 2019			year ended 31 March 2018		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Interest on bank loans and overdrafts	892	2,676	3,568	854	2,563	3,417
Interest paid on CFDs	2,084	6,252	8,336	831	2,493	3,324
Dividends paid on short CFDs	514	1,542	2,056	476	1,429	1,905
	-----	-----	-----	-----	-----	-----
	3,490	10,470	13,960	2,161	6,485	8,646
	=====	=====	=====	=====	=====	=====

## 7 Taxation

	year ended 31 March 2019			year ended 31 March 2018		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
<b>a) Analysis of the taxation charge for the year</b>						
Overseas taxation charge	688	-	688	673	-	673
	-----	-----	-----	-----	-----	-----
Taxation charge for the year (see Note 7b)	688	-	688	673	-	673
	=====	=====	=====	=====	=====	=====

### 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% (2018: 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 2019			year ended 31 March 2018		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Profit/(loss) before taxation	23,011	(100,188)	(77,177)	21,661	253,014	274,675
	-----	-----	-----	-----	-----	-----
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19% (2018: 19%)	4,372	(19,036)	(14,664)	4,116	48,073	52,189
Effects of:						

Capital losses/(gains) not taxable *	–	15,460	15,460	–	(51,327)	(51,327)
Income not taxable	(3,678)	–	(3,678)	(4,122)	–	(4,122)
Expenses not deductible	–	1,539	1,539	–	745	745
Excess expenses	(694)	2,037	1,343	6	2,509	2,515
Overseas taxation	688	–	688	673	–	673
<b>Taxation charge (Note 7a)</b>	<b>688</b>	<b>–</b>	<b>688</b>	<b>673</b>	<b>–</b>	<b>673</b>

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

### c) Deferred taxation

A deferred tax asset of £18,897,000 (2018: £17,908,000), in respect of excess expenses of £111,156,000 (2018: £105,342,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

### 8 Earnings/(Loss) per Ordinary Share

	year ended 31 March 2019			year ended 31 March 2018		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
<b>Earnings/(loss) per ordinary share –basic and diluted</b>	4.06p	(18.21p)	(14.15p)	3.80p	45.86p	49.66p

Earnings/(loss) per ordinary share are based on the revenue profit after taxation for the year of £22,323,000 (2018: £20,988,000), the capital loss after taxation for the year of £100,188,000 (2018: capital profit of £253,014,000) and the total loss after taxation for the year of £77,865,000 (2018: total profit of £274,002,000) and on 550,331,713 (2018: 551,681,603) ordinary shares, being the weighted average number of ordinary shares held outside Treasury during the year. Basic and diluted earnings per share are the same as the Company has no dilutive financial instruments.

### 9 Dividends Paid to Shareholders

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>Dividend paid</b>		
Dividend paid of 3.50 pence per Ordinary Share for the year ended 31 March 2018	19,282	–
Dividend paid of 2.50 pence per Ordinary Share for the year ended 31 March 2017	–	13,798
	<b>19,282</b>	<b>13,798</b>
<b>Dividend proposed</b>		
Dividend proposed of 3.85 pence per Ordinary Share for the year ended 31 March 2019	21,159	–
Dividend proposed of 3.50 pence per Ordinary Share for the year ended 31 March 2018	–	19,289
	<b>21,159</b>	<b>19,289</b>

The Directors have proposed the payment of a dividend for the year ended 31 March 2019 of 3.85 pence per Ordinary Share which is subject to approval by shareholders at the Annual General Meeting on 24 July 2019 and has not been included as a liability in these Financial Statements. The dividend will be paid on 30 July 2019 to shareholders on the register at the close of business on 28 June 2019 (ex-dividend date 27 June 2019).

### 10 Investments at Fair Value through Profit or Loss

	2019 £'000	2018 £'000
<b>Total investments*</b>	<b>1,423,161</b>	<b>1,495,818</b>
Opening book cost	1,155,104	1,045,403
Opening investment holding gains	340,714	249,863
Opening fair value of investments	<b>1,495,818</b>	<b>1,295,266</b>
<b>Movements in the year</b>		
Purchases at cost	446,028	441,671
Sales – proceeds	(493,299)	(453,560)
Sales – gains in the year	86,792	121,590

Movement in investment holding (losses)/gains in the year	(112,178)	90,851
<b>Closing fair value of investments</b>	<b>1,423,161</b>	<b>1,495,818</b>
Closing book cost	1,194,625	1,155,104
Closing investment holding gains	228,536	340,714
<b>Closing fair value of investments</b>	<b>1,423,161</b>	<b>1,495,818</b>

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

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>(Losses)/gains on investments</b>		
Gains on sales of investments	86,792	121,590
Investment holding (losses)/gains	(112,178)	90,851
	(25,386)	212,441

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

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>Investment transaction costs</b>		
Purchases transaction costs	601	567
Sales transaction costs	609	555
	1,210	1,122

The portfolio turnover rate for the year was 32.7% (2018: 32.0%).

## 11 Derivative Instruments

	year ended 31 March 2019 £'000	year ended 31 March 2018 £'000
<b>Net (losses)/gains on derivative instruments</b>		
Realised gains on CFDs	21,083	71,507
Realised gains/(losses) on futures	2,505	(5,123)
Realised losses on options	(7,375)	(4,270)
Movement in investment holding losses on CFDs	(63,613)	(21,265)
Movement in investment holding losses on futures	(1,073)	(151)
Movement in investment holding (losses)/gains on options	(3,032)	5,269
	(51,505)	45,967
	2019 fair value £'000	2018 fair value £'000

**Fair value of derivative instruments recognised on the Balance Sheet\***

Derivative instrument assets			19,235	37,518
Derivative instrument liabilities			(90,161)	(34,841)
			-----	-----
			(70,926)	2,677
			=====	=====

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

	fair value £'000	2019 gross asset exposure £'000	fair value £'000	2018 gross asset exposure £'000
<b>At the year end the Company held the following derivative instruments</b>				
Long CFDs	(65,953)	376,578	(9,865)	408,938
Short CFDs	(6,441)	36,784	2,190	45,356
Short CFDs (hedging exposure)	2,205	(26,539)	1,099	(25,566)
Futures (hedging exposure)	(737)	(42,859)	336	(27,807)
Put options (hedging exposure)	–	–	8,917	(90,189)
	-----	-----	-----	-----
	(70,926)	343,964	2,677	310,732
	=====	=====	=====	=====

**12 Other Receivables**

	2019 £'000	2018 £'000
Amounts due from dissenters claim	–	5,354
Securities sold for future settlement	36	3,750
Accrued income	646	1,551
Other receivables	55	59
	-----	-----
	737	10,714
	=====	=====

**13 Bank Loans - repayable within one year**

	2019 £'000	2018 £'000
<b>Fixed rate unsecured US dollar loan</b>		
US dollar 150,000,000 @ 3.01%	115,331	–
	=====	=====

The current loan agreement with Scotiabank Europe PLC is due to be repaid on 14 February 2020 (see Note 15 below).

**14 Other Payables**

	2019 £'000	2018 £'000
Securities purchased for future settlement	1,858	7,798
Investment management, secretarial and administration fees	820	1,439
Finance costs payable	1,100	–
Accrued expenses	689	817
	-----	-----
	4,467	10,054
	=====	=====

**15 Bank Loans - repayable after more than one year**

2019 £'000	2018 £'000
---------------	---------------

**Fixed rate unsecured US dollar loan**

US dollar 150,000,000 @ 3.01%

–

106,975

On 14 February 2017, the Company entered into a three year unsecured loan agreement with Scotiabank Europe PLC. The interest rate is fixed at 3.01% per annum until the agreement terminates on 14 February 2020.

**16 Share Capital**

	number of shares	2019 £'000	number of shares	2018 £'000
<b>Issued, allotted and fully paid</b>				
<b>Ordinary shares of 1 penny each – Held outside Treasury</b>				
<b>Beginning of the year</b>	551,414,480	5,514	551,914,480	5,519
Ordinary shares repurchased into Treasury	(1,840,000)	(18)	(500,000)	(5)
<b>End of the year</b>	549,574,480	5,496	551,414,480	5,514
<b>Held in Treasury</b>				
<b>Beginning of the year</b>	19,940,000	199	19,440,000	194
Ordinary shares repurchased into Treasury	1,840,000	18	500,000	5
<b>End of the year</b>	21,780,000	217	19,940,000	199
<b>Total share capital</b>		5,713		5,713

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

**17 Reserves**

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

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

The other reserve is a distributable premium reserve created on 21 April 2010 when High Court approval was given for the share premium account at that date to be cancelled. As a result £452,232,000 was transferred from the share premium account to the other reserve. It can be used to fund share repurchases. During the year 1,840,000 (2018: 500,000) ordinary shares were repurchased and held in Treasury. The cost of these repurchases amounting to £4,131,000 (2018: £1,132,000) was charged to this reserve.

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

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

**18 Net Asset Value per Ordinary Share**

The net asset value per ordinary share is based on net assets of £1,401,588,000 (2018: £1,502,866,000) and on 549,574,480 (2018: 551,414,480) ordinary shares, being the number of ordinary shares held outside Treasury at the year end. It is the Company's policy that ordinary shares held in Treasury will only be issued at a premium to net asset value per share and, therefore, the shares held in Treasury have no dilutive effect.

**19 Financial Instruments****Management of risk**

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Investment Managers, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, economic and geopolitical, investment performance, key person, discount control, gearing, currency 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 above.

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

The Company's financial instruments may comprise:

- Equity shares, equity linked notes and fixed-interest securities;

- Derivative instruments including CFDs, warrants, futures and options written or purchased on stocks and equity indices and forward currency contracts;
- Cash, liquid resources and short-term receivables and payables that arise from its operations; and
- Bank borrowings.

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

#### Market price risk

##### Interest rate risk

The Company finances its operations through its share capital raised. In addition, the Company has derivative instruments and an unsecured fixed rate loan facility for US\$150,000,000 expiring on 14 February 2020. The Company has drawn down the whole of this facility as disclosed in Note 13 above.

##### Interest rate risk exposure

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

	2019 £'000	2018 £'000
<b>Exposure to financial instruments that bear interest</b>		
Long CFDs – exposure less fair value	442,531	418,803
Bank loans	115,331	106,975
	-----	-----
	557,862	525,778
<b>Exposure to financial instruments that earn interest</b>		
Short CFDs – exposure plus fair value	59,087	74,211
Amounts held at futures clearing houses and brokers	81,451	30,247
Cash and cash equivalents	86,963	80,439
	-----	-----
	227,501	184,897
	-----	-----
<b>Net exposure to financial instruments that bear interest</b>	330,361	340,881
	=====	=====

#### Foreign currency risk

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

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

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

#### Currency exposure of financial assets

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

Currency	investments held at fair value through profit or loss £'000	gross asset exposure to long derivative instruments <sup>1</sup> £'000	other receivables <sup>2</sup> £'000	cash and cash equivalents £'000	2019 total £'000
Australian dollar	7,183	–	–	–	7,183
Canadian dollar	234	–	–	–	234
Chinese renminbi	163,545	–	–	15,731	179,276
Hong Kong dollar	706,607	295,042	4,116	71,202	1,076,967
South Korean won	–	–	–	7	7
Taiwan dollar	45,304	–	–	22	45,326

UK sterling	42,088	–	56	–	42,144
US dollar	458,200	12,138	78,016	1	548,355
	-----	-----	-----	-----	-----
	1,423,161	307,180	82,188	86,963	1,899,492
	=====	=====	=====	=====	=====

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

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

Currency	investments held at fair value through profit or loss £'000	gross asset exposure to long derivative instruments <sup>1</sup> £'000	other receivables <sup>2</sup> £'000	cash and cash equivalents £'000	2018 total £'000
Australian dollar	5,022	–	–	–	5,022
Canadian dollar	449	–	–	–	449
Chinese renminbi	159,652	–	5,975	1,505	167,132
Hong Kong dollar	729,322	284,734	11,547	78,996	1,104,599
Singapore dollar	3,108	–	–	–	3,108
South Korean won	–	–	–	7	7
Taiwan dollar	34,294	–	300	22	34,616
UK sterling	44,741	–	60	(114)	44,687
US dollar	519,230	(19,358)	23,079	23	522,974
	-----	-----	-----	-----	-----
	1,495,818	265,376	40,961	80,439	1,882,594
	=====	=====	=====	=====	=====

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

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

#### Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and borrowings. The Company's financial liabilities comprise short positions on derivative instruments, a US dollar denominated bank loan and other payables.

The currency profile of these financial liabilities is shown below:

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

Currency	gross asset exposure to short derivative instruments* £'000	US dollar bank loan £'000	other payables £'000	2018 total £'000
Hong Kong dollar	45,356	–	7,527	52,883
UK sterling	–	–	1,710	1,710
US dollar	–	106,975	817	107,792
	-----	-----	-----	-----



	gross amount of recognised financial liabilities set off on the balance sheet £'000	gross amount of recognised financial assets set off on the balance sheet £'000	net amount of financial assets presented on the balance sheet £'000	financial instruments £'000	related amounts not set off on balance sheet margin account received as collateral £'000	2018 net amount £'000
<b>Financial assets</b>						
CFDs	28,265	–	28,265	(6,348)	(21,917)	–
Futures (exchange traded)	336	–	336	–	(336)	–
Options	8,917	–	8,917	–	(8,917)	–
	-----	-----	-----	-----	-----	-----
	37,518	–	37,518	(6,348)	(31,170)	–
	=====	=====	=====	=====	=====	=====

	gross amount of recognised financial assets set off on the balance sheet £'000	gross amount of recognised financial liabilities set off on the balance sheet £'000	net amount of financial liabilities presented on the balance sheet £'000	financial instruments £'000	related amounts not set off on balance sheet margin account pledged as collateral £'000	2018 net amount £'000
<b>Financial liabilities</b>						
CFDs	(34,841)	–	(34,841)	6,348	22,286	(6,207)
	=====	=====	=====	=====	=====	=====

#### 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 unsettled security transactions and derivative instrument contracts and cash at bank.

#### Derivative instrument risk

A Derivative Instrument Charter, including an appendix entitled Derivative Risk Measurement and Management, details the risks and risk management processes used by the Investment 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 event of market falls;
- to enhance portfolio returns by writing call and put options; and
- to take short positions in equity markets, which would benefit from a fall in the relevant market price, where the Investment Managers believe the investment is overvalued. These positions distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

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

#### RISK SENSITIVITY ANALYSIS

##### Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at the Balance Sheet date, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the loss after taxation for the year and decreased the net assets of the Company by £538,000 (2018: decreased the profit after taxation and decreased the net assets by £585,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

##### Foreign currency risk sensitivity analysis

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

Currency	2019 £'000	2018 £'000
Australian dollar	653	457

Canadian dollar	21	41
Chinese renminbi	16,297	15,194
Hong Kong dollar	94,908	95,611
Singapore dollar	–	127
South Korean won	–	1
Taiwan dollar	4,121	3,147
US dollar	38,712	37,744
	-----	-----
	154,712	152,322
	=====	=====

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

<b>Currency</b>	2019	2018
	£'000	£'000
Australian dollar	798	558
Canadian dollar	26	50
Chinese renminbi	19,920	18,570
Hong Kong dollar	115,998	116,857
Singapore dollar	–	156
South Korean won	1	1
Taiwan dollar	5,036	3,846
US dollar	47,314	46,131
	-----	-----
	189,093	186,169
	=====	=====

#### Other price risk sensitivity analysis

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

An increase of 10% in the share prices of the listed investments held at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £142,316,000 (2018: increased the profit after taxation and increased the net assets by £149,582,000). A decrease of 10% in share prices of the investments designated at fair value through profit or loss would have had an equal but opposite effect.

An increase of 10% in the valuation of unlisted investments held at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £6,669,000 (2018: increased the profit after taxation and increased the net assets by £6,434,000). 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 exposure to the equity market. An increase of 10% in the share prices of the investments underlying the derivative instruments at the Balance Sheet date would have decreased the loss after taxation for the year and increased the net assets of the Company by £27,040,000 (2018: increased the profit after taxation and increased the net assets by £22,002,000). 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 Note 2(l) and (m) above, investments and derivative instruments are shown at fair value. In the case of cash and cash equivalents, book value approximates to fair value due to the short maturity of the instruments. The exception is the US dollar denominated bank loan, its fair value having been calculated by discounting future cash flows at current US dollar interest rates.

		2019		2018
	fair value	book value	fair value	book value
	£'000	£'000	£'000	£'000
Fixed rate unsecured loan of US dollar 150,000,000	114,111	115,331	105,860	106,975
	=====	=====	=====	=====

#### Fair Value Hierarchy

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

Classification	Input
<b>Level 1</b>	Valued using quoted prices in active markets for identical assets
<b>Level 2</b>	Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1
<b>Level 3</b>	Valued by reference to valuation techniques using inputs that are not based on observable market data



valuation at 31 March 2019 is based on a review of the financial position of the Company as at 30 September 2018. As at 31 March 2019, its fair value was £7,449,000.

#### ByteDance

ByteDance develops application software and is an unlisted company. The Company holds 190,714 preference shares in ByteDance, which represents 0.01% of the preference shares in issue. The valuation at 31 March 2019 is based on the cost of the investment when it was purchased in November 2018. As at 31 March 2019, its fair value was £7,227,000.

#### SenseTime

SenseTime develops application technology and is an unlisted company. The Company holds 31,242,000 preference shares in SenseTime, which represents 0.15% of the preference shares in issue. The valuation at 31 March 2019 is based on the price of shares when US\$500m of funding was raised in October 2018. As at 31 March 2019, its fair value was £6,812,000.

#### BNN Technology

BNN Technology plc is a technology, content and services company. On 4 September 2017, BNN Technology was suspended from trading on AIM and the holding was valued at £4,072,000 based on last trade price. The valuation of BNN Technology was reduced to £18,000 in February 2018 based on a review of the financial position of the Company. As at 31 March 2019, its fair value was £17,000.

#### Meituan Dianping (formerly China Internet Plus Holdings)

Meituan Dianping develops and operates a platform providing online group buying services. The Company was listed during the year and is therefore now classified as a level 1 investment. The valuation at 31 March 2018 was based on a secondary transaction in the shares on 26 March 2018.

#### Aurora Mobile Limited ('Jiguang')

Jiguang is China's leading mobile big data platform and mobile application ('app') cloud service provider. The Company listed as an ADR on NASDAQ during the year and is therefore now classified as a level 1 investment. The valuation at 31 March 2018 was based on the price of shares when US\$35m of funding was confirmed in April 2018.

	2019	2018
	level 3	level 3
	£'000	£'000
<b>Movements in level 3 investments during the year</b>		
Level 3 investments at the beginning of the year	64,357	37,179
Purchases at cost	35,202	10,129
Transfers (out of)/into Level 3*	(33,113)	4,611
Unrealised profits recognised in the Income Statement	257	12,438
	-----	-----
<b>Level 3 investments at the end of the year</b>	66,703	64,357
	=====	=====

\* Financial instruments are transferred out of level 3 when they become listed and into level 3 on the date they are suspended or when they have not traded for thirty days.

#### 20 Capital Resources and Gearing

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

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

	2019	2018
	£'000	£'000
<b>Gross asset exposure</b>		
Investments	1,423,161	1,495,818
Long CFDs	376,578	408,938
	-----	-----
<b>Total long exposures before hedges</b>	1,799,739	1,904,756
Less: short derivative instruments hedging the above	(69,398)	(143,562)
	-----	-----
<b>Total long exposures after the netting of hedges</b>	1,730,341	1,761,194
Short CFDs	36,784	45,356
	-----	-----
<b>Gross Asset Exposure</b>	1,767,125	1,806,550
	-----	-----
<b>Net Assets</b>	1,401,588	1,502,866
	=====	=====
<b>Gearing (Gross Asset Exposure in excess of Net Assets)</b>	26.1%	20.2%
	-----	-----

#### 21 Transactions with the Managers and Related Parties

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

companies.

Details of the current fee arrangements are given in the Directors' Report in the Annual Report. During the year, management fees of £11,543,000 (2018: £14,193,000), and accounting, administration and secretarial fees of £100,000 (2018: £600,000) were payable to the Managers. At the Balance Sheet date, management fees of £820,000 (2018: £1,289,000), and accounting, administration and secretarial fees of £nil (2018: £150,000) were accrued and included in other payables. Fidelity also provides the Company with marketing services. The total amount payable for these services was £238,000 (2018: £201,000). At the Balance Sheet date, £nil (2018: £40,000) was accrued and included in other payables.

Disclosures of the Directors' interests in the ordinary shares of the Company and fees and taxable expenses, relating to reasonable travel expenses, payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £17,000 (2018: £17,000) of employers' National Insurance Contributions were paid by the Company.

## 22 Alternative Performance Measures

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

The tables below provide information relating to the NAVs and share prices of the Company, the impact of dividend reinvestment and the total returns for the years ended 31 March 2019 and 31 March 2018.

	Net asset value per Ordinary Share	Share price
<b>2019</b>		
NAV at 31 March 2018	272.55p	239.00p
NAV at 31 March 2019	255.03p	235.00p
Change in the year	-6.4%	-1.7%
Impact of dividend reinvestment	+1.1%	+1.4%
	-----	-----
<b>Total return for the year</b>	<b>-5.3%</b>	<b>-0.3%</b>
	=====	=====
	Net asset value per Ordinary Share	Share price
<b>2018</b>		
NAV at 31 March 2017	225.36p	195.70p
NAV at 31 March 2018	272.55p	239.00p
Change in the year	+20.9%	+22.1%
Impact of dividend reinvestment	+1.3%	+1.5%
	-----	-----
<b>Total return for the year</b>	<b>+22.2%</b>	<b>+23.6%</b>
	=====	=====

## 23 Post Balance Sheet Event

A subsequent round of funding for SenseTime was finalised post year end. As a result, in April 2019, the valuation was increased by 11% from £6,812,000 to £7,553,000. If this increase in value had been applied at 31 March 2019, the net assets of the Company would have increased by 0.05%.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 March 2019 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2018 and 2019 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports, and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2018 is derived from the statutory accounts for 2018 which have been delivered to the Registrar of Companies. The 2019 Financial Statements will be filed with the Registrar of Companies in due course.

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

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

**[www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)** where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

**The Annual General Meeting will be held at 11.00 am on 24 July 2019 at 155 Bishopsgate, London EC2M 3YD.**

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

ENDS