

## **Fidelity China Special Situations Plc**

### **Final Results for the year ended 31 March 2017**

#### **Financial Highlights:**

- Fidelity China Special Situations PLC's NAV returned +38.8% total return over the year ended 31 March 2017
- The Company increased its dividend by 38.9% to 2.50 pence per Ordinary Share
- The discount narrowed from 17.2% to 13.2% over the period, as a result of the share price total return of +45.8%, outperforming the Company's Benchmark by +8.2%.
- Over Dale Nicholls' three year tenure as Portfolio Manager, the NAV has risen +101.8% versus an Index return of +60.6%
- The Portfolio Manager continues to find investment opportunities across the consumer sector and state owned enterprises

*"It is now increasingly accepted by investment professionals that China's sheer economic size, along with its record of delivering year on year growth, means that anyone building an investment portfolio should consider having an exposure to China.*

*The purpose of Fidelity China Special Situations PLC is to provide investors with that exposure through a spread of investments in companies involved in China.*

*The Directors are confident in the continuing growth in the New China economy and in the long-term growth prospects for the Company."* Nicholas Bull, Chairman

#### **Contacts**

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

Bonita Guntrip - Company Secretary

01737 837320

## **Chairman's Statement**

***"Fidelity China Special Situations PLC offers a direct exposure to China's growth story for those investors who seek it in their portfolio."*** Nicholas Bull, Chairman

This is my first year as Chairman of Fidelity China Special Situations PLC and I have pleasure in presenting the seventh Annual Report of the Company for the year ended 31 March 2017.

It is now increasingly accepted by investment professionals that China's sheer economic size, along with its record of delivering year on year growth, means that anyone building an investment portfolio should consider having an exposure to China.

The purpose of Fidelity China Special Situations PLC is to provide investors with that exposure through a spread of investments in companies involved in China.

The Directors, who visit China each year, have observed at first hand the growth of the Chinese middle class both in number and in spending power. It is this growth that underpins the strategy of the Portfolio Manager, Dale Nicholls, in his focus on investing in the "New China" economy.

The purchase of shares in Fidelity China Special Situations PLC is intended to be a decision for the long-term, as the China market can be volatile and the performance of the stock market is not necessarily correlated to the economic growth rate.

Fidelity China Special Situations PLC is a closed-end fund, which the Board believes is the best structure for an investment of this sort. The stability of the funds under management, with no redemptions, enables the Portfolio Manager to invest in smaller companies which may have limited liquidity, to invest in unlisted companies ahead of their IPO and to add gearing to the portfolio.

The Directors are confident in the continuing growth in the New China economy and in the long-term growth prospects for the Company.

## **Risks**

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

## **Performance Review**

Fidelity China Special Situations PLC has significantly rewarded investors over the year. Within China, improving economic data, a relatively stable political landscape and ongoing reforms have offered a fairly stable environment for companies and markets to operate in. This is an additional tailwind to the ongoing structural changes happening in China related to rising wealth, increasing consumption and world-leading innovation.

Over the reporting period, the MSCI China Index rose by 37.6% and the Company's NAV posted a 38.8% total return. Encouragingly, the Company's share price recorded a 45.8% total return as a result of the reduction in the share price discount to NAV.

The end of the financial year also marked three years for Dale Nicholls as Portfolio Manager of Fidelity China Special Situations PLC and the Company's seventh anniversary. Dale has continued the good work by previous portfolio manager Anthony Bolton and has increased the NAV over his tenure, returning 101.8% versus an Index return of 60.6%.

## **Due Diligence visit to China**

The Board undertook its annual due diligence visit to China in October 2016 and met with Fidelity's investment analysts and various brokers, bankers, research specialists and economists and continued to see at first-hand developments in China. In addition, several company visits were carried out in Beijing (Car Inc., China Biologic Products, China Online Education, China Renaissance, Didi, Momo, New Oriental Education & Technology, Noah, Phoenix Healthcare, Sinotrans, Tarena and Yihai.), Kunming (CRCC High Tech, Yunnan Baiyao and Yunnan Water) and Chengdu (Sichuan Swellfun and Virscend Education), giving the Board invaluable insight into some of the companies which are held in the Company's portfolio or in which the Portfolio Manager is potentially looking to invest. Throughout the busy few days, The Board was very encouraged by what it saw and continues to believe that the rebalancing of China's economy towards being more consumer-led will carry on being the engine of its growth in coming years.

## **Gearing**

The Company entered into a new three year unsecured fixed rate facility agreement with Scotiabank Europe PLC for US\$150,000,000 on 14 February 2017. The interest rate

is fixed at 3.01% per annum until the agreement terminates on 14 February 2020. The new facility was used to replace fully the Company's US\$150,000,000 multicurrency revolving facility agreement which ended on the same day.

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 2017, the Company's gearing, defined as the Gross Asset Exposure in excess of Net Assets, was 27.6% (2016: 27.2%). This is within the limit set by the Company's Prospectus of 30%.

#### **Unlisted Investments**

At the Annual General Meeting ("AGM") in 2016 the shareholders agreed to an increase in the limit of unlisted investments that the Company could hold; from 5% of the fund to 10%. During the year the Company invested in Shanghai Yiguo E-commerce and since the year end has invested in Aurora Mobile. Following an increase in the value of our investment in Didi Chuxing and China Internet Plus, the unlisted investments account for 4% of the fund. A description of each of these four investments can be found in the Annual Report.

#### **Dividend**

The Board recommends a final dividend of 2.50 pence per Ordinary Share for the year ended 31 March 2017 for approval by shareholders at the forthcoming Annual General Meeting. This represents an increase of 38.9% over the 1.80 pence paid in respect of the prior year.

The dividend will be payable on 31 July 2017 to shareholders on the register on 30 June 2017 (ex-dividend date 29 June 2017).

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.

#### **Discount Management**

The company's discount narrowed from 17.2% at the start of the year to 13.2% at the end of the reporting year.

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, as well as the performance of its NAV per share. Recognising these factors, the Board has conducted a detailed review of the discount policy, and it is the Board's belief at present that the discount is best addressed by repurchasing the Company's shares according to market conditions. Any shares repurchased can be held in Treasury or cancelled.

During the reporting year, the Board authorised the repurchase of 1,425,000 ordinary shares by the Company. These shares are held in Treasury. The share repurchases will have benefited all shareholders as the NAV per share has been increased by purchasing the shares at a discount. Since the year end and as at the date of this report, the Company has neither issued nor repurchased any ordinary shares.

The Board is seeking to renew the annual authority to repurchase up to 14.99% of the Company's shares at the forthcoming AGM, as we have done each year previously, and assure shareholders that we will keep both the discount and the share repurchase programme under review. The Directors regularly review and discuss the discount and the ways in which it might be reduced so that the shares can trade at a level closer to the NAV. The Directors also monitor market practice amongst peer group trusts and take regular advice from the Company's Broker.

#### **Fidelity as Manager**

The Board has contracted with Fidelity to manage the fund, through a management agreement. In reviewing Fidelity as Manager, 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.

#### **Management Fee**

Until 31 March 2016, the management fee was calculated and paid on a quarterly basis. With effect from 1 April 2016, it has been calculated and paid by the Company on a monthly basis in order to align the fee with average assets under management and the basis on which ongoing charges are calculated.

#### **Allocation of Expenses**

The Company has, since launch, allocated investment management fees and finance costs equally between revenue and capital. Over the life of the Company, capital returns have contributed considerably more to the total returns of the Company than revenue returns have. The Board feel it is reasonable to expect that future return levels will be

similar and that a proportion larger than the current 50% should be charged to capital. Therefore, with effect from 1 April 2017, 75% of investment management fees and finance costs will be charged to capital and the remaining 25% will be charged to revenue. Whilst the total return will be unaffected by this change, the capital return will decrease and the revenue return will increase. Consequently, the amount available for distribution as dividends out of revenue reserves will increase.

### **Board of Directors**

After serving as Chairman of the Company since its launch, John Owen stepped down from the Board on 22 July 2016, and I succeeded him as Chairman. I would like to take this opportunity to thank him on behalf of the Board and shareholders for his invaluable contribution to the Company.

I am pleased to say that Elisabeth Scott was appointed as the Senior Independent Director on my appointment as Chairman.

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

### **Annual General Meeting – Wednesday, 26 July 2017**

The AGM will be held at 11.00 am on Wednesday 26 July 2017 at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB. Full details of the meeting are given in the Annual Report.

This is an opportunity for shareholders to meet the Portfolio Manager and the Board. I hope that you are able to join us.

### **Nicholas Bull**

Chairman

9 June 2017

## Portfolio Manager's Review

**Dale Nicholls (Portfolio Manager since 1 April 2014) has over twenty years investment experience. He joined Fidelity's Tokyo office in 1996 as an analyst and began to take an interest in the dynamics of the Chinese market. He regularly visited Chinese companies to get a clear view of the key supply and demand dynamics of the industries he covered. In 2003 he became portfolio manager of the Fidelity Pacific Fund and retains management of that portfolio today. He spends much of his time travelling within China to meet the management teams and competitors of companies in which he may or does invest, visiting well over 100 companies a year.**

Despite a fairly large decline in the Chinese market in April/May 2016, the market has significantly rewarded investors over the year. Economic fundamentals have clearly improved and this has been reflected at the company level, with many announcing much improved 2016 annual results. Over this period, the MSCI China Index rose by 37.6% and the Company's NAV outperformed this, posting a 38.8% total return. Pleasingly, the Company's share price recorded an even stronger total return of 45.8%, which also means the share price discount to NAV has closed at 13.2% from a high of almost 20%. However, these total returns are in sterling terms and sterling's depreciation post-Brexit did boost the numbers as the underlying assets held by the Company are in foreign currencies.

## PERFORMANCE REVIEW

The Company's NAV outperformed the MSCI China Index over the review period. Hutchison China Meditech ("HCM"), a longstanding top 10 position in the portfolio, returned over 70%. HCM is a Chinese pharmaceutical company listed on the UK AIM market with a strong traditional Chinese medicine business generating strong cash flows for the company to support its R&D efforts. The company continues to develop its exciting pipeline including a number of advanced oncology drugs where it is teaming up with global multi-nationals like Astra Zeneca. In March 2017, HCM announced positive phase 3 data on a colon cancer drug it is developing called fruquitinib, putting it one step closer to being marketed. Its share price rallied significantly on this news and the Company continues to hold this position with strong prospects from other potential market leading drugs in their pipeline. In addition, HCM dual listed on the Nasdaq market in March 2016, broadening the potential investor base to the US market and its in-depth coverage of the healthcare sector.

China Sanjiang Fine Chemicals was also a major contributor as we saw a significant widening of price spreads across a range of chemical products, and it rallied from very low valuations.

China Meidong Auto, a car dealership based in the Guangdong region, was another contributor to returns. Its share price more than doubled over the year as the company continues to execute its strategy well, integrating acquired businesses against the backdrop of strong auto sales.

The portfolio's holdings in financials detracted from performance against the Index. The largest overweight position relative to the MSCI China Index is China Pacific Insurance. Given the low penetration of life insurance products in China, the growth potential remains significant over the medium-term. The company's focus is on higher margin products and improving its sales force. However, the insurance sector came under regulatory scrutiny following a series of big investments by insurance companies not related to their core business. In addition, there were concerns over their property and casualty business performance. I believe these concerns are overdone and China Pacific Insurance is significantly undervalued.

## MARKET OVERVIEW

On the whole, China has showed signs of economic improvement reflected in a clear acceleration in nominal GDP growth. As mentioned in previous reports, the biggest overhangs to sentiment towards China have been falling economic growth, oversupply in 'old China' industries like steel and coal and the rapid acceleration of credit growth. The government has embarked on a supply-side reform programme that has had meaningful impact. For example, coal mines and steel mills have cut output, which has helped trim some of the oversupply in these sectors, a factor supporting the move of the Producer Price Index ("PPI") into positive territory for the first time in over four years. This has played a role in economic stabilisation as demonstrated in the reported GDP growth of 6.9% in Q1 2017.

The growth in credit remains my greatest concern and so I am encouraged by increased efforts by regulators and The People's Bank of China ("PBOC") to address this, particularly in the shadow banking areas. Growth in corporate debt has clearly slowed. On the issue of reform in general I am hopeful of a renewed focus following the major political transition taking place towards the end of this year. With the majority of the Standing Committee members of the Politburo changing, I believe we will see improved prospects for more reform-minded leadership.

## **INVESTMENT OPPORTUNITIES**

Ultimately the investment returns for the Company are an outcome of the companies in which we invest. While I look for ideas across all industries, here are some areas and themes that I focus on and believe can help drive future returns.

### **Consumer**

The growth of the consumer sector along with changes in the way that people consume have been key investment themes throughout my tenure. It will continue to be an important economic driver over the next five to ten years supported by the natural development of the Chinese middle class and the government's policy of moving from an investment and export led economy towards an economy led by domestic consumption.

As well as rising penetration across a range of categories we see consumers search for higher quality and service, a trend that local companies are tackling with increasing innovation in both product development and marketing. A position in Yihai was initiated at its IPO in July 2016. Yihai manufactures condiments for hot pot, a popular style of cuisine in China, and has a strong market position in the mid to high end segment. It is the main supplier to the Haidilao hot pot restaurant chain, one of China's fastest growing restaurant chains, so it also benefits from the expansion of this business. In addition, Yihai is using its brand recognition at Haidilao to develop a retail business that enables customers to enjoy the same experience at home.

The Company's portfolio is positioned to benefit from the strong outlook for consumption in services, with holdings spanning areas such as restaurants, education, travel, and financial services. Rising internet penetration is also supporting the structural shifts in consumption, with e-commerce continuing to take share from traditional retailing. The fact that ecommerce penetration in China has already surpassed many western markets, including the US, exemplifies the speed of structural change in many parts of the Chinese economy. We are seeing new business models emerge exemplified by growth in online businesses such as flash sales, live video streaming, and a range of education services. The Company holds a position in Ctrip, China's largest online travel agency. China tourism, both domestic and outbound, is a huge market with significant growth potential. Online booking is growing at an even faster rate, and Ctrip is the best positioned business to take advantage of this with over 60% market share. Following its acquisition of Qunar, Ctrip covers all markets from mass to luxury. Ctrip's online traffic continues to grow significantly, which translates to strong and increasing pricing power with hotels and airlines, which in turn should support improving profitability over the medium term.

### **State Owned Enterprises ("SOE"s)**

The portfolio remains very much focused on private companies that will benefit from China's new consumption growth drivers. However, I do not ignore state owned companies, particularly those that have quality assets with potential for the returns on those assets. On the whole the pace of SOE reform has been disappointing relative to the agenda laid out in the 3rd plenum, but there are signs of progress.

A number of SOEs have the potential to benefit from changes in regulation especially around more market-oriented pricing in areas like transportation. The Company's holdings in the airport sector have benefited from recent tariff adjustments and I believe there is good potential for progress in other areas such as railways. Elsewhere, there are also encouraging signs of supply-side reform in certain old economy sectors reflected in falling steel and coal output.

China Petroleum & Chemical is a significant SOE holding. The company is exploring the possibility for the spin-off and IPO of its garage forecourt retail/convenience store business, which along with aggressive plans to develop this business should be positive in terms of recognising its intrinsic value which currently does not seem to be reflected in the company's valuation.

### **Research**

In general, the Company continues to leverage the significant research resources at its disposal to dig deep in the market for smaller companies that are not well covered and understood, and thus offer greater opportunities for mis-pricing. I look for investment ideas across a range of different markets and find significant value in many of the HK listed small caps. With increased connection between markets such as the Stock Connect Program (which allows mainland Chinese investors to buy Hong Kong listed names via the Shanghai and Shenzhen exchanges), I think there is good potential for valuation discrepancies between the market to normalise which could act as a tailwind for these names.

### **Unlisted Companies**

While there is significant opportunity in listed companies focused on China across a range of stock markets, there is a great deal of activity and innovation in exciting companies that have not reached the listing stage. Following last year's shareholder vote, the Company now has the ability to hold up to 10% in unlisted companies, and I see

this ability to gain exposure to a broader subsection of the entrepreneurial activity in China as a key strength of the Company. At the time of writing there are four unlisted holdings now representing around 4% of the portfolio. Firstly Xiaoju Kuaizhi ('Didi Chuxing'), the leading ride-sharing player in China, cemented their dominance in the acquisition of Uber China last year. The second one is China Internet Plus Holdings (formerly 'Meituan'), the leader in China in so-called offline-to-online services. They aim to effectively be the Alibaba of the services sector in areas like food delivery, restaurant reservations and ticket bookings. The third is Shanghai Yiguo E-Commerce ('Yiguo'), a leading fresh food e-commerce company, which aims to create a 'farm-to-table' e-commerce platform. It is the exclusive operator of the fresh food segment on Alibaba's T-Mall Supermarket and both Alibaba and its management team are strategic investors. This is a relatively underdeveloped industry in China and one that offers huge growth potential as consumers become more health conscious whilst also seeking greater convenience. There continues to be a number of interesting unlisted opportunities available across a range of sectors.

Since the end of the financial reporting period, the Company has added a fourth unlisted position in Jiguang, a leading app developer service provider and big data platform in China. By the end of 2016, Jiguang served over 400,000 apps in China and worked with 200,000 developers, holding dominant market share in the "App Push Notification Service" segment in China. Jiguang should structurally benefit from the fast-growing mobile 'software as a service' and big data application market, and has first mover advantage in this field with its depth and unique data granularity.

### **GEARING**

At the beginning of the reporting period the market valuations were at multi-year lows. Reflecting the value in the significant opportunities in the market, the portfolio increased gearing to take advantage of this. Short index positions were added for hedging purposes and short stock positions as valuations on certain stocks became stretched relative to fundamentals. This meant that gross gearing has remained at elevated levels, but net gearing (long positions - active short positions) was slowly reduced to around 122%. More recently, the portfolio has increased short positions as some areas of the market have rallied significantly and valuations look stretched. Overall, the current level of gearing reflects my view that while valuations in general are less compelling, there are still enough attractive opportunities to warrant considerable net exposure to the market.

### **OUTLOOK**

Looking ahead, I remain positive on the investment opportunities that I see in the market in China. Challenges remain but it continues to be a dynamic economy and market, with huge variation in trends between the winners and losers – fertile ground for bottom up stock pickers such as myself. While the market has moved up, valuations on the whole remain compelling in a global context. One wonders if what has become a relatively stable and predictable policy environment compared to much of the West might also start to get reflected in valuations. The gap between China's share of the global economy and its share of global stock markets remains significant, and I remain confident this will close over time. It is a matter of time before A-shares move into global indices. The prospects for an acceleration in the reform process are also improving. Looking back, it has been an exciting, interesting and ultimately fruitful three years in charge of the Company's portfolio. I very much look forward to capitalising on the opportunities in the market to deliver further growth in NAV and the share price.

### **Dale Nicholls**

Portfolio Manager

9 June 2017

## Strategic Report

### Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2014 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. 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 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 risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit 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 to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties facing the Company:

#### Principal Risks

#### Description and Risk Mitigation

##### Market risk

Investing in an emerging market such as the People’s Republic of China (PRC) subjects the Company to a higher level of market risk than investment in a more developed market. This is due, among other things, to the existence of greater market volatility, lower trading volumes, the risk of political and economic instability, legal and regulatory risks, risks relating to accounting practices, disclosure and settlement, a greater risk of market shut down, standards of corporate governance and more governmental limitations on foreign investment than are typically found in developed markets. The Portfolio Manager’s success or failure to protect and increase the Company’s assets against this background is core to the Company’s continued success. The Board reviews material economic, market and legislative changes at each Board meeting.

The Company has exposure to a number of companies with all or part of their business in Variable Interest Entity (“VIE”) structures. These are entities where there is a controlling interest that is not based on the majority of voting rights and may result in a risk to investors being unable to enforce their ownership rights in certain circumstances. The proportion of the portfolio invested in companies operating a VIE structure is monitored on a monthly basis by the Manager and holdings are reported to the Board.

##### Performance risk

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

The Company has a clearly defined strategy and investment remit. There is a clearly defined Management Agreement, and borrowing/derivative limits are also set by the Board. The portfolio is managed by a highly experienced Portfolio Manager. 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 for the market with the Portfolio Manager at each Board meeting. 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.

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

##### Discount control risk

Due to the nature of investment companies, the Board cannot control the discount at which the Company’s share price trades to Net Asset Value. However, it can influence this through its share repurchase policy and through creating demand for 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 are provided in the Chairman’s Statement above.

##### Gearing risk

The Company has the option to invest up to the total of any loan facilities and to use contracts for difference (“CFDs”) to invest in equities. The principal risk is that while in a rising market the Company should benefit from gearing, in a falling market the impact would be

detrimental. 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. Additional geared exposure is achieved through the use of long CFDs. The Board regularly considers gearing and gearing risk.

### **Currency risk**

The functional currency 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 the effect on this loan. Further details can be found in Note 19 to the Financial Statements below.

Other risks facing the Company include:

### **Cybercrime risk**

The risk posed by cybercrime is rated as significant and the Board receives regular updates from the Manager on cybercrime threats. The Manager's technology team continues to take initiatives to strengthen the control environment in relation to such emerging threats.

### **Tax and Regulatory risks**

There is a risk of not complying with the tax and regulatory requirements in the UK, China and Hong Kong.

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 is provided with regular briefings from the Association of Investment Companies as well as details of industry and the Manager's lobbying activities.

### **Operational risks – Service providers**

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. They are subject to a risk-based programme of internal audits by the Manager. In addition, service providers' own internal controls 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 2014 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 consider long-term to be at least five years and accordingly, they believe 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 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 since launch. The Board regularly review the investment policy and considers it to be 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 assumptions:

- The Investment Managers' compliance with the Company's investment objective, 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 which are considered 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**

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

## **Statement of Directors' Responsibilities**

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with International 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 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 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) to the Manager. 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 jurisdictions.

The Directors confirm that to the best of our 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 profit of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The Directors consider 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 9 June 2017 and signed on its behalf by:

**Nicholas Bull**

Chairman

## Income Statement

for the year ended 31 March 2017

	Notes	year ended 31 March 2017			year ended 31 March 2016		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
<b>Revenue</b>							
Investment income	3	20,534	–	20,534	17,571	–	17,571
Derivative income	3	6,182	–	6,182	2,345	–	2,345
Other income	3	162	–	162	118	–	118
<b>Total income</b>		<b>26,878</b>	<b>–</b>	<b>26,878</b>	20,034	–	20,034
Gains/(losses) on investments at fair value through profit or loss	10	–	330,480	330,480	–	(5,445)	(5,445)
Gains on derivative instruments	11	–	17,568	17,568	–	6,832	6,832
Foreign exchange gains/(losses) on other net assets		–	6,936	6,936	(42)	3,281	3,239
Foreign exchange losses on bank loans		–	(15,350)	(15,350)	–	(3,301)	(3,301)
<b>Total income and gains</b>		<b>26,878</b>	<b>339,634</b>	<b>366,512</b>	19,992	1,367	21,359
<b>Expenses</b>							
Investment management and performance fees	4	(5,485)	(5,485)	(10,970)	(4,569)	(13,707)	(18,276)
Other expenses	5	(1,737)	–	(1,737)	(1,911)	–	(1,911)
<b>Profit/(loss) before finance costs and taxation</b>		<b>19,656</b>	<b>334,149</b>	<b>353,805</b>	13,512	(12,340)	1,172
Finance costs	6	(2,809)	(2,809)	(5,618)	(1,499)	(1,499)	(2,998)
Profit/(loss) before taxation		16,847	331,340	348,187	12,013	(13,839)	(1,826)
Taxation	7	(709)	–	(709)	(413)	1,300	887
<b>Profit/(loss) after taxation for the year</b>		<b>16,138</b>	<b>331,340</b>	<b>347,478</b>	11,600	(12,539)	(939)
<b>Earnings/(loss) per Ordinary Share</b>	8	<b>2.92p</b>	<b>60.01p</b>	<b>62.93p</b>	2.07p	(2.24p)	(0.17p)

The Company does not have any income or expenses that are not included in the net profit/(loss) after taxation for the year. Accordingly the net 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 of 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 2017

	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 2016</b>		<b>5,713</b>	<b>211,569</b>	<b>914</b>	<b>338,837</b>	<b>334,204</b>	<b>17,241</b>	<b>908,478</b>
Repurchase of Ordinary Shares		–	–	–	(2,212)	–	–	(2,212)
Profit after taxation for the year		–	–	–	–	<b>331,340</b>	<b>16,138</b>	<b>347,478</b>
Dividend paid	9	–	–	–	–	–	(9,950)	(9,950)
<b>Total equity at 31 March 2017</b>		<b>5,713</b>	<b>211,569</b>	<b>914</b>	<b>336,625</b>	<b>665,544</b>	<b>23,429</b>	<b>1,243,794</b>
<b>Total equity at 31 March 2015</b>		<b>5,713</b>	<b>211,569</b>	<b>914</b>	<b>366,249</b>	<b>346,743</b>	<b>12,947</b>	<b>944,135</b>
Repurchase of Ordinary Shares		–	–	–	(27,412)	–	–	(27,412)
(Loss)/profit after taxation for the year		–	–	–	–	(12,539)	11,600	(939)
Dividend paid	9	–	–	–	–	–	(7,306)	(7,306)
<b>Total equity at 31 March 2016</b>		<b>5,713</b>	<b>211,569</b>	<b>914</b>	<b>338,837</b>	<b>334,204</b>	<b>17,241</b>	<b>908,478</b>

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

## Balance Sheet

as at 31 March 2017

Company number 7133583

	Notes	31 March 2017 £'000	31 March 2016 £'000
<b>Non current assets</b>			
Investments at fair value through profit or loss	10	1,295,266	987,878
<b>Current assets</b>			
Derivative instruments	11	48,639	20,275
Amounts held at futures clearing houses and brokers		2,069	12,740
Other receivables	12	13,154	3,531
Cash and cash equivalents		47,722	30,266
		<u>111,584</u>	<u>66,812</u>
		=====	=====
<b>Current liabilities</b>			
Derivative instruments	11	(33,458)	(28,082)
Bank loans	13	–	(104,315)
Other payables	14	(9,933)	(13,815)
		<u>(43,391)</u>	<u>(146,212)</u>
		-----	-----
<b>Net current assets/(liabilities)</b>		<b>68,193</b>	<b>(79,400)</b>
		-----	-----
<b>Total assets less current liabilities</b>		<b>1,363,459</b>	<b>908,478</b>
		=====	=====
<b>Non-current liabilities</b>			
Bank loans	15	(119,665)	–
		-----	-----
<b>Net assets</b>		<b>1,243,794</b>	<b>908,478</b>
		-----	-----
<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	336,625	338,837
Capital reserve	17	665,544	334,204
Revenue reserve	17	23,429	17,241
		<u>1,243,794</u>	<u>908,478</u>
		=====	=====
<b>Total equity</b>		<b>1,243,794</b>	<b>908,478</b>
		=====	=====
<b>Net asset value per Ordinary Share</b>	18	<b>225.36p</b>	<b>164.18p</b>

The Financial Statements below were approved by the Board of Directors and authorised for issue on 9 June 2017 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 2017

	year ended 31 March 2017 £'000	year ended 31 March 2016 £'000
<b>Operating activities</b>		
Cash inflow from dividend income	19,331	17,375
Cash inflow from derivative income	6,095	2,345
Cash inflow from interest income	162	118
Cash outflow from Directors' fees	(168)	(164)
Cash outflow from other payments	(21,605)	(15,757)
Cash outflow from the purchase of investments	(447,722)	(628,799)
Cash outflow from the purchase of derivatives	(2,705)	(9,340)
Cash inflow from the sale of investments	466,823	628,999
Cash (outflow)/inflow from the settlement of derivatives	(2,715)	65,752
Cash inflow/(outflow) from amounts held at futures clearing houses and brokers	11,130	(11,357)
<b>Net cash inflow from operating activities before servicing of finance</b>	<b>28,626</b>	49,172
<b>Financing activities</b>		
Cash outflow from loan interest paid	(2,310)	(1,533)
Cash outflow from CFD interest paid	(2,042)	(992)
Cash outflow from short CFD dividends paid	(1,084)	(384)
Cash outflow from the repurchase of Ordinary Shares	(2,720)	(26,904)
Cash outflow from dividends paid to shareholders	(9,950)	(7,306)
<b>Cash outflow from financing activities</b>	<b>(18,106)</b>	(37,119)
<b>Increase in cash and cash equivalents</b>	<b>10,520</b>	12,053
Cash and cash equivalents at the start of the year	30,266	14,932
Effect of foreign exchange movements	6,936	3,281
<b>Cash and cash equivalents at the end of the year</b>	<b>47,722</b>	30,266

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. 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.

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

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IFRS 16: Leases

It is anticipated that the adoption of these IFRS in future periods will have no material effect on the financial position and performance of the Company.

**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 net revenue profit after taxation 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 and the assumptions made 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 derivative instruments 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 income is accounted for on an accruals basis.

**g) Functional currency and foreign exchange** – The Directors, having regard to the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be UK sterling. Transactions denominated in foreign currencies are calculated in UK sterling at the rate of exchange ruling at the date of the transactions. 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 and performance fees and other expenses** – These are accounted for on an accruals basis and are charged as follows:

- The investment management fee is allocated equally between revenue and capital (with effect from 1 April 2017, it will be allocated 25% to revenue and 75% capital);
- Any performance fee, if due, is allocated entirely to capital, as the Board believe it reflects the capital performance of the Company's investments; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

**i) Finance costs** – Finance costs comprise interest and fees on bank loans and overdrafts and interest paid on CFDs, which are accounted for on an accruals basis using the effective interest method, 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 equally between revenue and capital (with effect from 1 April 2017, they will be allocated 25% to revenue and 75% to capital).

**j) Taxation** – The taxation expense 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) Dividends 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. Investments are designated by the Company as 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 recent arm's length transactions in the same or similar investments.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments within 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. Derivatives are classified as 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 quoted trade price for the contract; and
- Options – valued based on similar instruments.

Where such transactions are used to protect or enhance income, if the circumstances support this, then 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 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 in the Balance Sheet at their fair value within current assets or current liabilities.

The Company obtains equivalent exposure to Chinese and Hong Kong equities through the use of CFDs. All gains and losses in the fair value of the CFDs are included in 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 margin accounts with brokers and clearing houses 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. Debtors are recognised initially at fair value measured at either their contractual settlement amounts or at amortised cost using the effective interest rate method.

**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, performance fees payable, 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;
- Performance fees;
- 50% of investment management fees (with effect from 1 April 2017: 75%);
- 50% of finance costs (with effect from 1 April 2017: 75%);
- 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 £8,448,000 (2016: £3,392,000).

### 3 Income

	<b>Year ended 31.03.17 £'000</b>	Year ended 31.03.16 £'000
<b>Investment income</b>		
Overseas dividends	<b>20,278</b>	17,546
Overseas scrip dividends	<b>256</b>	25
	<b>20,534</b>	17,571
<b>Derivative income</b>		
Dividends on long CFDs	<b>6,170</b>	2,340
Interest on short CFDs	<b>12</b>	5
	<b>6,182</b>	2,345
<b>Other Income</b>		
Deposit interest	<b>162</b>	118

<b>Total income</b>	<b>26,878</b>	20,034
	=====	=====

#### 4 Investment Management and Performance Fees

	Year ended 31 March 2017			Year ended 31 March 2016		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Investment management fee	5,485	5,485	10,970	4,569	4,569	9,138
Performance fee	-	-	-	-	9,138	9,138
	-----	-----	-----	-----	-----	-----
	<b>5,485</b>	<b>5,485</b>	<b>10,970</b>	4,569	13,707	18,276
	=====	=====	=====	=====	=====	=====

FIL Investment Services (UK) Limited (a Fidelity group company) is the Company's Alternative Investment Fund Manager ("the Manager") and has delegated portfolio management to FIL Investment Management (Hong Kong) Limited and FIL Investments International ("the Investment Managers"). The Investment Managers provided investment management services for an annual fee of 1.0% of the net asset value ("NAV"). Fees are payable monthly in arrears and are calculated on the last business day of each month.

In addition, the Investment Managers are entitled to an annual performance fee of 15.0% of any change in the NAV per Ordinary Share attributable to performance which is more than 2% above the return on the MSCI China Index, subject to a maximum performance fee payable in any year equal to 1.0% of the arithmetic mean of the NAV calculated at the end of each month during the year. Any out-performance above the cap is lost. If the Company's NAV performance in any year is less than 2% above the return on the MSCI China Index, the under-performance must be made good before any further performance fee becomes payable. Both the NAV per Ordinary Share and the MSCI China Index are calculated on a total return basis.

There is no performance fee payable this year. For 2016 a performance fee of £9,138,000 was paid, which was capped at an amount equal to 1.0% of the arithmetic mean of the NAV calculated at the end of each month during the year.

#### 5 Other Expenses

	Year ended 31.03.17 £'000	Year ended 31.03.16 £'000
AIC fees	20	20
Custody fees	231	420
Depositary fees	61	62
Directors' expenses	61	62
Directors' fees*	172	164
Legal and professional fees	94	76
Marketing expenses	257	230
Printing and publication expenses	107	122
Registrars' fees	46	72
Secretarial and administration fees payable to the Investment Managers	600	600
Other expenses	60	55
Fees payable to the Independent Auditor for the audit of the Financial Statements	28	28
	-----	-----
	<b>1,737</b>	1,911
	=====	=====

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

#### 6 Finance Costs

Year ended 31 March 2017

Year ended 31 March 2016

	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Interest on bank loans and overdrafts	1,278	1,278	2,556	794	794	1,588
Interest paid on CFDs	989	989	1,978	513	513	1,026
Dividends paid on short CFDs	542	542	1,084	192	192	384
	<u>2,809</u>	<u>2,809</u>	<u>5,618</u>	<u>1,499</u>	<u>1,499</u>	<u>2,998</u>

## 7 Taxation

	Year ended 31 March 2017			Year ended 31 March 2016		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
<b>a) Analysis of the taxation (credit)/charge for the year</b>						
Overseas taxation charge	709	–	709	413	–	413
Overseas capital gains tax credit	–	–	–	–	(1,300)	(1,300)
Taxation charge/(credit) for the year (see Note 7b)	<u>709</u>	<u>–</u>	<u>709</u>	<u>413</u>	<u>(1,300)</u>	<u>(887)</u>

## b) Factors affecting the taxation (credit)/charge for the year

The taxation charge/(credit) for the year is lower than the standard rate of UK corporation tax for an investment trust company of 20% (2016: 20%). A reconciliation of the standard rate of UK corporation tax to the taxation charge/(credit) for the year is shown below:

	Year ended 31 March 2017			Year ended 31 March 2016		
	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Profit/(loss) before taxation	16,847	331,340	348,187	12,013	(13,839)	(1,826)
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 20% (2016: 20%)	3,369	66,268	69,637	2,403	(2,768)	(365)
Effects of:						
Gains on investments not taxable*	–	(67,365)	(67,365)	–	(150)	(150)
Income not taxable	(4,086)	–	(4,086)	(3,374)	–	(3,374)
Excess expenses	717	1,097	1,814	971	2,918	3,889
Overseas taxation	709	–	709	413	–	413
Overseas capital gains tax	–	–	–	–	(1,300)	(1,300)
<b>Taxation charge/(credit) (Note 7a)</b>	<u>709</u>	<u>–</u>	<u>709</u>	<u>413</u>	<u>(1,300)</u>	<u>(887)</u>

\* 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 £15,657,000 (2016: £14,870,000), in respect of excess expenses of £92,102,000 (2016: £82,613,000) 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

Earnings/(loss) per Ordinary Share – basic and diluted	Year ended 31 March 2017			Year ended 31 March 2016		
	revenue	capital	total	revenue	capital	total
	2.92p	60.01p	62.93p	2.07p	(2.24p)	(0.17p)
	=====	=====	=====	=====	=====	=====

Earnings/(loss) per Ordinary Share are based on the revenue profit after taxation for the year of £16,138,000 (2016: £11,600,000), the capital profit after taxation for the year of £331,340,000 (2016: loss £12,539,000) and the total profit after taxation for the year of £347,478,000 (2016: loss £939,000) and on 552,192,288 (2016: 559,532,936) Ordinary Shares, being the weighted average number of Ordinary Shares held outside Treasury in issue 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 31.03.17 £'000	Year ended 31.03.16 £'000
<b>Dividend paid</b>		
Dividend paid of 1.80 pence per Ordinary Share for the year ended 31 March 2016	9,950	–
Dividend paid of 1.30 pence per Ordinary Share for the year ended 31 March 2015	–	7,306
	-----	-----
	9,950	7,306
	=====	=====
<b>Dividend proposed</b>		
Dividend proposed of 2.50 pence per Ordinary Share for the year ended 31 March 2017	13,798	–
Dividend proposed of 1.80 pence per Ordinary Share for the year ended 31 March 2016	–	9,950
	-----	-----
	13,798	9,950
	=====	=====

The Directors have proposed the payment of a dividend for the year ended 31 March 2017 of 2.50 pence per Ordinary Share which is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The dividend will be paid on 31 July 2017 to shareholders on the register at the close of business on 30 June 2017 (ex-dividend date 29 June 2017).

## 10 Investments at Fair Value through Profit or Loss

	2017 £'000	2016 £'000
<b>Total investments*</b>	1,295,266	987,878
	-----	-----
Opening book cost	944,097	817,499
Opening investment holding gains	43,781	183,544
	-----	-----
Opening fair value of investments	987,878	1,001,043
<b>Movements in the year</b>		
Purchases at cost	453,047	621,679
Sales – proceeds	(476,139)	(629,399)
Sales – gains in the year	124,398	134,318
Movement in investment holding gains/(losses) in the year	206,082	(139,763)
	-----	-----
<b>Closing fair value of investments</b>	1,295,266	987,878
	=====	=====

Closing book cost	1,045,403	944,097
Closing investment holding gains	249,863	43,781
	-----	-----
<b>Closing fair value of investments</b>	<b>1,295,266</b>	<b>987,878</b>
	=====	=====

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

	Year ended 31.03.17 £'000	Year ended 31.03.16 £'000
<b>Gains/(losses) on investments</b>		
Gains on sales of investments	124,398	134,318
Investment holding gains/(losses)	206,082	(139,763)
	-----	-----
	<b>330,480</b>	<b>(5,445)</b>
	=====	=====

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

	Year ended 31.03.17 £'000	Year ended 31.03.16 £'000
<b>Investment transaction costs</b>		
Purchases transaction costs	607	1,429
Sales transaction costs	719	1,254
	-----	-----
	<b>1,326</b>	<b>2,683</b>
	=====	=====

The portfolio turnover rate for the year was 40.4% (2016: 63.9%).

## 11 Derivative instruments

	Year ended 31.03.17 £'000	Year ended 31.03.16 £'000
<b>Net gains on derivative instruments</b>		
Realised gains on CFDs	2,269	34,593
Realised (losses)/gains on futures	(4,983)	12,865
Realised (losses)/gains on options	(464)	7,688
Realised losses on warrants	-	(2)
Movement on investment holding gains/(losses) on CFDs	21,983	(47,305)
Movement on investment holding gains/losses on futures	1,000	(514)
Movement on investment holding losses on options	(2,237)	(355)
Movement on investment holding losses on warrants	-	(138)
	-----	-----
	<b>17,568</b>	<b>6,832</b>
	=====	=====

<b>2017</b>	2016
<b>fair value</b>	fair value

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

	<b>£'000</b>	£'000
Derivative instrument assets	<b>48,639</b>	20,275
Derivative instrument liabilities	<b>(33,458)</b>	(28,082)
	<b>15,181</b>	(7,807)
	=====	=====

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

	<b>2017</b>		<b>2016</b>
	<b>gross asset</b>		<b>gross asset</b>
	<b>exposure</b>	<b>fair value</b>	<b>exposure</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At the year end the Company held the following derivative instruments</b>			
Long CFDs	<b>20,370</b>	<b>313,013</b>	(5,583)
Short CFDs	<b>(2,572)</b>	<b>32,382</b>	–
Short CFDs (hedging exposure)	<b>(3,108)</b>	<b>(21,510)</b>	(1,710)
Futures (hedging exposure)	<b>487</b>	<b>(26,599)</b>	(514)
Put options (hedging exposure)	<b>4</b>	<b>(5,699)</b>	–
	<b>15,181</b>	<b>291,587</b>	(7,807)
	=====	=====	=====

**12 Other Receivables**

	<b>2017</b>	2016
	<b>£'000</b>	£'000
Securities sold for future settlement	<b>12,487</b>	3,171
Accrued income	<b>621</b>	296
Other receivables	<b>46</b>	64
	<b>13,154</b>	3,531
	=====	=====

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

	<b>2017</b>	2016
	<b>£'000</b>	£'000
<b>Variable rate unsecured US dollar loan</b>		
US dollar 150,000,000 @ 1.82%	<b>–</b>	104,315
	=====	=====

The US\$150,000,000 variable rate, unsecured, revolving loan facility with Scotiabank Europe PLC ended on 14 February 2017 and the loan was replaced by a longer-term loan, as disclosed in Note 15 below.

**14 Other Payables**

	<b>2017</b>	2016
	<b>£'000</b>	£'000
Securities purchased for future settlement	<b>6,104</b>	1,035
Amount payable on share repurchases	<b>–</b>	508
Performance fee	<b>–</b>	9,138

Investment management, secretarial and administration fees	3,041	2,407
Accrued expenses	788	727
	-----	-----
	<b>9,933</b>	13,815
	=====	=====

#### 15 Bank Loans – repayable after more than one year

	<b>2017</b>	2016
	<b>£'000</b>	£'000
<b>Fixed rate unsecured US dollar loan</b>		
US dollar 150,000,000 @ 3.01%	<b>119,665</b>	–
	=====	=====

On 14 February 2017 the Company entered into a new 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

	2017		2016	
	Number of shares	£'000	Number of shares	£'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>	553,339,480	5,533	571,254,480	5,712
Ordinary Shares repurchased into Treasury	(1,425,000)	(14)	(17,915,000)	(179)
	-----	-----	-----	-----
<b>End of the year</b>	<b>551,914,480</b>	<b>5,519</b>	553,339,480	5,533
	=====	=====	=====	=====
<b>Held in Treasury</b>				
<b>Beginning of the year</b>	18,015,000	180	100,000	1
Ordinary Shares repurchased into Treasury	1,425,000	14	17,915,000	179
	-----	-----	-----	-----
<b>End of the year</b>	<b>19,440,000</b>	<b>194</b>	18,015,000	180
	=====	=====	=====	=====
<b>Total share capital</b>		<b>5,713</b>		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 1,425,000 (2016: 17,915,000) Ordinary Shares were repurchased and held in Treasury. The £2,212,000 (2016: £27,412,000) cost of these repurchases 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 £1,243,794,000 (2016: £908,478,000) and on 551,914,480 (2016: 553,339,480) Ordinary Shares, being the number of Ordinary Shares held outside Treasury in issue 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, performance, discount control, gearing and currency risks. Other risks identified are tax and regulatory risks and operational risks, including those relating to third party service providers covering investment management,

marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. Risks identified are shown above.

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

The Company's financial instruments may comprise:

- Equity shares, 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 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 (2016: unsecured variable rate loan facility for US\$150,000,000, expired on 14 February 2017). The Company has drawn down the whole of this facility as disclosed in Note 15 above.

#### Interest rate risk exposure

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

	2017	2016
	£'000	£'000
<b>Exposure to financial instruments that bear interest</b>		
Long CFDs – exposure less fair value	292,643	210,251
Bank loans	119,665	104,315
	-----	-----

	412,308	314,566
	=====	=====
<b>Exposure to financial instruments that earn interest</b>		
Short CFDs exposure plus fair value	48,212	15,108
Cash at bank	47,722	30,266
Amounts held at futures clearing houses and brokers	2,069	12,740
	-----	-----
	98,003	58,114
	=====	=====
<b>Net exposure to financial instruments that bear interest</b>	314,305	256,452
	=====	=====

#### Foreign currency risk

The Company's net profit/(loss) after taxation and its net assets can be affected by foreign exchange rate 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 equity investments, long positions on derivative instruments, short-term debtors and cash and cash equivalents. The currency profile of these financial assets is shown below:

					2017
	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	total £'000
Australian dollar	3,735	-	-	-	3,735
Canadian dollar	1,307	-	-	-	1,307
Chinese renminbi	125,179	-	-	49,048	174,227
Hong Kong dollar	654,474	259,205	14,725	(1,679)	926,725
Singapore dollar	4,560	-	-	1	4,561
South Korean won	5,097	-	36	4	5,137
Taiwan dollar	41,200	-	-	333	41,533
UK sterling	53,132	-	47	1	53,180
US dollar	406,582	-	415	14	407,011
	-----	-----	-----	-----	-----
	1,295,266	259,205	15,223	47,722	1,617,416
	=====	=====	=====	=====	=====

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	exposure to long derivative instruments <sup>1</sup> £'000	other receivables <sup>2</sup> £'000	cash and cash equivalents £'000	total £'000
Australian dollar	2,564	–	–	–	2,564
Canadian dollar	925	–	–	–	925
Chinese renminbi	162,042	–	–	30,039	192,081
Hong Kong dollar	545,809	167,469	3,382	87	716,747
Singapore dollar	7,475	–	–	–	7,475
Taiwan dollar	36,790	–	285	124	37,199
UK sterling	37,247	–	58	3	37,308
US dollar	195,026	–	12,546	13	207,585
	-----	-----	-----	-----	-----
	987,878	167,469	16,271	30,266	1,201,884
	=====	=====	=====	=====	=====

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, US dollar denominated bank loans and other payables. The currency profile of these financial liabilities is shown below.

	<b>2017</b>			
currency	gross asset exposure to short derivative instruments* £'000	US dollar bank loans £'000	other payables £'000	total £'000
Hong Kong dollar	32,382	–	3,625	36,007
Taiwan dollar	–	–	27	27
UK sterling	–	–	3,356	3,356
US dollar	–	119,665	2,925	122,590
	-----	-----	-----	-----
	32,382	119,665	9,933	161,980
	=====	=====	=====	=====

\* The gross asset exposure of short derivative instruments excluding hedging exposures

	<b>2016</b>			
currency	gross asset exposure to short derivative instruments* £'000	US dollar bank loans £'000	other payables £'000	total £'000
Hong Kong dollar	–	–	1,019	1,019

Taiwan dollar			20	20
UK sterling			12,549	12,549
US dollar		104,315	227	104,542
	-----	-----	-----	-----
		104,315	13,815	118,130
	=====	=====	=====	=====

\* The gross asset exposure of short derivative instruments excluding hedging exposures

#### Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments. It represents the potential loss the Company might suffer through price movements in its investment positions.

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

The Board meets quarterly to review the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective.

#### Liquidity

The Company's assets mainly comprise readily realisable securities which can be sold to meet funding commitments if necessary. Short term flexibility is achieved by the use of a bank overdraft, if required. The Company has the facility to borrow up to US\$150,000,000 (2016: US\$150,000,000) until 14 February 2020. The current borrowing is shown in Note 15 above. Other financial liabilities are repayable within one year.

#### Counterparty risk

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

#### Collateral

For OTC and exchange traded derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 March 2017, £23,717,000 (2016: £3,121,000) was received from brokers and held, in a segregated collateral account, on behalf of the Company to reduce the credit risk exposure of the Company. This collateral comprised: Deutsche Bank AG £9,689,000 in European Government bonds denominated in euros and UBS AG £14,028,000 in UK Government bonds denominated in Sterling. £2,069,000 (2016: £12,740,000), shown as amounts held at futures clearing houses and brokers on the Balance Sheet, was held by the Company, in a segregated collateral account, on behalf of the brokers to reduce the credit risk exposure of the brokers. This collateral comprised: HSBC Bank plc £415,000 in cash and UBS AG £1,654,000 in cash.

#### Offsetting

To further mitigate counterparty risk for OTC derivative transactions, the ISDA legal documentation is in the form of a master agreement between the Investment Trusts managed by Fidelity and the broker. This allows enforceable netting arrangements in the event of a default or termination event. Derivative instrument assets and liabilities that are subject to netting arrangements have not been offset in preparing the Balance Sheet.

The Company's derivative instrument financial assets and liabilities recognised on the Balance Sheet and collateral amounts that could be subject to netting in the event of a default or termination are shown below:

Gross amount of recognised financial liabilities	Net amount of financial assets	Related amounts not set off on the Balance Sheet	Margin
---	--------------------------------------	---	--------

2017



### Credit risk

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

### Derivative instruments 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 would have decreased the profit after taxation for the year and decreased the net assets of the Company by £487,000 (2016: increased the loss after taxation and decreased the net assets by £641,000). 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 the exchange rates ruling at the Balance Sheet date, a strengthening of the UK sterling exchange rate by 10% against other currencies would have decreased the net profit after taxation for the year (2016: increased the net loss) and decreased the net assets of the Company by the following amounts:

<b>currency</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Australian dollar	<b>340</b>	233
Canadian dollar	<b>119</b>	84
Chinese renminbi	<b>15,839</b>	17,462
Hong Kong dollar	<b>68,726</b>	49,132
Singapore dollar	<b>415</b>	680
South Korean won	<b>467</b>	–
Taiwan dollar	<b>3,778</b>	3,380
US dollar	<b>48,159</b>	9,368
	<b>137,843</b>	80,339

### Derivative instruments 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 would have decreased the profit after taxation for the year and decreased the net assets of the Company by £487,000 (2016: increased the loss after taxation and decreased the net assets by £641,000). 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 the exchange rates ruling at the Balance Sheet date, a strengthening of the UK sterling exchange rate by 10% against other currencies would have decreased the net profit after taxation for the year (2016: increased the net loss) and decreased the net assets of the Company by the following amounts:

	2017	2016
<b>currency</b>	<b>£'000</b>	<b>£'000</b>
Australian dollar	340	233
Canadian dollar	119	84
Chinese renminbi	15,839	17,462
Hong Kong dollar	68,726	49,132
Singapore dollar	415	680
South Korean won	467	–
Taiwan dollar	3,778	3,380
US dollar	48,159	9,368
	-----	-----
	<b>137,843</b>	<b>80,339</b>
	=====	=====

Based on the financial assets and liabilities held and the exchange rates ruling at the Balance Sheet date, a weakening of the UK sterling exchange rate by 10% against other currencies would have increased the net profit after taxation for the year (2016: decreased the net loss) and increased the net assets of the Company by the following amounts:

	2017	2016
<b>currency</b>	<b>£'000</b>	<b>£'000</b>
Australian dollar	415	285
Canadian dollar	145	103
Chinese renminbi	19,359	21,342
Hong Kong dollar	83,999	60,050
Singapore dollar	507	831
South Korean won	571	–
Taiwan dollar	4,618	4,131
US dollar	58,861	11,449
	-----	-----
	<b>168,475</b>	<b>98,191</b>
	=====	=====

### Other price risk sensitivity analysis

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

An increase of 10% in the share prices of the investments held at the Balance Sheet date would have increased the profit after taxation for the year and increased the net assets of the Company by £129,527,000 (2016: decreased the loss after taxation and increased the net assets by £98,788,000). A decrease of 10% in the share prices of the investments designated at fair value through profit or loss 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 increased the profit after taxation for the year and increased the net assets of the Company by £22,682,000 (2016: decreased the loss after taxation and

increased the net assets by £16,747,000). A decrease of 10% in the 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.

	fair value £'000	2017 book value £'000	fair value £'000	2016 book value £'000
Fixed rate unsecured loan of US dollar 150,000,000	119,098	119,665	104,790	104,315
	=====	=====	=====	=====

### Fair Value Hierarchy

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

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

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

	level 1 £'000	level 2 £'000	level 3 £'000	2017 total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments – shares	1,255,115	–	37,179	1,292,294
Investments – equity linked notes	–	2,972	–	2,972
Derivative instruments	487	48,152	–	48,639
	-----	-----	-----	-----
	1,255,602	51,124	37,179	1,343,905
	=====	=====	=====	=====
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instruments	–	(33,458)	–	(33,458)
	=====	=====	=====	=====
<b>Financial liabilities at amortised cost</b>				
Bank loan	–	(119,098)	–	(119,098)
	=====	=====	=====	=====
<b>Financial assets at fair value through profit or loss</b>				2016 total £'000
Investments – shares	963,712	–	20,317	984,029
Investments – equity linked notes	–	3,849	–	3,849
Derivative instruments	–	20,275	–	20,275
	-----	-----	-----	-----
	963,712	24,124	20,317	1,008,153

<b>Financial liabilities at fair value through profit or loss</b>	=====	=====	=====	=====
Derivative instruments	-	(28,082)	-	(28,082)
<b>Financial liabilities at amortised cost</b>				
Bank loan	-----	-----	-----	-----
	-	(104,790)	-	(104,790)
	=====	=====	=====	=====

		<b>2017</b>	2016
<b>Level 3 investments – unlisted securities</b>		<b>£'000</b>	£'000
Xiaoju Kuaizhi Inc (“Didi Chuxing”)		<b>17,235</b>	13,363
Shanghai Yiguo E-commerce (“Yiguo”)		<b>11,967</b>	-
China Internet Plus Holdings		<b>7,977</b>	6,954
		-----	-----
		<b>37,179</b>	20,317
		=====	=====

#### **Xiaoju Kuaizhi Inc (“Didi Chuxing”)**

Didi Chuxing is a leading Chinese e-commerce company providing transport services. It is an unlisted company incorporated in the Cayman Islands. The Company holds 565,153 preference shares in Didi Chuxing, which represent 0.1% of the preference shares in issue. The Company’s holding was purchased in August 2015 at a cost of £9,971,000. The valuation of Didi Chuxing was increased in January 2016, based on a secondary transaction in the shares, and at 31 March 2016 its fair value was £13,363,000. The valuation was again increased in May 2016 based on the price of shares issued when US\$1.4bn of funding was raised and at 31 March 2017 its fair value was £17,235,000.

Since the year end there has been another funding round raising about US\$5.5bn. Based on the price of this event the valuation of Didi Chuxing was increased by 33% in May 2017. If this price increase had been applied at 31 March 2017 the uplift in the value of Didi Chuxing would have increased the net assets of the Company by 0.5%.

		<b>2017</b>	2016
<b>Movements in level 3 investments during the year</b>		<b>level 3</b>	level 3
		<b>£'000</b>	£'000
Level 3 Investments at the beginning of the year		<b>20,317</b>	160
Purchases at Cost		<b>11,806</b>	17,664
Transfers into Level 3*		-	8,767
Unrealised profits recognised in the Income Statement		<b>5,056</b>	3,392
Losses recognised in the Income Statement		-	(9,666)
		-----	-----
<b>Level 3 investments at the end of the year</b>		<b>37,179</b>	20,317
		=====	=====

\* Financial instruments are transferred 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 Annual Report. The principal risks and their management are disclosed in the Strategic Report and in Note 19 above.

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

<b>Gross asset exposure</b>		<b>2017</b>	2016
		<b>£'000</b>	£'000

Investments	1,295,266	987,878
Long CFDs	313,013	204,668
	-----	-----
<b>Total long exposures before hedges</b>	<b>1,608,279</b>	1,192,546
	=====	=====
Less: short derivatives instruments hedging the above	<b>(53,808)</b>	(37,199)
<b>Total long exposures after the netting of hedges</b>	<b>1,554,471</b>	1,155,347
	=====	=====
Short CFDs	32,382	-
	-----	-----
<b>Gross Asset Exposure</b>	<b>1,586,853</b>	1,155,347
	=====	=====
<b>Net assets</b>	<b>1,243,794</b>	908,478
	=====	=====
<b>Gearing (Gross Asset Exposure in excess of Net Assets)</b>	<b>27.6%</b>	27.2%
	=====	=====

## 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 fee arrangements are given in the Directors' Report in the Annual Report. During the year management fees of £10,970,000 (2016: £9,138,000), performance fees of nil (2016: £9,138,000) and accounting, administration and secretarial fees of £600,000 (2016: £600,000) were payable to the Managers. At the Balance Sheet date, management fees of £2,891,000 (2016: £2,257,000), performance fees of nil (2016: £9,138,000) and accounting, administration and secretarial fees of £150,000 (2016: £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 £257,000 (2016: £230,000). At the Balance Sheet date £39,000 (2016: £80,000) was accrued and included in other payables.

Disclosures of the Directors' interests in the ordinary shares of the Company and fees and taxable benefits, relating to reasonable travel expenses, payable to the Directors are given in the Directors' Remuneration Report section of the Annual Report. The Directors received compensation of £194,000 (2016: £179,000). In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report, this amount includes £20,000 (2016: £15,000) of employers' National Insurance Contributions paid by the Company.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 March 2017 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 2016 and 2017 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 2016 is derived from the statutory accounts for 2016 which have been delivered to the Registrar of Companies. The 2017 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 on 21 June 2017 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 26 July 2017 at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB.

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