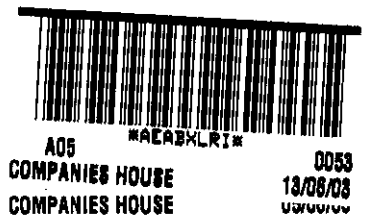


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**FIDELITY**



**Annual Report for the year ended  
31 December  
2002**

# Company Summary

as at 31 December 2002

<b>Investment objective</b>	To achieve long-term capital growth from an actively managed portfolio of securities primarily of small and medium-sized Japanese companies listed or traded on Japanese stockmarkets.	
<b>Reference points</b>	TSE First Section Index, TSE Second Section Index, FTSE Japan Index, Nikkei OTC Index and Russell Nomura Mid/Small Index.	
<b>Management company</b>	Fidelity Investments International	
<b>Total assets employed</b>	£58.7m	
<b>Shareholders' funds</b>	£42.1m	
<b>Market capitalisation</b>	£34.4m	
<b>Capital structure</b>	ordinary shares of 25p	98,206,253 in issue
	warrants	20,396,547 in issue
<b>Continuation vote</b>	Annual General Meeting in 2004 and every three years thereafter.	
<b>Management &amp; secretarial fee</b>	Fidelity provides management, accounting, administrative and secretarial services to the Company under an agreement entered into on 22 February 1994, which is terminable by either party at any time by giving one year's notice in writing. The agreement provides for a fee at the rate of 1% per annum (plus VAT) of the value of the total assets under management, calculated and payable quarterly in arrear, as of the last business day of March, June, September and December in each year. In computing total assets the value of any investment in any fund which is managed by the Manager, or an Associate of the Manager, is excluded. Secretarial and accounting services are charged at a fixed fee (subject to annual indexation), currently £30,501 per annum, payable quarterly in arrear.	
<b>Membership of AITC</b>	The Company is a member of the AITC under the Japanese Smaller Companies Sector.	
<b>Investment trust status</b>	The Inland Revenue has granted the Company approval as an investment trust under s842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 December 2000 and provisional approval for the accounting period ended 31 December 2001. The Directors are of the opinion that since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section.	
<b>ISA status</b>	Investment limit £7,000 in the 2002/2003 tax year.	

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## Summary of Results

	2002	2001	% change*
<b>Assets at 31 December</b>			
Total assets employed	£58.67m	£70.62m	-16.9
Shareholders' funds	£42.05m	£53.92m	-22.0
Borrowings as % of shareholders' funds	39.5%	31.0%	
Borrowings less cash as % of shareholders' funds	32.6%	28.2%	
Net asset value per share (NAV)	42.82p	53.12p	-19.4
<b>Results for year to 31 December - see page 30</b>			
Capital loss per ordinary share	(9.83p)	(15.70p)	
Revenue loss per ordinary share	(0.69p)	(1.22p)	
<b>Stockmarket Data at 31 December</b>			
TSE First Section Index (TSE 1)†	4.41	5.41	-18.5
TSE Second Section Index (TSE 2)†	7.77	8.93	-13.0
FTSE Japan Index†	70.36	86.58	-18.7
Nikkei OTC Index†	5.19	5.97	-13.1
Russell Nomura Mid/Small Index† (new benchmark)	1.10	1.29	-14.7
Yen/£ exchange rate	191.05	190.74	-0.2
Share price			
year end	35.00p	41.25p	-15.2
high	64.75p	75.50p	
low	34.50p	40.25p	
Discount			
year end	18.3%	22.3%	
low	2.3%	7.2%	
high	22.4%	23.2%	
Warrant price			
year end	1.50p	7.50p	-80.0
high	9.75p	26.50p	
low	1.50p	6.50p	
<b>Returns for the year to 31 December (%)</b>			
TSE First Section Index†	-18.5	-28.1	
TSE Second Section Index†	-13.0	-21.3	
FTSE Japan Index†	-18.7	-28.0	
Nikkei OTC Index†	-13.1	-18.0	
Russell Nomura Mid/Small Index† (new benchmark)	-14.7	-21.4	
NAV	-19.4	-23.9	
Share price	-15.2	-35.3	
Warrant price	-80.0	-47.4	
<b>Total Expense Ratios‡</b>			
Total assets employed	1.23%	1.40%	
Shareholders' funds	1.63%	1.93%	

\* price change

† sterling adjusted

‡ operating expenses (excluding interest before tax) based on average total assets less current liabilities excluding fixed-term loans and shareholders' funds at the end of each month.

## Summary of Performance

<b>Historical Record</b> as at 31 December	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994<sup>†</sup></b>
Total assets employed (£m)	<b>59</b>	71	100	215	59	48	72	93	90
Shareholders' funds (£m)	<b>42</b>	54	73	186	42	33	56	84	90
NAV per share - undiluted	<b>42.82p</b>	53.12p	69.81p	176.88p	40.20p	31.48p	53.12p	79.54p	85.60p
NAV per share - diluted	<b>n/a</b>	n/a	n/a	164.07p	n/a	n/a	n/a	n/a	n/a
Share price	<b>35.00p</b>	41.25p	63.75p	161.75p	28.75p	26.50p	47.25p	75.00p	83.50p
Warrant price	<b>1.50p</b>	7.50p	14.25p	82.50p	4.75p	6.50p	11.25p	28.00p	36.00p
Discount to NAV	<b>18.3%</b>	22.3%	8.7%	1.4%	28.5%	15.8%	11.1%	5.7%	2.5%
Basic earnings per ordinary share	<b>(0.69p)</b>	(1.22p)	(2.01p)	(1.64p)	(0.65p)	(0.66p)	(0.99p)	0.17p	0.23p
Dividend per ordinary share	<b>nil</b>	nil	nil	nil	nil	nil	nil	0.10p	0.10p
Cost of running trust (total expense ratio*)	<b>1.63%</b>	1.93%	1.52%	1.50%	1.88%	1.66%	1.45%	1.34%	1.02%
Actual gearing ratio	<b>32.6%</b>	28.2%	28.3%	11.6%	23.9%	24.5%	17.1%	9.9%	nil
NAV - undiluted performance	<b>-19.4%</b>	-23.9%	-60.5%	+340.0%	+27.7%	-40.7%	-33.2%	-7.1%	-10.8%
Share price performance	<b>-15.2%</b>	-35.3%	-60.6%	+462.6%	+8.5%	-43.9%	-37.0%	-10.2%	-16.5%

### Performance from launch to 31 December 2002

### Performance relative to the index from launch to 31 December 2002

### Undiluted NAV, share price and warrant price from launch to 31 December 2002

### Share price discount to NAV from launch to 31 December 2002

<sup>†</sup> from launch 15 March 1994 to 31 December 1994

\* operating expenses (excluding interest before tax) based on average shareholders' funds at the end of each month.

## Board of Directors

### **Alex Hammond-Chambers**<sup>†</sup>

(Chairman) (age 60, date of appointment: 10 February 1994) a former Chairman of Ivory & Sime plc, he is also Chairman of Fidelity Special Values PLC, American Opportunity Trust PLC, Aurora Investment Trust plc and Ivory & Sime Optimum

Income Trust plc and a Director of International Biotechnology Trust plc, Hansa Trust PLC and a number of non-UK investment companies. He is also Chairman of Dobbies Garden Centres plc. He worked at Ivory & Sime for 27 years, being responsible for the management of a number of its investment trusts, before becoming its Chairman in 1985. He retired from Ivory & Sime at the end of 1991 and has become a professional non-executive Director, specialising in investment trusts and investment companies. He served as an overseas governor of the National Association of Securities Dealers.

### **The Rt Hon Sir John Stanley, MP**<sup>\*</sup>

(age 61, date of appointment: 10 February 1994) is currently a member of the House of Commons Select Committee on Foreign Affairs and a Vice-Chairman of the Britain-Japan Parliamentary Group. He is a consultant to Fidelity Investment

Management Limited and is a non-executive director of Henderson High Income Trust PLC. He is a member of the AITC Representative Committee.

**Nicholas Barber**<sup>\*</sup> (age 62, date of appointment: 4 December 2000) is a non-executive Director of Royal & Sun Alliance Insurance Group PLC. He is Chairman of Bolero International Limited and Kappa IT Ventures (GP) Limited. His other directorships include Bristol & West plc and The British Museum

Company Limited. His executive career was with Ocean Group plc (now Exel PLC), with whom he spent a year in Japan; he was Group Chief Executive from 1986 to 1994.

**William Thomson**<sup>\*</sup> (age 62, date of appointment: 1 May 1997) is Chairman of E G Thomson (Holdings) Limited. This business is primarily involved in the provision of shipping agency services in the Far East and in international logistics management. He is also non-executive Chairman of John Menzies plc and British Assets

Trust plc and a non-executive director of several companies including Dobbies Garden Centres plc.

**Simon Fraser**<sup>#</sup> (age 43, date of appointment: 11 May 2000) is Chief Investment Officer of Fidelity International Limited. He started his career at Fidelity in 1981 as an analyst and he has spent a number of years in Japan, most recently as Chief Investment Officer for the Asia/Pacific

region. He returned to the UK in 1999 to take up his current position. He was also the Portfolio Manager for Fidelity Japanese Values PLC from its launch in 1994 until August 1997.

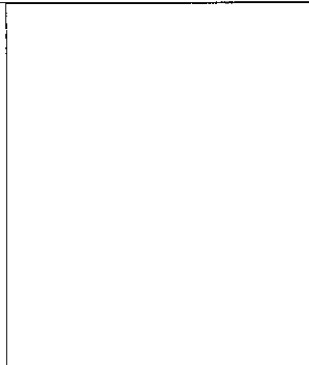
All of the Directors are non-executive and, with the exception of Simon Fraser, are considered by the Board to be independent.

<sup>†</sup> Chairman of the Audit, Management Engagement and Nomination and Remuneration Committees

<sup>\*</sup> member of the Audit, Management Engagement and Nomination and Remuneration Committees

<sup>#</sup> member of the Nomination and Remuneration Committee

## Chairman's Statement



**Alex Hammond-Chambers**  
Chairman

### **Performance: NAV -10.3p per share**

It is not an easy statement to write because for the third year running the net asset value of the Company's shares has fallen in value. It is the most basic of our objectives that we should make money for our shareholders and I am afraid that we did not do so. For the record the net asset value of our ordinary shares fell by 19.4% or by 10.3p from 53.1p to 42.8p. I should emphasise that the decline stems largely from the continuing malaise of the economy and its effect on the stock markets of Japan, as opposed to any specific underlying problems in the companies in which we are invested and which on the whole are faring relatively well (more of which later).

Our analysis of the principal features of the performance shows that the fall in the market (as measured by our new benchmark index, of which more below) accounted for 7<sup>1</sup>/<sub>2</sub>p of the decline in the net asset value per share and that the borrowings caused it to decline another 2<sup>1</sup>/<sub>2</sub>p but that the stock selection by our Manager offset the decline by adding <sup>1</sup>/<sub>2</sub>p. It is a small but never-the-less important consolation that Asako Kibe and her colleagues in Fidelity's Tokyo office managed to outperform the market by at least a small amount; it is important in the sense that it is not easy for any fund manager to outperform the market in bear markets and gives us some source of confidence for the future when the market recovers - as eventually it surely will.

### **Benchmark Index: The Russell/Nomura Midsize Small Capitalisation Index: -14.7%**

We have wrestled with an appropriate benchmark index for the measurement of the performance of the Company's portfolio. None of the established and broadly recognised indices in Japan represents a pool of stocks and shares which match our investment remit - namely investing in small and medium sized growth companies. From previous annual reports you will have noticed that the portfolio has been spread across the First and Second Sections of the Tokyo stock market and the Over The Counter market; none of their indices truly represented our investment remit. The Russell/Nomura Midsize Small Capitalisation Index has been devised to provide a benchmark for portfolios with an investment remit such as ours and as a consequence your Board of Directors has decided to adopt it as our benchmark index. We continue to take notice of the other indices of course but we no longer regard them as a proxy for our portfolio.

### **Gearing: net borrowings 32.6% of shareholders' equity**

Your Company has somewhat higher borrowings in relation to shareholders' equity than some other investment trusts. The main reason for the rise in the level of gearing is the decline in the value of the gross assets, and thence shareholders' equity, which of course makes the borrowings as a proportion of equity higher. The Board's view is that over the longer term the progress of the companies in which we are invested will result in higher share prices (more of which later) and that therefore to reduce borrowings at a depressed level of the market is not in the long-term interests of shareholders.

However while the Directors maintain a long term approach to the level of gearing - in part because we have a long-term approach to investing and in part because we do not believe that short-term management of the borrowings is likely to add value to shareholders - we undertake a thorough review of the borrowings once a year at the Board meeting in Tokyo - normally held in October each year. We do of course keep a

permanent eye on our gearing and we also have certain trigger points established, so that if they are hit the level of borrowings is reassessed. At the Board meeting in Tokyo in October 2002 we reviewed the level of borrowings and concluded that they should be left at the levels they were at.

### **Annual General Meeting: 15th May 2003**

Your Board of Directors would like to encourage as many shareholders as possible - whether individual or institutional - to join us at the Annual General Meeting. It is the one occasion during the year when we account for ourselves and for the performance of the Company to shareholders and when shareholders can get together, ask questions, make recommendations and comments and listen to what other shareholders have to say. It is helpful to both Board and Management to hear what you have to say. Asako Kibe, our fund manager in Tokyo, will be giving a presentation on the past year and the prospects for the one that has already started.

### **Corporate Governance:**

We have had reports from Messrs Cadbury, Greenbury, Hampel and Turnbull on corporate governance during the last ten or so years and as a consequence corporate governance practice has changed considerably during this period. Much of what was suggested and the approach to its implementation were very sensible and I believe that there has been enormous progress made in standards of corporate governance in Britain.

During the last few months new reports on corporate governance have been produced, including one from Mr Higgs and a consultation paper from the FSA with proposals for yet more rules concerning the governance of investment trust companies. The documents contain a range of new ideas for governance - some sensible and some frankly not sensible; they raise two issues of concern for your Company. The first important issue concerns the independence of your non-management Directors. The view is promoted by both these documents that independence can be achieved through

qualifications and rules. Nothing could be further from the truth. Independence stems from an individual's ability to make objective decisions that may be in conflict with the interests of management or other interested parties and is in turn a function of confidence (born of courage and experience), integrity (personal character) and judgement (born of knowledge and experience); independence is not a qualification. I am pleased to be able to report that on the basis of this fundamental definition (accepted by both the AITC and the FSA) that the non-management Directors of your Company are all independent.

The second issue concerns the proposal by the FSA that there should not be a member of the management represented on the Board. We make it quite clear in our statement on corporate governance on pages 22 to 26 that we believe it is important that, through a senior Fidelity representative, the Management is bound into the same structure of responsibility, authority and accountability that the other Directors are; your Directors do not believe that this can (as is suggested) be achieved either as well or as effectively just through the management contract. Shareholders invest in Fidelity Japanese Values in part because of the Manager and its capability to fulfil the investment remit and it is right therefore that the Manager should be party to the accountability to shareholders for the performance of the Company. We have found it enormously helpful to have Simon Fraser, Fidelity International's Chief Investment Officer, on the Board and he has contributed to the governance process in a way that the rest of us could not. At this AGM he will be standing for re-election as a Director of the Company. That important point of principle apart, Simon Fraser is a good and conscientious Director with several years of firsthand experience of investing in Japan and his contribution to the governance of the Company is considerable. We, the independent Directors, recommend that shareholders vote for his re-election.

## Chairman's Statement

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### General Prospects:

It is very difficult to add anything new to those comments that have been made in the last few annual reports about the prospects for Japan, its economy, its financial system and its stock market. Japan needs certain changes to the structure of its economy and financial system and has done so ever since the 1980s stock market and property bubble burst 13 years ago but, being a country with a consensus based culture, it finds change difficult to accomplish, for there are always those interested in the status quo. Until some of the issues are addressed, particularly that of dealing with the banking system's bad debts, it is difficult to be overly optimistic about the general prospects in the short-term, although it is reasonable to say that they will be addressed one day, simply because they cannot be avoided in the long-term.

### Portfolio Prospects:

While the companies in which we invest are all Japanese, it is important to remember that it is in these companies that our real prospects lie - rather than in the general performance of the Japanese economy. We have emphasised many times that, while there is not as much change at the macro level in Japan as is needed, at the micro level - amongst many of Japan's companies, particularly its smaller companies - there has been quite a lot of change in the last few years. In part this is because there has been little alternative to change if they are to survive in a competitive world, particularly one in which Japan's neighbour, China, is playing an increasingly important part; in part it is because there is a recognition that profits are vital to the survival of any company and that the shareholder value culture is key to that. Whatever the reasons for change however, Asako Kibe and her colleagues seek out those companies that are well run, that are competitive, that are shareholder conscious and that have good growth prospects.

It is part of the governance process that your Directors monitor the performance and the prospects of the underlying portfolio. In a year when the net asset value has declined - again - it is worth noting that many of the companies in our portfolio have made progress and that we expect them to do so in the current year. In order to illustrate this I have included a table showing the estimates (it is important to note that they are only estimates) for profits growth of our top twenty investments (see page 9). Against a background of next to no growth in the Japanese economy as a whole, this list shows that there are companies that are prospering in these times and the underlying value - if not the short-term stock market value - of these companies is improving. It is fair to say that the companies in the rest of the portfolio, taken as a whole, are also progressing.

The figures show an unweighted arithmetic average growth of earnings per share for the top twenty investments in our portfolio of 35% for the year ending in March 2003 and 15% for March 2004 and (not shown individually) an unweighted average price earnings ratio of 18 times, a not unreasonable valuation for such growth. Given the outlook for corporate profits growth generally in the world, these numbers seem really quite encouraging to your Board and Management. It is not possible for us to say that such profits performance is going to be reflected in higher share prices in the near future because the larger macro issues weigh heavily on the value of all shares. But our job is to identify companies whose profits we believe will grow and that I believe our Manager is doing. One day for sure it will be reflected in higher share prices and thence a higher net asset value for our ordinary shares.



Alex Hammond-Chambers

Chairman

28 February 2003

**Estimates of earnings per share of  
top twenty investments**

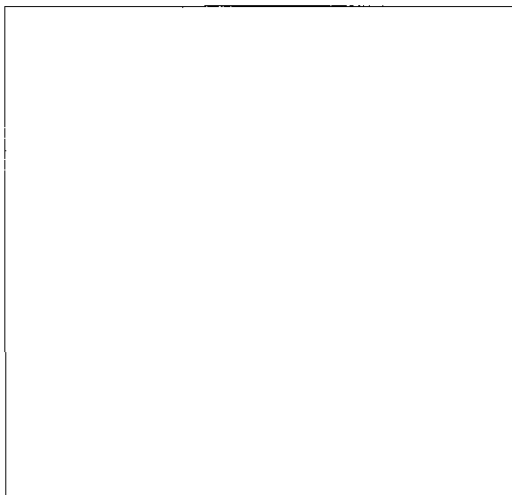
Company	Estimated	Estimated
	EPS Growth 31 March 2003	EPS Growth 31 March 2004
1.Toyada Gosei	+52%	+6%
2.Mandom	+30%	+7%
3.Don Quijote*	+28%	+22%
4.Tsumara	+28%	+14%
5.Cosel	+90%	+12%
6.Takara	+32%	+16%
7.Fancl	+3%	+8%
8.Nichii Gakkan	+280%	+42%
9.Kuroda Electric	+3%	+13%
10.Nidec Copal	+17%	+23%
11.FCC	+49%	+5%
12.Misumi	+19%	+6%
13.Yamada Denki	+28%	+7%
14.Tosei Engineering	-18%	+56%
15.Nitto Konki	+8%	+6%
16.Funai Electric	+25%	+11%
17.Fuji Seal	+20%	+31%
18.Plenus	+12%	+7%
19.Advan	-6%	+3%
20.Hogy Medical	-1%	+1%

\* Don Quijote has a year-end of 30 June.

Source: These forecasts are based on the wealth of data accumulated by Toyo Keizai and that company's analytical expertise, from whom we have taken the information (they are not the estimates of Fidelity or the board of directors). They will change in time as the year proceeds. Reference to the companies above is for illustrative purposes only and should not be construed as a recommendation to the investor to buy or sell the same. The portfolio may change over time and neither the Manager nor the Board of Directors make any commitment to continue to hold any of the above companies.

## Investment Manager

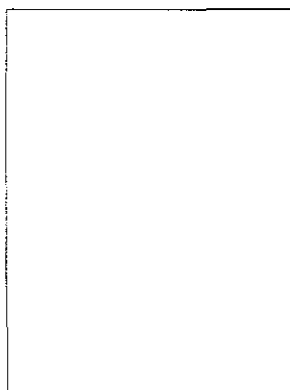
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### **Fidelity Investments International**

The Company is managed by Fidelity Investments International, incorporated in the UK on 13 September 1979 (regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity Organisation, which, as at 31 December 2002, had total assets under management exceeding £542 billion\*. Fidelity has developed into the world's largest independent investment management organisation.

Fidelity's Offices at 25 Cannon Street, London.



### **Asako Kibe** (age 46)

Asako Kibe is a fund manager with Fidelity Investments Japan Limited. She joined Fidelity in 1981 as an equity research analyst having attained a Bachelor of Arts from the University of Hawaii. Asako also manages a number of other Fidelity Funds that invest in Japan, including Fidelity Japan Special Situations Fund and Fidelity Funds Japan Smaller Companies Fund.

\* Total assets under management as at 31 December 2002 include assets of FMR Corp, a US company and affiliate and its subsidiaries.

# Investment Manager's Report

**Performance Review** – As shown in the Summary of Results on page 3, the undiluted net asset value returned -19.4% compared with a return of -18.5% in the Tokyo Stock Exchange First Section Index (TSE 1); -13.0% in the TSE Second Section Index (TSE 2); a return of -18.7% in the FTSE Japan Index, -13.1% in the OTC Index and -14.7% in the Russell Nomura Mid/Small Index (all figures in sterling terms). The Company's relatively large exposure to technology-related stocks detracted from relative performance.

## Performance for the year to 31 December 2002

### Analysis of performance

<b>Net asset value at 31 December 2001</b>	<b>53.1p</b>
Impact of fall in the Russell Nomura	(7.6)
Impact of stock selection	0.4
Impact of the fall in the yen	(0.1)
Impact of the gearing	(2.6)
Impact of other costs	(0.4)
<b>Net asset value at 31 December 2002</b>	<b>42.8p</b>

Investors have endured another year of stock market declines, and 2002 saw equity markets around the world experience their third consecutive year of losses. The Japanese equity market fell over the course of the year, albeit less heavily than most other major markets. Despite a brief rally in February, ongoing concerns over the health of the Japanese economy and the deteriorating global environment led investors to shy away from equities.

The domestic economy showed signs of strengthening, and the Japanese economy grew by 0.8% in the third quarter, helped by better-than-expected consumer spending numbers. Nevertheless, there were increasing concerns among economists that the recovery was deteriorating, supported by evidence of falling real wages, deflation and continuing high levels of unemployment.

The Bank of Japan's latest quarterly survey of business confidence suggested that the export-driven recovery had not led to a rebound in domestic demand. Confidence among smaller companies improved slightly but remained firmly in negative territory and forecasts indicated that business conditions for smaller companies could deteriorate in the next quarter.

One significant feature of the broader Japanese market was the political approach to tackle bad loans in the banking sector.

At sector level, the only sectors in the index to register a positive return were transport equipment, iron & steel, metal products, marine transportation, communications, and rubber products. The weakest areas overall were securities & commodity futures, other financing businesses, and services. The services sector fell during the year, although the range of returns within the sector was very wide, owing to the diverse nature of the companies falling within the "services" category. The retailing sector - another relatively large constituent of the small cap universe - fared better than the broader market, despite losing ground in absolute terms.

**Portfolio Review** – The strongest contribution to returns came from holdings in the transport equipment sector. This was an overweight position for the Company and it was also one of the best-performing sectors in the benchmark. All three stocks held in the transport equipment sector – namely FCC, Toyoda Gosei, and NOK - performed strongly. FCC is a clutch manufacturer for motorcycles and cars. Profits were boosted by Honda's sales in the US, and by strong market growth in Asia for motorcycles. Toyoda Gosei and NOK benefited from additional divisions that are not directly related to autos but grew out of existing operations.

## Investment Manager's Report

The Company's holdings in the electrical appliances sector also made a strong contribution overall. Funai Electric shares performed well following better-than-expected sales of its audio-visual products to large retailers such as Wal-Mart.

Returns from the retail sector were detractors from the Company's performance. The position in Watami Food Service was the single largest detractor. The Japanese style pub operator, Izakaya, suffered declining customer rates, although it is addressing the problem by using more formats to account for different customer needs. Can Do was another retail security that was weak over the period.

One of the main changes to the portfolio's sector positioning was an increase in exposure to the services sector. The services sector is very diverse in nature so this change does not reflect any change in underlying theme. The Goodwill Group was among holdings added during the period. The firm's earnings are benefiting from demand for its short-term staffing services and its elderly care services as Japan's ageing population continues to provide secular growth. Shares in Works Applications were also purchased during the year. The company sells software packages related to human resource functions, such as wages. Its cost-effective approach is gaining support as firms control IT expenditure more rigorously. Culture Convenience, a specialist renter of books, DVDs and software games, was another new position for the fund. The company's dominant market position is leading to better control over its supply chain, and improving profitability.

One of the most significant reductions in sector terms occurred in the wholesale sector, although this was largely achieved through the trimming of existing stock positions. The fund remained overweight the wholesale sector at the end of the period. The Company's exposure to the transport equipment sector increased over the year, following the strong relative performance of the holdings.

### Portfolio Breakdown by Market\* as at 31 December 2002

\* total assets less current liabilities, excluding fixed term loan liabilities

The retail sector remained consistently overweight, although the fund manager remained active at stock level. Don Quijote is now a significant overweight position in the portfolio. This discount store sells items such as consumer electronics, groceries and sporting goods. The firm has an aggressive store rollout strategy that is expected to create strong earnings growth.

Other stocks that now feature in the top overweight positions include Tsumura, a producer of Chinese medicines. Its business is growing strongly due to greater usage by the Japanese medical profession. The holding is a turnaround situation where new management is improving earnings, reducing debt and increasing the focus on shareholder value. The strong performance of the stock also led to a higher overall weighting in the pharmaceutical sector. Toy manufacturer Takara and mens' cosmetics company Mandom are two stocks that remained consistently among the largest active stock positions, due to a continued positive outlook for the medium term.

The Company maintained a diversified portfolio of assets. The number of holdings in the fund rose slightly from 103 to 111, and the proportion of assets invested in the top twenty holdings remained fairly constant at around 38%.

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**Outlook** – In 2003, several key events are likely to affect the Japanese stock market. The Financial Services Agency will be conducting special bank inspections, which will have implications for the disposal of bad debts – although this is likely to have less effect on the small cap indices, where banks do not feature heavily. A new governor of the Bank of Japan, Toshihiko Fukui, was recently appointed, and will take office during March, and this could have an impact on monetary policy. The government will announce its official regulatory reform plan. To a large extent, the direction of the Japanese equity market is likely to be determined by the performance of US stocks, developments in banking sector reforms and the extent of an anticipated downturn in the domestic economy. The outlook for the global economy will also be a major consideration for investors.

Economists are pondering whether the export-driven economic recovery may already be over, particularly as, in the absence of support from external demand, a number of structural factors (tightening credit conditions, corporate restructuring and deflation) could smother domestic demand. In its annual economic forecast, the Japanese government predicted that domestic economic growth would slow. According to the government's report, continuing deflation and record levels of unemployment will reduce growth to 0.6% from a projected pace of 0.9% during the current fiscal year. However, private sector economists suggested that the actual figure would be lower, as cuts in public spending are likely to hamper growth.

Japanese equity indices could rebound after falling in December. However, as we approach the fiscal year end, stocks are likely to face selling pressure as the unwinding of cross-shareholdings gathers pace, although this may be less of a problem for the small cap arena. The performance of the smaller indices could fall under pressure if a weak US stock market weighs on Japan's bigger securities. Reduction in valuations among larger stocks would probably have a detrimental effect upon smaller companies.

The weakness of the broader market has put smaller company

indices under pressure, but at corporate level there are reasons to be positive. Many of the problems affecting the larger, more established companies are not present in the small cap field, as these tend to be much newer firms with more flexible working practices and efficient cost structures. The IPO market has been relatively active and this is expected to continue, which should provide a good supply of opportunities for the fund manager to assess. Valuations are appealing. Overall, earnings momentum has been positive among the small cap field and there appears good reason for this to continue.

Fidelity Investments International  
28 February 2003

## Portfolio Listing

as at 31 December 2002

Holding	Market Value £'000	%†
<b>Toyoda Gosei</b> <i>Resin/rubber manufacturer belonging to the Toyota Motor group</i>	1,812	3.1%
<b>Mandom</b> <i>Manufactures and markets a variety of cosmetic products</i>	1,759	3.0%
<b>Den Quijote</b> <i>Sells consumer electronics</i>	1,469	2.5%
<b>Tsumura</b> <i>Manufactures and sells pharmaceutical products including Chinese medicines</i>	1,428	2.4%
<b>Gosei</b> <i>Specialist manufacturer of electric switches</i>	1,410	2.4%
<b>Takara</b> <i>Toy manufacturer</i>	1,302	2.2%
<b>Fanci</b> <i>Produces and sells naturally based cosmetics</i>	1,117	1.9%
<b>Nichii Gakkan</b> <i>Provides hospital administration for medical facilities</i>	1,114	1.9%
<b>Kuroda Electric</b> <i>Manufacturer of electronic components</i>	1,060	1.8%
<b>Nidec Copal</b> <i>Produces and markets electronic components used for optical equipment</i>	1,030	1.8%
<b>FCC</b> <i>Automobile clutch manufacturer</i>	1,025	1.7%
<b>Misumi</b> <i>Precision machinery parts distributor</i>	935	1.6%
<b>Yamada Denki</b> <i>Retail chain store</i>	927	1.6%
<b>Tosel Engineering</b> <i>Manufactures and markets semiconductor manufacturing and testing equipment</i>	910	1.6%
<b>Nitto Kohki</b> <i>Top ranked maker of fluid couplings</i>	910	1.6%
<b>Funai Electric</b> <i>Digital audio visual equipment manufacturer</i>	856	1.5%
<b>Fuji Seal</b> <i>Manufactures various packaging-related materials and machinery</i>	844	1.4%
<b>Plenus</b> <i>Sells take-out boxed meals through a franchise system</i>	833	1.4%
<b>Advan</b> <i>Seller of standard construction decoration materials</i>	823	1.4%
<b>Hogy Medical</b> <i>Producer of disposable surgical gowns and covers</i>	817	1.4%
<b>Star Micronics</b> <i>Manufactures and sells electronic buzzers, card readers and printers</i>	814	1.4%
<b>Tokyo Individualized Educational Institute</b> <i>Manages a cram school for elementary to high school students</i>	803	1.4%
<b>Ozeki</b> <i>Operates a chain of supermarkets</i>	776	1.3%
<b>Disco</b> <i>Manufacturer of dicing saws for semi-conductors</i>	739	1.3%
<b>NOK</b> <i>Manufactures oil seals and industrial rubber products for automobiles</i>	726	1.2%
<b>Top 25 Holdings</b>	<b>26,239</b>	<b>44.8%</b>

† % total assets less current liabilities, excluding fixed term loan liabilities

Holding	Market Value £'000	%
<b>OBIC Business Consultants</b> <i>Provides computer systems integration and systems support</i>	721	1.2%
<b>Daidoh</b> <i>Processes woollen fabrics and clothing</i>	700	1.2%
<b>Doshisha</b> <i>Wholesaler handling a wide range of products such as consumer electronics, watches and jewellery</i>	689	1.2%
<b>Goodwill</b> <i>Provides human resources for events and relocations on a contractual basis</i>	680	1.2%
<b>Kaga Electronics</b> <i>Sells computers and computer related parts</i>	666	1.1%
<b>Selyu</b> <i>A member of Seibu Saison Group, operates supermarkets mainly in the Kanto area of Japan</i>	657	1.1%
<b>Uoriki</b> <i>Manages retail stores of fresh fish and sushi</i>	651	1.1%
<b>Nihon Dempa Kogyo</b> <i>Manufactures quartz crystal product used for telecommunication and industrial equipment</i>	628	1.1%
<b>Kelyo</b> <i>Sells DIY/gardening/pet/leisure goods and household utensils</i>	619	1.1%
<b>Tsubaki Nakashima</b> <i>Second largest ball bearing producer</i>	596	1.0%
<b>Works Applications</b> <i>Software development company</i>	586	1.0%
<b>Heiwa</b> <i>Develops, produces and sells pachinko machines</i>	573	1.0%
<b>Culture Convenience Club</b> <i>Operates a speciality book store chain known as TSUTAYA nationwide</i>	564	1.0%
<b>THK</b> <i>Linear motion systems producer</i>	561	1.0%
<b>KDDI</b> <i>Provider of long distance telephone services</i>	549	0.9%
<b>Watami Food Service</b> <i>Restaurant chain operator</i>	547	0.9%
<b>Enplas</b> <i>Designs, develops, manufactures and markets engineering plastic products for electronic components</i>	544	0.9%
<b>NGK Spark Plug</b> <i>Manufactures and markets spark plugs</i>	486	0.8%
<b>Jafco</b> <i>Forms venture capital groups to invest primarily in domestic and foreign private companies</i>	483	0.8%
<b>Union Tool</b> <i>Producer of piercing drills for printed circuit boards</i>	471	0.8%
<b>Asia Securities Printing</b> <i>Finance printing services for the securities industry</i>	469	0.8%
<b>World</b> <i>General manufacturer of womens apparel</i>	464	0.8%
<b>Alps Electric</b> <i>Manufactures and markets electronic parts</i>	452	0.8%
<b>Mirai Industry</b> <i>Plastic moulded electrical materials producer</i>	430	0.7%
<b>Aeon Credit Service</b> <i>Consumer credit card company</i>	428	0.7%
<b>Top 50 Holdings</b>	40,453	69.0%
<b>Other Holdings (62)</b>	15,039	25.6%
	55,492	94.6%
<b>Cash &amp; other net assets</b>	3,181	5.4%
	58,673	100.0%

† % total assets less current liabilities, excluding fixed term loan liabilities

## Distribution of the Portfolio

as at 31 December 2002

<b>Equities</b> (including convertibles)	<b>2002</b> %	<b>2001</b> %
Retail Sales	15.3	15.7
Machinery	12.1	13.1
Services	10.6	9.0
Electrical Appliances	10.3	10.2
Wholesales	9.9	11.8
Chemicals	6.4	6.3
Transportation Equipment	6.1	3.5
Other Products	4.5	5.2
Textiles & Apparel	4.2	5.6
Pharmaceutical	2.9	0.2
Real Estate	2.4	2.5
Miscellaneous Financing	2.2	4.5
Precision Instruments	2.0	1.7
Communications	1.4	0.5
Glass & Ceramics	1.3	1.4
Warehousing & Port-Harbour Transportation	1.3	0.7
Fisheries, Agriculture and Forestry	0.7	3.6
Construction	0.7	0.6
Securities	0.3	0.4
Foods	-	2.0
Cash & other net assets	5.4	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* total assets less current liabilities, excluding fixed term loan liabilities

## Directors' Report

The Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31 December 2002.

The Company was incorporated in England and Wales as a public limited company on 7 January 1994 under the name of Savemargin Public Limited Company with the registered number 2885584.

### Activities and Status

A review of the year's activities and an indication of likely future developments are given in the Chairman's Statement on pages 6 to 9 and in the Investment Manager's Report on pages 11 to 13.

The Inland Revenue has approved the Company as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting period to 31 December 2000 and has given provisional approval for the accounting period to 31 December 2001. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section.

The Company is not a close company and has no employees. It is registered as an investment company as defined in Section 266 of the Companies Act 1985 and operates as such.

### Net Asset Value

Investments were valued at £55,492,000 as at 31 December 2002. Shareholders' funds amounted to £42,053,000 resulting in a net asset value per share of 42.82p. Changes to investments are shown in note 9 to the accounts on page 36.

### Results and Dividends

The revenue account shows a deficit after taxation for the year of £681,000 and therefore the Directors do not recommend the payment of a dividend and this amount has been charged to reserves.

### Share Capital

No shares in the Company have been issued during the year.

Further to the authority granted by shareholders, a total of 3,300,000 ordinary 25p shares (3.36% of the issued share capital) were purchased for cancellation as detailed below:

Date of purchase	number of shares	price per share (p)	discount (%)
22 January 2002	600,000	42.00	17.7
7 February 2002	100,000	40.00	15.8
18 February 2002	1,000,000	42.50	13.9
12 April 2002	1,600,000	47.00	16.7

The total amount paid for the shares was £1,484,157.50 and the resultant uplift in the NAV per share was 0.27p.

As at 31 December 2002, the total number of shares in issue was 98,206,253.

No further shares have been purchased since 31 December 2002.

### Warrants

No warrants have been purchased for cancellation in the year to 31 December 2002.

As at 31 December 2002, there were 20,396,547 warrants in issue (2001: 20,396,547).

Registered holders of warrants should note that the next annual subscription date is 30 April 2003. In order to exercise the subscription rights in whole or in part:

- (i) in respect of warrants held in **certificated form** on any subscription date, the warrant holder must lodge the warrant certificate(s), having completed the Notice of Exercise of subscription rights thereon, at the office of the Registrars from 2 April 2003 to 3.00pm on 30 April 2003. The warrant certificate should be accompanied by a remittance for the aggregate amount payable on subscription for the ordinary shares in respect of which the subscription rights are being exercised;

## Directors' Report

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- (ii) in respect of warrants held in **uncertificated form** on any subscription date, an uncertificated subscription notice and, if appropriate, separate payment in respect of the aggregate subscription price for the ordinary shares arising on the exercise of the subscription rights must be received by the Company or by such person as it may specify, at any time during the relevant subscription period. Further details will be given in the notice to warrant holders reminding them of their subscription rights.

Warrant holders should note that this is a right, as opposed to an obligation, and they should contact their financial adviser if they have any queries.

### Political and Charitable Donations

The Company has not made any political or charitable donations in the year (2001: nil).

### Payment of Creditors

The Company's principal supplier is the Manager who is paid in the month following the end of each calendar quarter, in accordance with the terms of the management agreement. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

### Management Company

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement entered into on 22 February 1994. Further details of the agreement are given in the Company Summary on page 1.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan, the Fidelity Investment Trust Personal Equity Plan and the Fidelity Individual Savings Account under an agreement dated 12 March 1996. Fees payable under this agreement for the year to 31 December 2002 were £657 (2001: £78,320).

An amount of £172,791 was due to the Manager under the above agreements at 31 December 2002 (2001: £207,813) and is included in creditors.

The Manager uses certain services which are paid for, or provided by, various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

The Manager has entered into commission recapture arrangements with selected brokers whereby a portion of commissions paid by the Company is rebated back to the Company as a refund of expenses. There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

Mr Simon Fraser is a director of Fidelity Investments International and Sir John Stanley is a consultant to Fidelity Investment Management Limited.

Fidelity International Limited has an interest in 9,554,100 shares and 400,000 warrants in the Company.

### Directors

The Directors who served during the year to 31 December 2002 are set out on page 5.

Mr Simon Fraser retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

No Director is under contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which was significant in relation to the Company's business, except as disclosed above under the heading of "Management Company".

Except as disclosed above, there have been no other related party transactions requiring disclosure under FRSS.

The interests of the Directors in the ordinary shares and warrants of the Company as at 31 December 2002 and 31 December 2001 were as follows:

There have been no changes in the above holdings since the year end.

	31 December 2002		31 December 2001	
	shares	warrants	shares	warrants
Alex Hammond-Chambers	20,000	-	20,000	-
Nicholas Barber	10,000	-	10,000	-
Simon Fraser	30,000	30,000	30,000	30,000
Sir John Stanley	5,000	1,000	5,000	1,000
William Thomson	15,000	-	15,000	-

### Substantial Share Interests

As at 28 February 2003 notification had been received of the following interests in 3% or more of the issued share capital of the Company:

	%
Aberdeen Asset Managers Limited	15.01
Goldman Sachs International	10.64
Fidelity International Limited	9.73
British Empire Securities & General Trust plc*	6.49
Yale University Asset Value Investors*	5.16
Tonga Partners LP†	4.30
Windsor Life Assurance Company Ltd*	3.36

† The shares held by Tonga Partners LP form part of the total holding of Goldman Sachs International.

\* These shares comprise the total holding shown for Aberdeen Asset Managers Limited.

As at 28 February 2003, 9.69% of the issued share capital was held by investors in the Fidelity Individual Savings Account, Fidelity Investment Trust PEP and the Fidelity Investment Trust Share Plan.

### Analysis of Ordinary Shareholders

as at 31 December 2001

	Number of Shareholders	% of issued Share Capital
Nominee Companies*	485	63.7
Individuals**	7,166	22.8
Limited Companies	40	11.5
Others	7	0.9
Banks/Bank Nominees	10	0.5
Investment Trusts & Funds	12	0.2
Assurance/Insurance Companies	4	0.1
Pension Funds	6	0.3
	<b>7,730</b>	<b>100.00</b>

\* Nominees may also include individual shareholders

\*\* Includes Share Plan, PEP and ISA investors

### Annual General Meeting

At the Annual General Meeting, resolutions will be proposed to renew the Directors' authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting and will provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

**Resolution 4** provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,227,578. If passed, this Resolution will enable the Directors to allot a maximum of 4,910,312 ordinary shares which represents approximately 5% of the issued ordinary share capital of the Company as at 28 February 2003.

## Directors' Report

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This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. If new ordinary shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered to existing holders of ordinary shares (pre-emption rights). In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro-rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights.

**Resolution 5** is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues where practical considerations, such as fractions and foreign securities laws, make this desirable and (b) other issues up to an aggregate nominal value of £1,227,578.

The Directors would not issue ordinary shares pursuant to this power at less than the then current fully-diluted NAV per share.

The authority to issue ordinary shares for cash under Resolution 5 will enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan or ISA in the event that the ordinary shares are trading at a premium to their NAV. The Directors would not intend to use this power unless such premium was in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

**Resolution 6** is a special resolution which renews the Directors' authority to repurchase the Company's shares for cancellation. It is proposed that the Board be authorised to make arrangements to purchase through the London Stock Exchange up to 14,721,117 ordinary shares of 25 pence (equivalent to 14.99% of the shares in issue at 28 February

2003). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing fully-diluted net asset value per share.

The Directors recommend that shareholders vote in favour of each of these resolutions.

The full text of the resolutions is set out in the notice of meeting contained on pages 46 to 48.

### Corporate Governance

Full details are given in the Application of Corporate Governance on pages 22 to 26.

### Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue of the Company for that period. In preparing the accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper 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 accounts comply with the Companies Act 1985. 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.

The financial statements may be published on a website that is managed by an organisation other than the Manager or the Board of Directors. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved. Visitors to any website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

#### **Auditors**

Following the conversion of our Auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 28 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP as Auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board  
Fidelity Investments International  
Secretary  
28 February 2003



# Application of Corporate Governance

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## **What is corporate governance?**

"Corporate governance", as the phrase implies, is the process by which a board of directors of a company looks after the shareholders' interests and responsibilities and by which it enhances those interests (often referred to as "shareholder value"). Shareholders hold the directors responsible for the stewardship of a company's affairs, delegating authority to the directors to manage the company on their behalf and holding them accountable for its performance. This report deals with how the Directors of Fidelity Japanese Values deal with that responsibility, authority and accountability.

## **The corporate governance requirements of the Stock Exchange**

Following reports from Cadbury, Greenbury, Hampel and Turnbull, "The Combined Code" was established which outlines corporate governance standards and requirements. Your Board of Directors is committed to the highest standards of corporate governance.

## **The corporate governance of an investment trust company**

The corporate governance of most investment trust companies, including Fidelity Japanese Values, is different from most other commercial companies in one important respect: they do not employ their own people as management but rather the services of a fund management company.

This affects the way they are governed but not the purpose of their governance. It is important to understand that the responsibility, authority and accountability of the board of directors of an investment trust company is not the same as that of the trustees of a pension fund nor of a unit trust and that therefore the composition and modus operandi of a board of directors will of necessity differ from that of a board of trustees.

In particular the board of directors of an investment trust

company has the responsibility for both the stewardship of all of the company's affairs and for maximising its shareholder value (in contrast to trustees who tend to be responsible just for the stewardship of a fund). Given that the fund manager's business is not dedicated solely to the interests of an investment trust company and its shareholders, the composition of the board of directors must be largely independent of management but must have the knowledge and experience of both fund management and investment trust management, which the presence of executive management on other commercial boards brings to their corporate governance. This is vitally important if an investment trust company board is to do its job properly.

And secondly, most investment trust companies, including Fidelity Japanese Values, are established, managed and promoted by their managers, who are therefore one of the main reasons shareholders choose to invest in the investment trust company's shares. It follows that it is an important aspect of the corporate governance of this investment trust company that the manager should be party to the responsibility, authority and accountability to those investing in their management.

And finally, because a board of directors has the responsibility for maximising shareholder value in the long term, it is important that the directors (and the manager) are long term shareholders, thereby aligning their interests with those of the rest of the shareholders.

## **Fidelity Japanese Values' corporate governance**

The corporate governance of any Stock Exchange listed company, while following the guidelines of The Combined Code, will vary in certain respects depending on its own circumstances. The Board of Fidelity Japanese Values has considered its own circumstances and determined its own corporate governance policies and modus operandi. Because it

is important that shareholders should be aware of them, and indeed approve of them, the Board has chosen to outline them in this report.

The composition and the conduct of the Board of Directors are a matter of concern for shareholders. Having laid out their corporate governance policies and modus operandi, the Directors do encourage shareholders to communicate with them, should they have concerns, criticisms or suggestions to make. The Directors lay particular emphasis on shareholders with such concerns attending the Company's annual general meeting so that all those attending can hear those concerns expressed in open forum and make their own judgments accordingly. The AGM is an important part of "shareholder democracy".

### **The corporate governance policies and modus operandi of Fidelity Japanese Values**

In this section we have outlined the corporate governance policies and modus operandi through these three aspects of corporate governance:

#### **Responsibility, Authority and Accountability**

It is first of all important that shareholders have confidence in the Board of Directors, whom they hold responsible and accountable for the Company's affairs. In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of the Board members (including the Chairman), who are independent of management, and that the makeup of the Board should bring understanding and experience of investment management, investment trust management, the investment objective of the Company and finally of Fidelity's investment philosophy and its operations. While the key determinant of independent behaviour stems from personal character, the Directors recognise that any individual who is employed or otherwise materially financially associated to the Manager, Fidelity Investments International, may not be regarded as

independent. However, as already explained, the Board regards it as important that there should be one senior executive from Fidelity Investments International serving as a director. Other relationships, age or time served as a director are not regarded prima facie as compromising independent behaviour but may nevertheless be of interest to shareholders and consequently the Directors' current business associations are set out in full for shareholders' perusal.

**Responsibility** - The responsibilities delegated by shareholders to the Board of Directors include:

- The stewardship of the affairs of the Company, which includes the management of risk, the monitoring of the controls at work in the Company.
- The promotion of the Company's prosperity so as to maximise shareholder value in the long term, which includes the responsibility for the appropriateness of the Company's investment objective and its investment strategy and for the Company's efforts in seeking to minimise the level and the volatility of the discount at which the shares sell in relation to the net asset value.
- Making recommendations to shareholders (for their consideration at annual general meetings) on matters not delegated to the board of directors, which include the approval of the annual accounts, the re-election of directors and the appointment of the auditors.

**Authority** - The Board of Directors is furnished by the shareholders with the authority to manage the Company on their behalf, being required to discharge the responsibilities outlined above. The Board, being wholly non-executive and (by majority) independent of management, carries out its duties through the mechanism of board meetings and board committee meetings.

The most important aspect of the Directors' duties concerns the management of the Company's portfolio of assets and of

## Application of Corporate Governance

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the risk profile of its balance sheet. While the day to day investment management is delegated to Fidelity Investments International, there are certain decisions which are retained and made by the Directors, including the payment of dividends, the share buyback guidelines and the gearing policy. In structuring the board meetings, the Directors try to concentrate as much as possible of their regular board meetings on (i) investment matters (including gearing policy, investment policy, portfolio and stock reviews, portfolio turnover, monitoring performance, etc) and on (ii) shareholder value matters (including share buy backs and Fidelity's share plan and ISA marketing). The contents of the Board Meeting papers are determined by us and contain sufficient information on the financial condition of the Company. Key representatives of the Manager attend each Board Meeting enabling the Board to probe further on matters of concern or seek clarification on certain issues. The Board meets at least once a year with the Company's investment bankers to discuss shareholder value and investor relations' issues.

Because the Board of Directors is concerned that the burden of corporate governance procedure tends to crowd out investment and shareholder value matters at board meetings, it has decided to discharge as much as possible of its corporate governance responsibilities through three committees:

**The Audit Committee** consists of all of the independent directors and is charged with reviewing and monitoring the production of the annual and semi-annual accounts, the audit process, corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 842 status), the relationship with and performance of other third party service providers (such as the Registrars or Custodians) and finally the relationship with the Auditors (and its ongoing reappointment and level of fees). The Committee meets with the auditors at least once a year to review all these matters.

The Committee itself meets twice a year and reports to the Board of Directors, making recommendations where appropriate.

**The Management Engagement Committee** consists of all of the independent directors and is charged with reviewing and monitoring the Manager in respect of its contract and the fees it is paid. This Committee meets once a year and reports to the Board of Directors, making recommendations where appropriate.

The Committee has established a procedure whereby it decides each year whether or not the Investment Manager should be retained. At its meeting on 28 February 2003 the Committee confirmed that Fidelity Investments International should be retained as Investment Manager.

**The Nomination and Remuneration Committee** consists of all of the Directors and is charged with nominating new directors for consideration by the Board of Directors, in turn for approval by the shareholders. It believes that the best way of ensuring that the Board as a whole and each Director individually carry out their duties in an independent manner, irrespective of the interests of the Manager, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is entirely controlled by this Committee. The Nomination and Remuneration Committee also considers the reappointment of directors.

The Committee also concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors' fees of other investment trust companies.

This Committee meets on an annual basis and as and when required, making recommendations where appropriate.

**Accountability** - Given that the shareholders entrust the Board of Directors with the management of the Company's affairs, it is necessary that the Board accounts for itself to

shareholders. The process of accountability involves providing all the necessary information for shareholders to make judgements about the Board's stewardship and performance through a full and informative annual report, a half-year report, accessibility to the Board at any time through the office of the Chairman and finally the presentation of the results (the accounts) and future prospects at the Annual General Meeting.

The Annual General Meeting is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in public meeting. It regards any bona fide issue that any shareholder properly raises as one that should be put to all shareholders at the AGM.

The Annual General Meeting provides shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board of Directors. This includes the reappointment of directors at least every three years. In addition to the normal matters of approving the accounts, the election of directors, the appointment of the auditors and the issue of new shares, your Board has concluded that it should enable shareholders to decide on whether they wish to continue the Company's existence by putting a "continuation vote" before the shareholders at every third AGM.

The Board considers that the Company has complied with the provisions of the Combined Code throughout the year to 31 December 2002 with the following exception:

- As the Chairman is independent and non-executive there is no necessity to appoint another senior independent director.

### **Internal Control**

The Code requires the Board to review the effectiveness of all internal controls rather than simply internal financial controls, following the final publication of the Turnbull Committee's

guidance on 27 September 1999. Our procedures have been reviewed so as to ensure that the Committee's guidance complements and is embedded in our internal control of ongoing business, operational and compliance as well as financial risk management.

The identification, control and evaluation of risk is formulated by a series of quarterly investment performance reports, a semi-annual Internal Controls Report and quarterly compliance reports as provided by the Manager. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has contractually delegated to external agencies, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day-to-day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company. The Company's Audit Committee meets with representatives of the Investment Manager and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. It reviews the annual and interim accounts and reviews the nature and scope of the external audit and the findings from the Company's statutory audit.

The Board carries out a risk and control assessment including a review of the Manager's risk management processes. The key element of this assessment is the semi-annual Internal Controls Report prepared by the Manager for its investment trust clients. The Internal Control Report sets out the Manager's control policies and procedures with respect to the

## **Application of Corporate Governance**

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management of its clients' investment. Whilst the Company, in common with most investment trusts, has no internal audit department, the effectiveness of these controls is monitored by the Manager's compliance and internal audit functions. The Audit Committee has received and reviewed the Internal Control Report on the effectiveness of the internal controls maintained on behalf of the Company, and an annual compliance report from the Manager's Director of Compliance.

By means of the procedures set out above, and in accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party of the Institute of Chartered Accountants in England and Wales, the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the internal control systems throughout the period.

### **Going Concern**

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts since the assets of the Company consist mainly of securities which are readily realisable and accordingly the Company has adequate financial resources to continue in operational existence for the foreseeable future.

On behalf of the Board

Alex Hammond-Chambers

28 February 2003

# Directors' Remuneration Report

## Remuneration Committee

The Board of Directors is comprised solely of non-executive Directors and has established a Nomination and Remuneration Committee, which comprises the whole Board. This Committee meets annually and as and when required. At its annual meeting it determines the fees paid to Directors.

The Company's Articles of Association limits the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to this overall limit, the Nomination and Remuneration Committee makes recommendations to the Board regarding the level of Directors' fees, having regard to their duties and responsibilities, to their time commitments, to their potential liabilities (both financial and reputational) and finally to levels of fees in the investment trust industry generally.

No Director has a service contract with the Company. The Company does not generally offer payments to Directors on termination.

## Performance from 31 December 1997 to 31 December 2002

The Company's performance has been measured against the Russell Nomura Mid/Small Index as this is the most appropriate in respect of its asset allocation.

## Remuneration for Qualifying Services

Name	2002 Salary and Fees £'000	2001 Salary and Fees £'000
Alex Hammond-Chambers†	15	15
Nicholas Barber	10	10
Simon Fraser*	-	-
John Morrell**	3	10
The Rt Hon Sir John Stanley MP	10	10
William Thomson	10	10

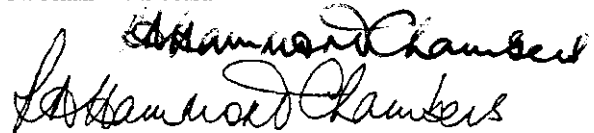
† Alex Hammond-Chambers' fees are paid to Alex Hammond-Chambers & Company.

\* Simon Fraser waived his fees of £10,000 in 2002 and 2001.

\*\* John Morrell retired as a director on 24 April 2002.

No Director received any bonus, taxable expenses, compensation for the loss of office or non-cash benefits for the year ended 31 December 2002 or the year ended 31 December 2001.

On behalf of the Board



Alex Hammon-Chambers  
Chairman

# Independent Auditors' Report to the Members of Fidelity Japanese Values PLC

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We have audited the financial statements which comprise the statement of total return, the balance sheet and the cash flow statement and notes 1 to 23 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

The other information comprises only the Chairman's statement, the investment manager's report, the unaudited part of the directors' remuneration report, the directors' report, and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

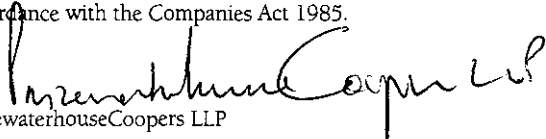
## Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985. Those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

28 February 2003

## Statement of Total Return (incorporating the revenue account)

for the year ended 31 December

	notes	2002			2001		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Losses on investments	9	-	(9,805)	(9,805)	-	(17,823)	(17,823)
Income	2	683	-	683	752	-	752
Investment management fee	3	(657)	-	(657)	(894)	-	(894)
Other expenses	4	(204)	-	(204)	(436)	-	(436)
Exchange losses		-	(61)	(61)	-	(290)	(290)
<b>Net loss before finance costs and taxation</b>		<b>(178)</b>	<b>(9,866)</b>	<b>(10,044)</b>	<b>(578)</b>	<b>(18,113)</b>	<b>(18,691)</b>
Exchange gains on loans	15	-	150	150	-	2,013	2,013
Interest payable	6	(384)	-	(384)	(564)	-	(564)
<b>Loss on ordinary activities before tax</b>		<b>(562)</b>	<b>(9,716)</b>	<b>(10,278)</b>	<b>(1,142)</b>	<b>(16,100)</b>	<b>(17,242)</b>
Tax on ordinary activities	7	(119)	-	(119)	(109)	-	(109)
<b>Loss on ordinary activities after tax for the year attributable to equity shareholders</b>		<b>(681)</b>	<b>(9,716)</b>	<b>(10,397)</b>	<b>(1,251)</b>	<b>(16,100)</b>	<b>(17,351)</b>
<b>Loss per ordinary share</b>							
Basic	8	(0.69p)	(9.83p)	(10.52p)	(1.22p)	(15.70p)	(16.92p)

The revenue column of this statement is the profit and loss account of the Company.  
All revenue and capital items in the above statement derive from continuing operations.  
No operations were acquired or discontinued in the year.

The notes on pages 33 to 43 form an integral part of the accounts

# Balance Sheet

as at 31 December

		2002	2001
	notes	£'000	£'000
<b>Fixed assets</b>			
Investments	9	55,492	69,570
<b>Current assets</b>			
Debtors	11	548	61
Cash at bank	13	2,921	1,480
		<b>3,469</b>	<b>1,541</b>
<b>Creditors - amounts falling due within one year</b>	12	(288)	(8,368)
<b>Net current assets/(liabilities)</b>		<b>3,181</b>	<b>(6,827)</b>
<b>Total assets less current liabilities</b>		<b>58,673</b>	<b>62,743</b>
<b>Creditors - amounts falling due after more than one year</b>	13	(16,620)	(8,823)
<b>Total net assets</b>		<b>42,053</b>	<b>53,920</b>
<b>Capital and reserves</b>			
Called up share capital	14	24,551	25,376
Share premium account	15	40	40
Capital redemption reserve	15	1,780	955
<b>Other reserves</b>			
Other reserve	15	60,369	61,839
Warrant exercise reserve	15	2	2
Warrant reserve	15	10,198	10,198
Capital reserve - realised	15	(7,193)	790
Capital reserve - unrealised	15	(39,003)	(37,270)
Revenue reserve	15	(8,691)	(8,010)
<b>Total equity shareholders' funds</b>		<b>42,053</b>	<b>53,920</b>
<b>Net asset value per ordinary share:</b>			
Basic	16	42.82p	53.12p

The accounts on pages 30 to 32 were approved by the Board of Directors on 28 February 2003 and were signed on its behalf by:



Alex Hammond Chambers, Chairman

The notes on pages 33 to 43 form an integral part of these accounts

# Cash Flow Statement

for the year ended 31 December

		2002	2001
	notes	£'000	£'000
<b>Operating activities</b>			
Investment income received		557	633
Deposit interest received		6	17
Investment management fee paid		(712)	(971)
Directors' fees paid		(54)	(55)
Other cash payments		(237)	(364)
<b>Net cash outflow from operating activities</b>	20	<b>(440)</b>	<b>(740)</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(389)	(608)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(389)</b>	<b>(608)</b>
<b>Financial investment</b>			
Purchase of investments		(16,682)	(31,837)
Exchange (losses)/gains		(377)	99
Disposals of investments		20,409	38,030
<b>Net cash inflow from financial investment</b>		<b>3,350</b>	<b>6,292</b>
<b>Net cash inflow before financing</b>		<b>2,521</b>	<b>4,944</b>
<b>Financing</b>			
Repurchase of ordinary shares		(1,470)	(1,286)
Exercise of warrants		-	4
1.05% fixed rate unsecured loan drawn down		8,300	9,106
1.05% fixed rate unsecured loan repaid		-	(9,084)
3.38% fixed rate unsecured loan repaid		-	(9,183)
2.16% fixed rate unsecured loan repaid		(8,226)	-
<b>Net cash outflow from financing</b>		<b>(1,396)</b>	<b>(10,443)</b>
<b>Increase/(decrease) in cash</b>	18	<b>1,125</b>	<b>(5,499)</b>

The notes on pages 33 to 43 form an integral part of these accounts

# Notes to the Accounts

## 1 Accounting Policies

A summary of the accounting policies used is set out below. The Company has adopted the AITC Statement of Recommended Practice (SORP) for Investment Trusts dated December 1995.

- a) The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted.
- b) In accordance with Financial Reporting Standard (FRS) 4, a warrant reserve has been established.
- c) Income from equity investments is credited to the revenue account on the date on which it is ex-dividend. Interest receivable on fixed interest securities is accounted for on an accruals basis. Unfranked investment income includes tax deducted at source. Interest receivable on short-term loans and deposits, interest payable and expenses of management are dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.
- d) Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserves realised and unrealised.
- e) Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling where an organised market in such investments exists, other unquoted investments are included at Directors' valuation. Where a price is not readily available the holding would be valued at cost unless circumstances indicate that a different valuation is warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition, at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost or where Fidelity's Fair Value Committee is aware that the company is experiencing operating difficulties.
- f) All expenses are accounted for on an accruals basis and are charged in full to the revenue account within the Statement of Total Return. Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS4 "Capital Instruments".
- g) Gains and losses on the realisation of investments and realised exchange differences of a capital nature are accounted for in the capital reserve - realised.  
  
Increases and decreases in the valuation of investments held at the year end and unrealised exchange differences of a capital nature are accounted for in the capital reserve - unrealised.
- h) Deferred taxation is provided for in respect of all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that its recovery is considered more likely than not.  
  
Deferred tax is recorded in accordance with FRS19 "Deferred Tax". The adoption of this standard has had no impact on current or prior year results.

## Notes to the Accounts

<b>2 Income</b>	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income from investments</b>		
Overseas dividends	677	735
	<b>677</b>	<b>735</b>
<b>Other income</b>		
Deposit interest	6	17
<b>Total income</b>	<b>683</b>	<b>752</b>
<b>Total income comprises</b>		
Dividends	677	735
Interest	6	17
	<b>683</b>	<b>752</b>
<b>Income from investments</b>		
Listed overseas	677	735
	<b>677</b>	<b>735</b>
<b>3 Investment management fee</b>		
	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Investment management fee	657	894
	<b>657</b>	<b>894</b>
A summary of the terms of the Management Agreement is given in the Company Summary on page 1.		
<b>4 Other expenses</b>		
	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Directors' fees (including National Insurance contributions and irrecoverable VAT)	51	58
Other	141	370
Expense reduction*	-	(5)
<b>Auditors' remuneration</b>		
Audit	12	13
	<b>204</b>	<b>436</b>

\* The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce expenses.

**5 Directors' fees**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Directors' fees	<u>48</u>	<u>55</u>

During the year the Chairman, Alex Hammond Chambers, received fees of £15,000 (2001 : £15,000). Sir John Stanley, William Thomson and Nicholas Barber received fees of £10,000 (2001 : £10,000). John Morrell retired as a Director on 24 April 2002. During his period as a Director he received fees of £3,145 (2001 : £10,000). Simon Fraser, waived his fees of £10,000 in the year (2001 : £10,000). The maximum aggregate fee payable under the Company's Articles of Association is £100,000.

Alex Hammond-Chambers' emoluments were paid directly to Alex Hammond-Chambers & Company on his behalf.

**6 Interest Payable**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
<b>On loans repayable within 5 years</b>		
Fixed rate unsecured loans	<u>384</u>	<u>564</u>

**7 Tax on ordinary activities****a) Analysis of charge in the year**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Foreign tax suffered	<u>119</u>	<u>109</u>
Total current tax for the year (see note 7b)	<u>119</u>	<u>109</u>

**b) Factors affecting the tax charge for the year**

The tax assessed for the period is higher than the standard rate of corporation tax in the UK for an investment trust company (30%) (2001:30%).

The differences are explained below.

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Return on ordinary activities before tax	(562)	(1,142)
Return on ordinary activities multiplied by the standard rate of corporation tax of 30% (2001: 30%)	(169)	(343)
Effects of:		
Overseas taxation	119	109
Overseas tax expensed	(30)	(33)
Increase in management expenses	199	376
Current corporation tax charge (note 7a)	<u>119</u>	<u>109</u>

Investment companies which have been approved by the Inland Revenue under s842 Income and Corporation Taxes Act (ICTA) 1988 are exempt from tax on capital gains. It has been assumed that the s842 ICTA 1988 criteria will be met in the period and therefore, any capital return is not included in the above reconciliation.

## Notes to the Accounts

c) The company has unrelieved excess tax losses of £8,668,465 (2001: £8,004,287). It is unlikely that the company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

### 8 Loss per ordinary share

	<u>revenue</u>	<u>2002 capital</u>	<u>total</u>	<u>revenue</u>	<u>2001 capital</u>	<u>total</u>
Basic	(0.69p)	(9.83p)	(10.52p)	(1.22p)	(15.70p)	(16.92p)

Returns per ordinary share are based on the net revenue loss on ordinary activities after taxation of £681,000 (2001 : loss £1,251,000) and the capital depreciation in the year of £9,716,000 (2001 : depreciation £16,100,000) and on 98,825,157 ordinary shares (2001: 102,561,395) being the weighted average number of ordinary shares in issue during the year.

As the basic and fully-diluted returns, calculated according to the provisions of FRS 14, are identical, the fully-diluted return has not been disclosed. Since the effect of the warrants outstanding on the first day of the accounting period is not dilutive, they have not been included in the calculation of the fully-diluted return.

### 9 Investments

	<u>2002 £'000</u>	<u>2001 £'000</u>
Listed overseas	55,492	69,570
<b>Total listed investments</b>	<b>55,492</b>	<b>69,570</b>

The above valuation of listed investments at 31 December 2002 includes investments quoted on the Japanese Over The Counter market totalling £8,436,000 (2001:£13,449,000)

	<u>listed overseas £'000</u>
Opening book cost	108,326
Opening unrealised depreciation	(38,756)
<b>Opening valuation</b>	<b>69,570</b>
<b>Movements in the year</b>	
Purchases at cost	16,602
Sales - proceeds	(20,875)
Sales - realised losses on sales	(4,055)
Decrease in unrealised appreciation	(5,750)
<b>Closing valuation</b>	<b>55,492</b>
Closing bookcost	99,998
Closing unrealised depreciation	(44,506)
	<b>55,492</b>

	2002 £'000	2001 £'000
Realised losses on sales	(4,055)	(15,873)
Decrease in unrealised appreciation	(5,750)	(1,950)
<b>Losses on Investments</b>	<b>(9,805)</b>	<b>(17,823)</b>

The annualised portfolio turnover rate for the year is 39% (2001 : 55%)

## 10 FRS - 13 Financial Instruments

The investment objective of the Company is detailed in the Company Summary on page 1. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies
- Cash, liquid resources and short-term debtors and creditors that arise from its operations
- Yen borrowings to finance operations

The risks arising from the Company's financial instruments are market price risk, which comprises interest rate risk and foreign currency exposure, liquidity risk and counterparty credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

### Market price risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Investment Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also met an acceptable risk-reward profile.

### Fair Value of financial assets and liabilities

Fair value of financial assets and liabilities are stated in the balance sheet at values which are not materially different to their fair values, with the exception of the two (2001:two) Japanese yen-denominated fixed rate unsecured loans, whose fair value as at 31 December 2002 given below has been calculated by discounting future cash flows at current Japanese yen interest rates.

	2002		2001	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured loan @ 2.16% per annum	-	-	7,995	7,873
Fixed rate unsecured loan @ 1.05% per annum	7,969	7,837	-	-
Fixed rate unsecured loan @ 2.155% per annum	9,145	8,783	9,365	8,823
	<b>17,114</b>	<b>16,620</b>	<b>17,360</b>	<b>16,696</b>

## Notes to the Accounts

### Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through two Japanese yen-denominated fixed rate unsecured bank loans, which fall due for repayment in August 2004 and November 2004. The Company is therefore not exposed to a financial risk arising as a result of any increase in yen interest rates on these loans. The fixed rate unsecured loan from JP Morgan Chase Bank PLC of Yen 1,499,040,000 was drawn down on 27 August 2002 for a period of two years at a fixed rate of 1.05% per annum. The Company pays a quarterly fixed fee of 0.3% less the quarterly LIBOR rate on the swap facility. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

The Company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The Company also has substantial cash balances of £2,784,000 (2001: £1,213,000) denominated in Japanese yen. The rate of interest on the cash balances is currently 0.0232% (2001: 0.11%), consequently the risk of a decrease in cash interest earned is low.

The interest profile of the company's financial liabilities (including short-term loans but excluding short-term creditors), as at 31 December 2002 was as follows:

Currency	2002 fixed rate financial liabilities £'000	2001 fixed rate financial liabilities £'000
Yen	16,620	16,696

Currency	2002 weighted average interest rate	2002 fixed rate financial liabilities; weighted average period for which rate is fixed
Yen	1.60%	22 months

### Foreign currency risk

The Company's total return and balance sheet can be affected by foreign exchange movements because the Company has assets and income which are denominated in currencies other than the Company's base currency (sterling).

The Board have identified three principal areas where foreign currency risk could impact the Company:

- movements in rates affecting the value of investments
- movements in rates affecting short-term timing differences
- movements in rates affecting the income received

The Company does not hedge the sterling value of investments or other net assets priced in other currencies by the use of derivatives. However, it has increased finance available to the Company for its investment activities with foreign currency borrowings, thereby hedging part of the movements which are a result of exchange movements.

The Company might also be subject to short-term exposure from exchange rate movements, for example between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to sterling on receipt.

The following is an analysis of the Company's foreign currency exposure as at 31 December 2002 and 2001:

Currency	2002			2001		
	Foreign currency monetary assets £'000	Foreign currency monetary liabilities £'000	Net foreign currency monetary assets £'000	Foreign currency monetary assets £'000	Foreign currency monetary liabilities £'000	Net foreign currency monetary assets £'000
Yen	58,764	(16,647)	42,117	70,804	(16,809)	53,995
Sterling	197	(261)	(64)	307	(382)	(75)
<b>Balance sheet total</b>	<b>58,961</b>	<b>(16,908)</b>	<b>42,053</b>	<b>71,111</b>	<b>(17,191)</b>	<b>53,920</b>

#### Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in note 13 to the accounts.

The maturity profile of the Company's financial liabilities at 31 December 2002 and 2001:

	2002 £'000	2001 £'000
Within one year, or on demand	-	7,873
After more than one year but less than two years	16,620	-
After more than two years but less than five years	-	8,823
	<b>16,620</b>	<b>16,696</b>

Short-term debtors and other short-term creditors are excluded from the above analysis.

#### Counterparty risk

Certain transactions in securities that the Company enters into expose it to the risk that the counterparty will not deliver either the shares (on a purchase) or the cash (on a sale) after the Company has fulfilled its responsibilities. There is also a counterparty risk associated with deposit takers

The Company buys and sells investments on a delivery versus payment basis to manage risk.

The Company only buys and sells investments through brokers which have been approved by the Manager as an acceptable counterparty. Additionally, limits are set as to the maximum exposure to any broker at any time, the limits being reviewed on a regular basis.

## 11 Debtors

	2002 £'000	2001 £'000
Securities sold for future settlement	466	-
Accrued income	22	21
Other debtors	60	40
	<b>548</b>	<b>61</b>

## Notes to the Accounts

### 12 Creditors - amounts falling due within one year

	2002 £'000	2001 £'000
Fixed rate unsecured loan @ 2.16% per annum	-	7,873
Securities purchased for future settlement	-	80
Loan interest payable	28	33
Other creditors	260	382
	<u>288</u>	<u>8,368</u>

### 13 Creditors - amounts falling due after one year

	2002 £'000	2001 £'000
Fixed rate unsecured loan @ 1.05% per annum	7,837	-
Fixed rate unsecured loan @ 2.155% per annum	8,783	8,823
	<u>16,620</u>	<u>8,823</u>

The fixed rate loan from JP Morgan Chase Bank PLC of Yen 1,680,000,000 was drawn down on 25 November 1999 for a period of five years at a fixed rate of 2.155% per annum.

A fixed rate unsecured loan from JP Morgan Chase PLC of Yen 1,499,040,000 was drawn down on 27 August 2002 for a period of two years at a fixed rate of 1.05% per annum.

The Company has entered into an arrangement with JP Morgan Chase PLC, whereby if total borrowings exceed 39% of the Company's assets, sufficient money is placed in a charged account with the Bank to reduce borrowings to below 39%.

At 31 December 2002, there were cash deposits with the Bank subject to a charge in favour of JP Morgan Chase Bank Plc of Yen 380,000,000 (2001: Nil). The release of the charge is contingent on the borrowing ratio of the Company being reduced to 37% for a period of five consecutive business days. As at 28 February 2003 cash deposits subject to the charge amounted Yen 480 million.

### 14 Called-up share capital

	2002 £'000	2001 £'000
<b>Authorised:</b>		
230,000,000 (2001: 230,000,000) ordinary shares of 25 pence each	<u>57,500</u>	<u>57,500</u>
<b>Issued, allotted and fully paid:</b>		
<b>Beginning of year</b>		
101,506,253 (2001: 103,922,726) ordinary shares of 25 pence each	25,376	25,980
1 January 2001 to 31 December 2001: Exercise 3,527 warrants	-	1
1 January 2001 to 31 December 2001: Repurchase of 2,420,000 shares	-	(605)
22 January 2002: Repurchase of 600,000 ordinary shares	(150)	-
7 February 2002: Repurchase of 100,000 ordinary shares	(25)	-
18 February 2002: Repurchase of 1,000,000 ordinary shares	(250)	-
12 April 2002: Repurchase of 1,600,000 ordinary shares	(400)	-
	<u>24,551</u>	<u>25,376</u>
<b>End of year</b>		
98,206,253 (2001: 101,506,253) ordinary shares of 25 pence each	<u>24,551</u>	<u>25,376</u>

At 31 December 2002 there were 20,396,547 (2001 : 20,396,547) warrants outstanding. Holders have the right to subscribe for ordinary shares at 100p on 30 April 2003 and subsequently on 30 April 2004.

## 15 Reserves

	share premium account £'000	capital redemption reserve £'000	other reserve £'000	warrant exercise reserve £'000	warrant reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
<b>Beginning of year</b>	40	955	61,839	2	10,198	790	(37,270)	(8,010)
Exchange (losses)/gains on other net assets	-	-	-	-	-	(135)	74	-
Net loss on realisation of investments	-	-	-	-	-	(4,055)	-	-
Net (depreciation)/appreciation thereon already recognised in prior periods	-	-	-	-	-	(3,551)	3,551	-
Decrease in unrealised appreciation	-	-	-	-	-	-	(5,750)	-
Exchange (losses)/gains on loans	-	-	-	-	-	(242)	392	-
Retained net loss for the year	-	-	-	-	-	-	-	(681)
Repurchase of ordinary shares	-	825	(1,470)	-	-	-	-	-
<b>End of year</b>	<b>40</b>	<b>1,780</b>	<b>60,369</b>	<b>2</b>	<b>10,198</b>	<b>(7,193)</b>	<b>(39,003)</b>	<b>(8,691)</b>

## 16 Net asset value per share

The basic net asset value per ordinary share is based on net assets of £42,053,000 (2001 : £53,920,000) and on 98,206,253 (2001 : 101,506,253) ordinary shares, being the number of ordinary shares in issue at the year end.

The fully-diluted net asset value per ordinary share has been calculated on the assumption that the outstanding warrants of 20,396,547 at 31 December 2002 (2001 : 20,396,547) were exercised on that date. The fully-diluted net asset value per ordinary shares exceeds the basic net asset value per ordinary share this year and has therefore not been stated. This basis of the calculation is considered to be more appropriate than the basis given in FRS14 as it is consistent with the calculation of fully-diluted net asset value which is prepared in accordance with guidelines laid down by the Association of Investment Trust Companies and is provided to the London Stock Exchange on an ongoing basis.

## 17 Reconciliation of movement in shareholders' funds

	2002 £'000	2001 £'000
<b>Opening shareholders' funds</b>	<b>53,920</b>	<b>72,553</b>
Exercise of warrants	-	4
Repurchase of ordinary shares	(1,470)	(1,286)
Total recognised losses before dividends	(10,397)	(17,351)
<b>Closing shareholders' funds</b>	<b>42,053</b>	<b>53,920</b>

## Notes to the Accounts

### 18 Reconciliation of net cash movements to movement in net debt

	2002 £'000	2001 £'000
<b>Beginning of year</b>	<b>(15,216)</b>	<b>(20,502)</b>
Net cash inflow/(outflow)	1,125	(5,499)
1.05% fixed rate unsecured loan drawn down	(8,300)	(9,106)
1.05% fixed rate unsecured loan repaid	-	9,084
3.38% fixed rate unsecured loan repaid	-	9,183
2.16% fixed rate unsecured loan repaid	8,226	-
Unrealised foreign exchange movement	74	(243)
Foreign exchange movement on fixed rate unsecured loans	392	1,867
<b>Change in net debt</b>	<b>1,517</b>	<b>5,286</b>
<b>End of year</b>	<b>(13,699)</b>	<b>(15,216)</b>

	2002 £'000	change in the year £'000	2001 £'000
<b>Analysis of balances</b>			
Cash at bank	2,921	1,441	1,480
Fixed rate unsecured loans	(16,620)	76	(16,696)
<b>End of year</b>	<b>(13,699)</b>	<b>1,517</b>	<b>(15,216)</b>

### 19 Analysis of changes in financing during the year

	2002			2001		
	share capital £'000	loans £'000	total £'000	share capital £'000	loans £'000	total £'000
<b>Beginning of year</b>	25,376	16,696	42,072	25,980	27,870	53,850
Cash inflow from exercise of warrants	-	-	-	1	-	1
1.05% fixed rate unsecured loan drawn down	-	8,300	8,300	-	9,106	9,106
3.38% fixed rate unsecured loan repaid	-	-	-	-	(9,183)	(9,183)
1.05% fixed rate unsecured loan repaid	-	-	-	-	(9,084)	(9,084)
2.16% fixed rate unsecured loan repaid	-	(8,226)	(8,226)	-	-	-
Change in value of fixed rate unsecured loans	-	(150)	(150)	-	(2,013)	(2,013)
Cash outflow from repurchase of shares	(825)	-	(825)	(605)	-	(605)
<b>End of year</b>	<b>24,551</b>	<b>16,620</b>	<b>41,171</b>	<b>25,376</b>	<b>16,696</b>	<b>42,072</b>

**20 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Net loss before finance costs and taxation	(178)	(578)
Decrease in other creditors	(122)	(130)
(Increase)/decrease in other debtors	(21)	77
Tax on investment income	(119)	(109)
<b>Net cash outflow from operating activities</b>	<b>(440)</b>	<b>(740)</b>

**21 Contingent liabilities and capital commitments**

There were no contingent liabilities or capital commitments as at 31 December 2002 (2001 : nil).

**22 Related party disclosures**

The Directors have complied with the provisions of FRS8 which require disclosure of related party transactions and balances. Full details are set out in the Directors' Report on page 18.

## Investor Information

The objective of Fidelity Japanese Values is to achieve long-term capital growth from an actively managed portfolio of securities primarily of small and medium-sized Japanese companies listed or traded on Japanese stockmarkets.

Fidelity Japanese Values was launched on 15 March 1994 with one warrant attached to every five shares. The original subscription price for each share was £1. Every three years shareholders have the right to approve, or otherwise, the continued existence of the Company and the next opportunity to do so will be in 2004. The Company is a member of The Association of Investment Trust Companies (AITC) from whom general information on investment trusts can be obtained by telephoning 020 7282 5555 (email address: [enquiries@aitc.co.uk](mailto:enquiries@aitc.co.uk)).

### How to invest

The ordinary shares and warrants can be bought and sold directly through a stockbroker or indirectly via a lawyer, accountant or other independent financial adviser. A number of banks and building societies also offer this service. The shares can also be bought directly through the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account (ISA).

**The Share Plan** allows an investor to make regular monthly payments (minimum £50 per month) or to invest a lump sum (initial minimum £1,000, thereafter £250) into any of the five investment trusts managed by Fidelity. The only plan charge for investors is *Government Stamp Duty of 0.5% payable on all share purchases*. Any dividends can be reinvested in additional shares or taken as cash, as preferred. Statements and valuations are sent twice a year. For those investors who use a professional adviser, the Share Plan allows for commission of up to 3% to be paid direct to your adviser.

**The Fidelity ISA** was launched on 6 April 1999. Like its predecessor the PEP, it allows you to build up your savings free from personal liability to income and capital gains tax. You are able to invest up to £7,000 in the 2002/2003 tax year.

There is an initial charge of 3.25% and for those investors who use a professional adviser, the ISA allows for commission of up to 3% to be paid directly to your adviser. The full range of Fidelity's investment trusts are available through the ISA. For more information about ISAs, you can request a free guide from Fidelity on 0800 41 41 15.

**The PEP** – no further PEP investments may be made after 5 April 1999, but existing PEPs can continue to grow tax free.

For PEP and ISA investors, the reclaimable tax credit attached to dividends is 10% until 5 April 2004. Interest on uninvested cash in a stocks and shares component of an ISA is subject to a 20% flat rate charge, which extinguishes any liability to tax on the interest.

The value of tax savings and eligibility to invest in an ISA or a PEP will depend on individual circumstances and all tax rules may change in the future.

The Fidelity ISA is offered and managed by Fidelity Investments Limited and the Fidelity Share Plan is offered by Fidelity Investments International. Both companies are regulated by the Financial Services Authority.

For information on how to invest through the Share Plan, PEP or ISA please contact your financial adviser or call Fidelity free on 0800 41 41 15.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is no guarantee of future returns. Fidelity only provides information about its products and will not give investment advice. Should you wish to seek advice, please contact an independent financial adviser. For the purpose of Sections 21 and 25 of the Financial Services and Markets Act 2000, the contents of this report have been approved by Fidelity Investments International, regulated by the Financial Services Authority.

**Annual General Meeting** – with this Report you will find an invitation to attend the AGM at 12 noon on 15 May 2003 and it is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan, PEP or ISA, will take this opportunity to meet the Directors and hear a report from the Investment Manager on the progress of your Company. The formal AGM notice can be found on page 46 to 48.

**Price Information** – the mid-market prices of the ordinary shares and warrants are published daily in the Financial Times under the heading 'Investment Trusts'. The ordinary share price is also published in The Times, The Daily Telegraph and The Independent. You can also obtain current price information by phoning FT Cityline on 0336 43 then 4021 (share price) or 4165 (warrant price). The Reuters code for Fidelity Japanese Values is FJVL.

**NAV Information** – the net asset value of the Company is calculated on a daily basis and released to the London Stock Exchange.

**Capital Gains Tax** – your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of shares and warrants, acquired at the time of the Company's launch, is 90.21p for ordinary shares and 48.94p for warrants. All UK individuals are permitted to have £7,700 of capital gains in the current tax year ie 2002/2003 (£7,500 2001/2002 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and are taxable at 10% for taxpayers up to the starting rate limit, 20% for basic rate taxpayers or 40% for higher rate taxpayers.

**Financial Calendar** – the key dates in the Company's calendar for the year from 31 December 2002:

- 31 December 2002 - financial year end.
- 28 February 2003 - announcement of results.
- 17 March - publication of this Annual Report.
- 15 May - Annual General Meeting.

30 April - exercise date on which warrant holders may choose, for each warrant held, to pay £1 for an ordinary share.

30 June - half year end.

August - announcement of interim results to 30 June.

August - publication of Interim Report.

### Contact Information

Private investors can call free on 0800 41 41 15, 9am to 6pm, seven days a week.

Financial advisers can call free on 0800 41 41 81, 8am to 6pm, five days a week.

Existing shareholders who have specific queries regarding their holding, for example a change of address, should contact the appropriate administrator:

Holders of ordinary shares or warrants – the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: 0870 162 3100

Details of individual shareholdings and other information can also be obtained from the registrars' website:

<http://www.capitaregistrars.com>

Share Plan investors – Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ.

Telephone: 0800 3285680

ISA/PEP investors – Fidelity, using the address or free telephone numbers given above, or by writing to Fidelity Investments, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

General Enquiries – should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office, Fidelity Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP

Fax: 01737 836892

Internet site: <http://www.fidelity.co.uk>

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Japanese Values PLC will be held at 25 Cannon Street, London EC4M 5TA, on 15 May 2003 at 12 noon for the following purposes:

### Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2002.
2. To re-elect Mr Simon Fraser as a Director.
3. To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

THAT PricewaterhouseCoopers LLP be reappointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

4. To approve the Directors' Remuneration Report for the year ended 31 December 2002.

### Special Business

Resolutions 5 and 6 will, if approved, authorise the Directors to allot a limited number of currently unissued ordinary shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 5% of the number of ordinary shares of the Company in issue on 28 February 2003. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

To consider and, if thought fit, to pass the following resolutions of which Resolution 4 will be proposed as an ordinary resolution and Resolution 5 as a special resolution:

5. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,227,578 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 28 February 2003) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.
6. THAT, subject to the passing of Resolution 5 set out above, the Directors be and they are hereby authorised, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority given by the said Resolution 5 as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:

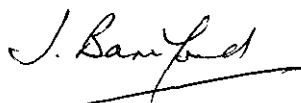
- a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and
- b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £1,227,578 (approximately 5 per cent of the aggregate nominal amount of the issued share capital of the Company as at 28 February 2003); and
- c) to the allotment of equity securities at a price of not less than the fully-diluted net asset value per share.

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

*Resolution 7 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.99% of the number of ordinary shares in issue on 28 February 2003. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board and in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increase in net asset value per share.*

7. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of Section 163 of the Act) of shares of 25p each in the capital of the Company (the "shares") provided that:
  - a) the maximum number of shares hereby authorised to be purchased shall be 14,721,117;
  - b) the minimum price which may be paid for a share is 25p;
  - c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;
  - d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
  - e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board  
Fidelity Investments International  
Secretary  
17 March 2003



## Notice of Annual General Meeting

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Notes:

- 1 A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend, and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
- 2 A form of proxy is enclosed for use by shareholders. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.
- 3 To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Registrars, P O Box 25, Beckenham, Kent BR3 3BR not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken more than 48 hours after it is demanded) not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
- 4 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- 5 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 13 May 2003 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 5.30pm on 13 May 2003 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 Shareholders and any proxies or representatives they appoint agree by attending the meeting that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
- 7 No Director has a service contract with the Company.

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

CB14151

Alex Hammond-Chambers (Chairman)  
Nicholas Barber  
Simon Fraser  
The Rt Hon Sir John Stanley, MP  
William Thomson

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