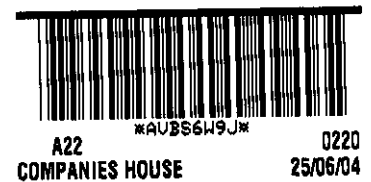


FIDELITY

**Company Number:
2885584**

**Annual Report for the year ended
31 December
2003**



Company Summary

as at 31 December 2003

Investment objective	<i>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.</i>	
Benchmark	Russell Nomura Mid/Small Cap Index.	
Management company	Fidelity Investments International	
Total assets employed	£76.0m	
Shareholders' funds	£59.3m	
Market capitalisation	£50.1m	
Capital structure	ordinary shares of 25p	98,206,253 in issue
	warrants	20,396,547 in issue
Continuation vote	Annual General Meeting in 2004 and every three years thereafter.	
Management & secretarial fee	<p>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.</p>	
Membership of AITC	The Company is a member of the AITC under the Japanese Smaller Companies Sector.	
Investment trust status	<p>The Inland Revenue has granted the Company approval as an investment trust under s842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2001 and provisional approval for the year ended 31 December 2002. 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.</p>	
ISA status	Investment limit £7,000 in the 2003/2004 tax year.	

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Summary of Results

	2003	2002	% change*
Assets at 31 December			
Total assets employed	£76.00m	£58.67m	+29.5
Shareholders' funds	£59.34m	£42.05m	+41.1
Borrowings as % of shareholders' funds	28.1%	39.5%	
Borrowings less cash as % of shareholders' funds	22.6%	32.6%	
Net asset value per share (NAV)	60.42p	42.82p	+41.1
Results for year to 31 December - see page 30			
Capital gain/(loss) per ordinary share	18.25p	(9.83p)	
Revenue loss per ordinary share	(0.65p)	(0.69p)	
Stockmarket Data at 31 December			
Russell Nomura Mid/Small Cap Index†	1.46	1.10	+32.7
Yen/£ exchange rate	190.81	191.05	+1.3
Share price			
year end	51.00p	35.00p	+45.7
high	61.00p	64.75p	
low	31.75p	34.50p	
Discount			
year end	15.6%	18.3%	
low	5.8%	2.3%	
high	22.1%	22.4%	
Warrant price			
year end	0.35p	1.50p	-76.7
high	3.30p	9.75p	
low	0.27p	1.50p	
Returns for the year to 31 December (%)			
Russell Nomura Mid/Small Cap Index†	+32.7	-14.7	
NAV	+41.1	-19.4	
Share price	+45.7	-15.2	
Warrant price	-76.7	-80.0	
Total Expense Ratios#			
Total assets employed	1.44%	1.23%	
Shareholders' funds	1.93%	1.63%	

* 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

Historical Record as at 31 December	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994 [†]
Total assets employed (£m)	76	59	71	100	215	59	48	72	93	90
Shareholders' funds (£m)	59	42	54	73	186	42	33	56	84	90
NAV per share - undiluted	60.42p	42.82p	53.12p	69.81p	176.88p	40.20p	31.48p	53.12p	79.54p	85.60p
NAV per share - diluted	n/a	n/a	n/a	n/a	164.07p	n/a	n/a	n/a	n/a	n/a
Share price	51.00p	35.00p	41.25p	63.75p	161.75p	28.75p	26.50p	47.25p	75.00p	83.50p
Warrant price	0.35p	1.50p	7.50p	14.25p	82.50p	4.75p	6.50p	11.25p	28.00p	36.00p
Discount to NAV	15.6%	18.3%	22.3%	8.7%	1.4%	28.5%	15.8%	11.1%	5.7%	2.5%
Basic earnings per ordinary share	(0.65p)	(0.69p)	(1.22p)	(2.01p)	(1.64p)	(0.65p)	(0.66p)	(0.99p)	0.17p	0.23p
Dividend per ordinary share	nil	nil	nil	nil	nil	nil	nil	nil	0.10p	0.10p
Cost of running trust (total expense ratio*)	1.93%	1.63%	1.93%	1.52%	1.50%	1.88%	1.66%	1.45%	1.34%	1.02%
Actual gearing ratio	22.6%	32.6%	28.2%	28.3%	11.6%	23.9%	24.5%	17.1%	9.9%	nil
NAV - undiluted performance	+41.1%	-19.4%	-23.9%	-60.5%	+340.0%	+27.7%	-40.7%	-33.2%	-7.1%	-10.8%
Share price performance	+45.7%	-15.2%	-35.3%	-60.6%	+462.6%	+8.5%	-43.9%	-37.0%	-10.2%	-16.5%

Performance
from launch to 31 December 2003

Performance relative to the Index
from launch to 31 December 2003

Undiluted NAV, share price and warrant price
from launch to 31 December 2003

Share price discount to NAV
from launch to 31 December 2003

[†] 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†

(Chairman) (age 61, date of appointment: 10 February 1994) a former Chairman of Ivory & Sime plc, he is 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 and he is currently Chairman of the Association of Investment Trust Companies.

The Rt Hon Sir John Stanley, MP*

(age 62, 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* (age 63, date of appointment: 4 December 2000) is Chairman of Bolero International Limited and Kappa IT Ventures (GP) Limited. His other directorships include The Maersk Co. and Bank of Ireland UK Financial Services plc. 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* (age 63, 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# (age 44, 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.

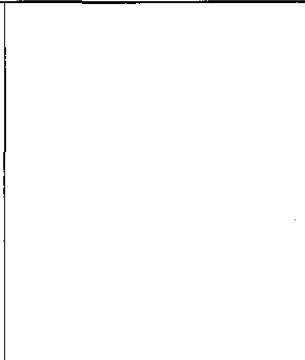
All of the Directors are non-executive and, with the exception of Simon Fraser, are considered by the Board to be independent and are independent under the 1998 Combined Code

† Chairman of the Audit, Management Engagement and Nomination and Remuneration Committees

* member of the Audit, Management Engagement and Nomination and Remuneration Committees

member of the Nomination and Remuneration Committee

Chairman's Statement



Alex Hammond-Chambers
Chairman

The Year's Results: NAV 60.4p (+17.6p; +41.1%)

The year 2003 turned out to be a much better year for your Company than any since the bursting of the technology bubble in 2000. It started pretty inauspiciously with the Japanese stock markets and indeed global markets generally being depressed by the prospect of a war, the onset of SARS and doubts about the robustness of any economic recovery in the United States of America. These concerns abated during the next nine months and markets everywhere rebounded significantly, making 2003 the first profitable year for markets in the new millennium.

As a consequence of this our own net asset value rose 41.1% or 17.6p to 60.4p per share; given that our goal is capital appreciation - making money for our shareholders - this result can be considered satisfactory. The table in the next column provides a simple attribution analysis of our performance and shows that our stock selection added just under one penny and our gearing just over four pence to the net asset value. Again, without wanting to sound in any way complacent, we regard it as satisfactory that the management of your Company added to shareholder value.

While it is our primary objective to make money for our shareholders, it is a secondary and not unimportant objective that we do better than our competitors and also the market. Our portfolio in yen terms did do a little better than the market - it rose 34.3% while the benchmark index rose 32.2% - and we ranked second out of four in the Association of Investment Trust Companies Japanese Smaller Companies sector. In these respects too we would regard the progress of the last year as satisfactory.

Attribution Analysis

for the year to 31 December 2003

Net Asset Value @ 31 December 2002 42.8p		
Impact of the stock market	+13.8p	+32.2%
Impact of stock selection	+0.9p	+2.1%
Impact of currency	0.0p	0.0%
Impact of gearing	+4.4p	+10.3%
Impact of other costs	-1.5p	-3.5%
Net Asset Value @ 31 December 2003 60.4p +41.1%		

The Share Price and the Discount:

Price: 51p (+16p; +45.7%)

Discount: 15.6% (18.3% in 2002)

As we have said in our annual reports during the course of the last few years, we believe there is potential for Japanese stocks and shares to perform well because of the considerable restructuring that has occurred amongst Japanese companies generally and the effect that would have on corporate profitability. Corporate profits rose by 72% in 2002 and are estimated to have risen by 19% in 2003 with 2004 growth forecast, as I write, at 11½% - a fact that is drawing the attraction of the Japanese stock markets to the attention of investors generally. It is one of the reasons we believe that the demand for shares of investment trust companies investing in Japan has increased and caused a general narrowing of discounts in this subsector of the investment trust market. As I write this statement the discount has narrowed further since the year end and now stands at 9.6%.

Board Matters:

The year 2003 saw yet another enormous increase in the corporate governance requirements of boards of directors of companies listed on the London Stock Exchange. Based on reports produced by the Department of Trade and Industry in the names of Mr Higgs and Sir Robert Smith, the UK Listing Authority (part of the Financial Services Authority ("FSA")) has produced a new combined code for companies to follow. In it, it commented that the governance of investment companies had certain considerations of their own. As a

Chairman's Statement

consequence the Association of Investment Trust Companies has drawn up its own code for its members, one that your own Board of Directors deems to be more appropriate for the governance of your Company. We will be using it as the template for our new corporate governance procedures which will be decided upon during the course of the year.

The FSA has also produced further listing requirements for all investment trust companies in reaction to the investigation to the problems of the Split Capital Investment Trust subsector. These new provisions include two which affect the composition of your Board of Directors. I am Chairman of both Fidelity Special Values and your Company, Fidelity Japanese Values. The FSA has determined that being a director of two or more investment trusts under the same management makes an individual dependent on that management house and incapable of independent behaviour. It has also ruled that the chairman of an investment trust company should be independent of management, a principal that we entirely endorse. As a consequence of this I shall be standing down as Chairman and a Director of your Company. I am truly sorry to do so – particularly as I believe that, after a number of difficult years, the prospects look as encouraging as they have done in a long time. It is not my present intention to sell my shares after stepping down.

Consequent upon my departure as Chairman and Director of your Company, the Board of Directors has asked William Thomson to become Chairman of your Company. William has vast experience of Japan with his company's business having operated there for many, many years; he knows Japan very well. Furthermore, he has been a Director of investment trusts for the last 30 years and is chairman of British Assets Trust. He brings knowledge and experience of both Japan and investment trusts to the leadership of the Board. I wish him well. Shareholders will note that he is standing for re-election as a Director, his colleagues believe that he has made a considerable contribution to the Company and recommend to shareholders that he be re-elected.

The FSA has also ruled that there may also be only one individual employed or associated with the Manager on the board of an investment trust. We have two: Simon Fraser, Fidelity International's Chief Investment Officer and Sir John Stanley MP, who is a consultant to Fidelity. As our corporate governance statement on page 23 states, we believe that it is important "that the manager should be party to the responsibility, authority and accountability to those investing in their management." As a consequence we believe that it is important that Simon Fraser remains a Director (his position as a Director will be subject to annual re-election by shareholders from next year onwards). Unfortunately it means that Sir John Stanley will join me in stepping down as a Director. Anyone who has worked with Sir John will know that he is a very conscientious Director and he has a very independent nature; his conduct as a Director truly reflects this and I have not come across a more independent Director; rightly or wrongly however the rules require him to stand down. It is a pity because he has served shareholders well.

The Board of Directors, with William Thomson and Nicholas Barber taking the lead, will be looking for and expect to appoint two new Directors within the next twelve months. I will stand down as Chairman and as a Director on 31 December 2004 while Sir John Stanley will stand down on 31 March 2005.

Finally Nicholas Barber is standing for re-election, his contribution to the Board in his first three years as a Director has been very valuable. He has brought his experience of Japan, the Far East in general and of business, to the Board's deliberations; his common sense and robust questioning have proved valuable. As with Sir John, he has an independent nature and that attribute too has been important. We, his colleagues, have no hesitation in recommending his re-election to shareholders.

Gearing & Currency Hedging:

Gearing: In last year's Chairman's statement I articulated our gearing policy as follows: "While the Directors maintain a long term approach to the level of gearing – in part because we have

Chairman's Statement

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 recent Board meeting in Tokyo we reviewed the level of borrowings and concluded once again that they should be left at the levels they were at.

We have two loans outstanding, one for yen 1.5 billion (valued at £7.9 million at the year end); it is due for repayment in August of this year. The other loan for yen 1.7 billion (valued at £8.8 million at the year end) is due for repayment in November of this year. As part of its gearing review process the Board will be considering the future of these two loans.

Currency Hedging: In the light of the weakness of the yen against sterling so far in 2004, I thought it would be worth stating the Board's policy on currency hedging. The Board takes the view that neither it nor the Manager is likely to be able to add to shareholder value through a short term currency hedging programme, particularly as the Japanese Government's policy on the management of the yen makes predicting its value so difficult. However the level of the yen/sterling exchange rate is kept under constant review; only under extreme circumstances would we be likely to depart from our policy.

Annual General Meeting: 6 May 2004

I do urge as many shareholders as possible to attend the Annual General Meeting which will be held at midday on 6 May 2004 at Fidelity's offices at 25 Cannon Street in the City of London. It is the one occasion in the year when shareholders can meet all of the Directors as well as the Investment Manager Asako Kibe. You may have questions, comments or suggestions which we would welcome and which we feel that all shareholders should have the benefit of hearing. Following the meeting Asako Kibe will give a presentation on the past year and the prospects for the current one.

The Continuation Vote:

Every three years the Board of Directors puts a resolution to shareholders concerning the continuation of the Company as an investment trust, investing in the stocks and shares of smaller companies in Japan. Your Board takes this recommendation most seriously and certainly has not and does not take a recommendation to continue for granted. The process of assessing the matter has involved three criteria:

- Whether it is likely that the net asset value of your Company will rise in the next three years,
- Whether we have the best resources to take advantage of the investment opportunities, so as to make money and to do better than our peer group and our benchmark; and
- Whether our shareholders want the Company to continue in business.

Every year the Board of Directors conducts one of its Board meetings in Tokyo. In October 2003 we met there with the special purpose of considering the prospects for the economy of Japan, for the corporate sector and its profits and finally for those of smaller companies in particular – with a view to assessing whether or not there were good prospects for a rise in the net asset value over the next three years. It has to be said that we made a similar assessment three years ago before recommending to you that the Company continue in business and that that objective was not achieved. However we came away from Tokyo believing that considerable progress has been made at the corporate level in Japan, that balance sheets are enormously improved, that there has been some consolidation of excess capacities and that there is now a more sympathetic approach by Japanese management to shareholder value. Most of all, much as we thought they would, both corporate profits and cash flows have increased materially during the last two years and look set to do so again over the next few years. In the past two years this merely resulted in lower price earnings ratios rather than higher share prices; now that price earnings ratios are really quite reasonable and much in line those of other countries, we

Chairman's Statement

believe that during the next few years higher profits should result in higher share prices.

There is no doubt that the economy is performing much better than it has for a number of years. Not only is the robust recovery of the American economy during the last 12 months helping Japanese exporters and Japan's economy generally but there is an added dimension to the economy of the whole of the Far East area, the dynamic growth of the economy of China. Exports to China are growing rapidly and to the whole Far East area are now nearly twice as large as those to the USA. On the surface of it at least, it looks thoroughly encouraging.

Looking back on the last three years, I am pleased to be able to report that our net asset value was the best performer in our peer group but on the other hand it did not outperform our benchmark. Neither we, nor indeed the rest of our peer group for that matter, were able to increase our net asset value – in large measure because the market was down over the period. This led your Board of Directors to embark upon a rigorous review of the management resources at our disposal in order to gain a better understanding as to why we had not performed better than we did and to assure ourselves that there were prospects of improvement (we are always looking at ways of improving ourselves). We conducted a review of the whole investment process of our Manager in Tokyo; your Board of Directors believes that the Manager has all the resources to do a good job and fulfil the first two criteria referred to above.

Finally, the Board met with its stockbrokers to discuss shareholders' views in particular in respect to a continuation vote. We have visited one or two large shareholders and, through our brokers, canvassed the opinion of a number of further shareholders. From these meetings the Board concluded that there is support for continuation and, therefore general support for the Company going forward. The Board believes there is also considerable investment demand for Japan – particularly as its improved prospects

are becoming more widely recognised by investors around the world.

As a consequence of what I believe to be a thorough review by the Board of Directors of the prospects for Fidelity Japanese Values and of the likely demand by investors for Japanese smaller companies funds we have concluded that we should recommend to you that you vote in favour of the Company continuing business at the Annual General Meeting

If any shareholder has concerns about this matter or any other matter pertaining to the AGM, would you please contact me and I would be very happy to review them with you.

Prospects:

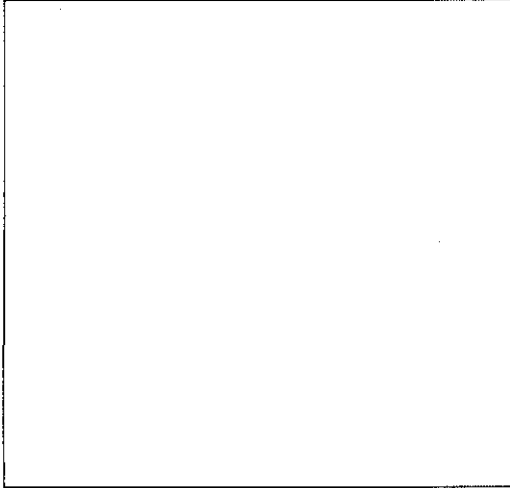
I hope that I have already covered the prospects for Japan generally, for its stock market and for the shares of smaller companies in particular. It only suffices for me to say that we are enthusiastic about those prospects and believe that, after nearly 15 years of bear markets in Japan, things do look a lot better. Given the low margins and low return on capital that Japanese companies generally have, the prospects for continued profit growth and thence higher share prices, are encouraging. It is just possible that they may well be better than those of many other markets. If so, it could be Japan's turn again – at last!

Alex Hammond-Chambers

Chairman

10 March 2004

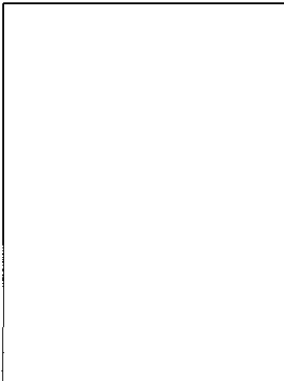
Investment Manager



Fidelity Investments International

The Company is managed by Fidelity Investments International, incorporated in the UK on 13 September 1979 (authorised and regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity International Limited group. Fidelity International Limited and its US affiliate, FMR Corp, together form what is commonly referred to as Fidelity Investments^R. Fidelity Investments^R, as at 31 December 2004 had total assets under management exceeding £640 billion. Fidelity Investments^R has developed into the world's largest independent investment management organisation.

Fidelity's Offices at 25 Cannon Street, London.



Asako Kibe (age 47)

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 manages two other Fidelity funds that invest in Japan; Fidelity Japan Special Situations Fund and Fidelity Funds Japan Smaller Companies Fund.

Investment Manager's Report

Performance Review – As shown in the Summary of Results on page 3, the undiluted net asset value returned +41.1% compared with a return of +32.7% in the Russell Nomura Mid/Small Index (all figures in sterling terms).

A turbulent 2003 saw the Japanese market hit by fears of war, SARS, increased uncertainty about the global economic outlook and concerns regarding the strengthening of the yen against the US dollar. However, the year ended well with the major indices

Performance for the year to 31 December 2003

realising their first annual gains in four years. Improvements to both the global and domestic economies boosted corporate profits, drawing investors back to equity investment.

Investor sentiment improved dramatically in late April, triggered by strong share price performance in the US equity markets, upbeat corporate earnings results for 2002 and projections for 2003 by Japanese companies. Concerns about the health of the banking sector in Japan were also alleviated by the government's infusion of two trillion yen into Resona Bank, which had been facing a severe shortage of capital. From May onwards banking stocks performed well on the back of receding concerns about credit costs and the prospect of a return to profitability during the current fiscal year.

The Japanese market rallied into the second half of the year as the economy continued to recover, supported by robust external demand, particularly from Asian countries, and increasing levels of private business investment. Japan's index of leading economic indicators rose to 90.0% in October from

66.7% in the previous month. The index was above 50% for the sixth consecutive month, signalling that the economy would continue to expand. The Bank of Japan's business sentiment survey published at the beginning of December revealed that confidence amongst large manufacturers had surged to a six and a half year high, exceeding levels seen during the last high in late 2000. Despite the strength of the yen, the improvement in sentiment was evident in a broad range of sectors.

In this environment, those companies highly sensitive to economic cycles performed well in the stockmarket. These included steel, shipping, non-ferrous metals, machinery, brokers and banks. On the other hand, defensive sectors including pharmaceuticals, electric power & gas, and land transport performed poorly.

Portfolio Review – The strongest contribution to returns came from holdings in the information & communication sector. In this sector, the Company's holdings in software developers and providers of Internet infrastructure, namely Global Media Online and Works Applications, added value. Global Media Online is a fast-growing provider of internet infrastructure and advertising services. Works Applications is a business software developer whose growth is driven by web-based groupware. These companies benefited from increasing IT spending by Japanese corporations.

Stock selection was also successful in the transport equipment sector, where NOK was the single largest stock contributor. The company is a leading maker of oil seals for automobiles and has the dominant market share worldwide. Having diversified into the production of flexible printed circuit boards for PCs and mobile phones, NOK gained an additional growth driver. Toyoda Gosei was another major contributor in the transport equipment sector. This company enjoyed a strong demand for its LEDs which are used for display panels of digital products such as mobile phones and digital cameras.

However, the Manager's unrewarding stock selection in the wholesale and chemicals sectors had a negative impact on performance. Among wholesalers, the performance of Japan Medical Dynamic Marketing, a specialist provider of medical and surgical equipment, was disappointing. This company's sales growth stalled in 2002/03 because their newly added

Investment Manager's Report

business of electronic scalpel sales were slower than expected. In the chemicals sector, cosmetic companies including Mandom and Fancl performed poorly over the year as they failed to achieve their target sales.

One of the main changes to the portfolio's sector positioning was an increase in exposure to the information & communication sector. This sector comprises of media, system integrators, software developers, internet service providers, as well as telecoms, both mobile and fixed-line. Over the year, the Manager added to current holdings in KDDI, Japan's second-largest cellular phones operator. This company has been increasing its share in the domestic mobile phone market, thanks to its high penetration in the camera handset market. Shares in Usen were also purchased during the year. The company provides multi-channel stereo radio broadcasting and broadband internet services. It is well poised to gain market share in the rapidly expanding broadband internet market. The Manager maintained its overweight positions in Works Applications whose strong share price performance also led to a higher overall weighting in the sector.

Another significant increase in sector terms occurred in the iron & steel sector. The Manager bought shares in Pacific Metals, which became the largest overweight position in the portfolio as of the end of the year. This company is Japan's largest producer of ferronickel used for stainless steel production and has benefited from strong demand for stainless steel in China and the rising nickel price.

In sector terms, the largest reduction was in the chemicals sector. This was partially due to falling share prices of the Company's holdings, namely in Mandom and Fancl. The Manager trimmed positions in these stocks but maintained overweight exposures at the end of the year. The Company's exposure to the transport equipment sector was also reduced, as the Manager took profits in NOK, FCC and Toyoda Gosei.

The retail sector remained consistently overweight. While Don Quijote remained a significant overweight position in the portfolio, the Manager added Lawson, an operator of a

Portfolio Breakdown by Market* as at 31 December 2003

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

convenience store chain. Lawson's earnings recovered due to its restructuring efforts under the leadership of a new CEO.

The exposure to the banking sector remained underweight throughout the year, despite the receding concerns about the bad debt problems and a general improvement in credit quality. The Manager believed that the fundamentals of many regional banks in the mid-to-small cap stock universe remain vulnerable with little prospect of a return to profitability.

As the Manager remained active at stock level, the number of holdings in the portfolio rose from 111 to 134. Stocks that were newly purchased during the year and now feature in the top positions include ARRK, Chiyoda Integre and Sodick. ARRK provides product design, prototyping and mould manufacture mainly for auto and consumer electronics companies. The Manager believes that the company's organic earnings growth is driven by increasing demand from manufacturers who are outsourcing product design and prototyping functions. Chiyoda Integre is an electronic parts maker which enjoys strong demand for precision parts used for miscellaneous OA equipments. Sodick manufactures electrodischargers and precision extruders used for the production of high-tech products including DVDs, digital cameras and LCDs. This company is benefiting from increasing capital spending by semiconductor makers and strong demand from China.

Outlook – There is now growing evidence to suggest that Japanese corporate fundamentals are steadily improving. Current corporate earnings growth is driven by the restructuring that has occurred over the last three or four years. We have seen a tremendous restructuring in terms of reduced break-even points as well as in terms of balance sheets. As a result, aggregate corporate earnings, cashflow and return on equity appear to be headed for historical highs this year and next. Despite investors' concern that a stronger yen could derail Japanese companies' earnings scenario, we believe currency fluctuations will not significantly undermine Japanese exporters' profitability in the long run. As has been tested and proven over the previous periods of the stronger yen, their cost structure is flexible enough to absorb the negative impact from currency fluctuations. Meanwhile, domestic equity valuations are still at the lower end of their historical ranges and they look attractive compared to other major equity markets and against the domestic bond market.

Although we have already seen strong moves in mid-to-small cap stocks in the market, we believe Japan continues to offer good stock picking opportunities. Examples include companies that are able to deliver sales and profits growth through new products or technologies. The Manager looks for companies that have diversified from their traditional businesses into new high growth areas such as flat panel displays, digital cameras and camera phones, and broader digital consumer electronics. These are market segments where Japanese manufacturers are relatively competitive. The Manager also seeks companies that are well positioned to benefit from a recovery in the domestic economy, notably companies with exposure to the improving capital spending cycle. A business's commitment to corporate restructuring remains a key theme, as this is likely to affect its efficiency and profitability. Lastly, valuation is also a major consideration for the Manager's stock selection. The objective is to either invest in superior earnings growers at reasonable valuations or companies with cheap valuations where the fundamentals are likely to improve.

Fidelity Investments International
10 March 2004

Top 10 Contributors	Contribution Pence per share
NOK	1.28
Pacific Metals	0.94
Work Applications	0.88
Goodwill	0.82
Global Media Online	0.71
Citizen Electronics	0.58
Ryohin Keikaku	0.55
Kuroda Electric	0.53
UFJ Holdings	0.51
Foodx Globe	0.49

Bottom 10 Contributors	Contribution Pence per share
Takara	(0.42)
Tokyo Individualized Education	(0.41)
Plenus	(0.22)
Culture Convenience Club	(0.19)
Keiyo	(0.16)
Sanko Soflan	(0.16)
Yamato Transport	(0.15)
Mandom	(0.15)
Japan Medical Dynamic	(0.15)
Hokuto	(0.14)

Portfolio Listing

as at 31 December 2003

Holding	Market Value £'000	% *
Pacific Metals <i>Manufactures ferronickel, stainless steel and metal powder</i>	1,687	2.2%
ARRK <i>Provides support for new product development focusing on design</i>	1,587	2.1%
Fujikura <i>Manufactures and sells wires and cables</i>	1,434	1.9%
Chiyoda Integre <i>Manufactures and markets electrical and electronic components used for audio visual products and office equipment</i>	1,425	1.9%
Sodick <i>Develops, manufactures and sells electric machines and equipment</i>	1,323	1.7%
DoshiSha <i>Wholesaler handling a wide range of products such as a consumer electronics, watches and jewellery</i>	1,274	1.7%
Don Quijote <i>Operates a chain of discount stores selling various goods ranging from groceries to consumer electronics</i>	1,272	1.7%
Goodwill <i>Provides human resources for events and relocations on a contractual basis</i>	1,247	1.6%
Lawson <i>Operates a chain of convenience stores</i>	1,226	1.6%
USS <i>Manages used car auction facilities</i>	1,182	1.6%
Top 10 Holdings	13,657	18.0%
KDDI <i>Provider of long distance and mobile telecommunication services</i>	1,113	1.5%
Fullcast <i>Provides personnel staffing services</i>	1,112	1.5%
HIS <i>Travel agency</i>	1,102	1.5%
Nissen <i>Operates a mail order business</i>	1,100	1.4%
Ozeki <i>Operates a chain of supermarkets</i>	1,090	1.4%
Bank of Yokohama <i>Regional bank</i>	1,070	1.4%
Fuji Seal <i>Manufactures various packaging-related materials and machinery</i>	1,057	1.4%
Usen <i>Provides information/music broadcasting services</i>	1,048	1.4%
Sawai Pharmaceutical <i>Develops, manufactures wholesale prescription and generic drugs</i>	1,047	1.4%
Nitto Kohki <i>Top ranked maker of fluid couplings</i>	1,036	1.4%
Top 20 Holdings	24,432	32.3%

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

Portfolio Listing

as at 31 December 2003

Holding	Market Value £'000	% *
Works Applications Software development company	1,034	1.4%
Mitsubishi Securities Financial services	1,021	1.3%
Round One Operates bowling alleys and video game arcades	1,018	1.3%
Nichii Gakkai Provides hospital administration for medical facilities	1,016	1.3%
OBIC Business Consultants Develops and markets business solution packaged software	1,013	1.3%
Daidoh Processes woollen fabrics and clothing	980	1.3%
Disco Manufacturer of dicing saws for semi-conductors	945	1.2%
Wintest Develops, designs and manufactures testing devices used for the production of flat-panel displays and image sensors	929	1.2%
NOK Manufactures oil seals for automobiles and flexible printed circuit boards for cellular phones	920	1.2%
Ryohin Keikaku Retailer	914	1.2%
Mitsui Sumitomo Insurance Insurance company	899	1.2%
SFCG Financial services	857	1.2%
Faith Develops and licences sound format for cellular phones	851	1.1%
Nidec Copal Produces and markets electronic components used for optical equipment	820	1.1%
Kaga Electronics Sells computers and computer related products	817	1.1%
Sumisho Lease Leasing company	792	1.0%
Hogy Medical Producer of disposable surgical gowns and covers	779	1.0%
Tosel Engineering Manufactures and markets semiconductor manufacturing and testing equipment	779	1.0%
JSR Manufactures synthetic rubber and resins	766	1.0%
Konica Minolta Holdings Manufactures photo films, cameras, copiers and PC peripherals	725	1.0%
Citizen Electronics Manufactures electronic products used for computers and office equipment	720	1.0%
Toyoda Gosei Resin/rubber manufacturer belonging to the Toyota Motor Group	709	0.9%
Studio Alice Operates a chain of photographic studios	703	0.9%
Seyu Operates supermarkets	689	0.9%
Shinko Electric Designs, manufactures and markets advanced electronic materials	660	0.9%
Jaico Forms venture capital groups to invest primarily in domestic and foreign private companies	627	0.8%
Enplas Designs, develops, manufactures and markets engineering plastics products for electronics components	623	0.8%
Cosel Specialist manufacturer of electronic switches	619	0.8%
Nikko Cordial Financial services	613	0.8%
Nihon Inter Electronics Manufactures semiconductor devices	613	0.8%
Top 50 Holdings	48,883	64.2%
Other Holdings (84)	23,733	31.3%
	72,616	95.5%
Cash & other net assets	3,382	4.5%
	75,998	100.0%

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

Distribution of the Portfolio

as at 31 December 2003

Equities	2003 %*	2002 %*
Retail Trade	13.2	15.3
Services	11.9	10.6
Electrical Appliances	11.1	10.3
Information and Communications	9.1	1.4
Machinery	8.1	12.1
Wholesale Trade	4.9	9.9
Chemicals	4.4	6.4
Other Products	3.5	4.5
Other Financing Business	3.1	2.2
Iron and Steel	3.1	-
Textiles and Apparel	3.0	4.2
Transportation Equipment	2.9	6.1
Securities	2.7	0.3
Non-Ferrous Metals	2.6	-
Banks	2.4	-
Real Estate	1.6	2.4
Precision Instruments	1.5	2.0
Pharmaceutical	1.4	2.9
Insurance	1.2	-
Glass and Ceramic Products	0.8	1.3
Construction	0.6	0.7
Land Transportation	0.5	-
Metal Products	0.4	-
Foods	0.4	-
Pulp and Paper	0.4	-
Rubber Products	0.4	-
Fisheries, Agriculture and Forestry	0.3	0.7
Warehousing and Harbour Transportation	-	1.3
Cash & Other Net Assets	4.5	5.4
Total	100.0	100.0

* 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 2003.

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 year ended 31 December 2001 and has granted provisional approval for the year ended 31 December 2002, although this approval may be subject to review should there be any subsequent enquiry under Corporate Tax Self Assessment. The Directors are of the opinion that the Company has subsequently 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 £72,616,000 as at 31 December 2003. Shareholders' funds amounted to £59,338,000 resulting in a net asset value per share of 60.42p. 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 £634,000 and therefore the Directors do not recommend the payment of a dividend and this amount has been charged to reserves.

Share Capital

At the Annual General Meeting held on 15 May 2003 the Company's shareholders passed a Special Resolution which granted the Directors authority to purchase up to 14,721,117 ordinary shares in the market for cancellation.

No shares were repurchased for cancellation during the year and, as at 31 December 2003, the total number of shares in issue was 98,206,253 (2002: 98,206,253). The authority expires on 6 May 2004 and a Special Resolution to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

Warrants

No warrants have been purchased for cancellation during the year.

Registered holders of warrants should note that the final subscription date is 30 April 2004. **For your information, the middle market quotation for the ordinary shares of 25p each at noon on 10 March 2004, was 56.25p* compared with your right as a Warrantholder to subscribe at 100p. At noon on the same date, the middle market quotation for the warrants was 0.11p*.**

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 a Notice of Exercise of subscription rights, at the office of the Registrars between 2 April 2004 and 3pm on 30 April 2004. The warrant certificate and the Notice of Exercise 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;
- (ii) in respect of warrants held in uncertificated form on any subscription date, an uncertificated subscription notice and, if applicable, 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.

Warrantholders should note that this is a right, not an obligation, and they should contact their financial adviser if they have any queries.

If any warrants are not exercised at this time the Company shall, within seven days, appoint a trustee who, provided that in his opinion the net proceeds of sale after deduction of all costs and expenses incurred by him will exceed the costs of subscription,

* Source: Reuters, 10 March 2004

shall within the period of fourteen days following 30 April 2004, either (i) exercise all the subscription rights which have not been exercised on the terms on which the same could have been exercised on the final subscription date of 30 April 2004 and sell in the market the ordinary shares acquired on such subscription; or (ii) (if it appears to the trustee that doing so is likely to realise greater net proceeds for warrant holders) accept any offer available to warrant holders for the purchase of the warrants. The trustee shall distribute pro rata the proceeds less such subscription costs and such other costs and expenses to the persons entitled thereto, provided that entitlements of less than £3.00 shall be retained for the benefit of the Company. If the trustee does not exercise the subscription rights the outstanding warrants will lapse on 14 May 2004.

Political and Charitable Donations

The Company has not made any political or charitable donations in the year (2002: 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. The Company's policy for the year to 31 December 2004 (2003: same) for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year (2002: nil).

Management Company

A management and secretarial services agreement (the "Management Agreement") dated 22 February 1994 was made between the Company and Fidelity Investments International (the "Manager"), under which the Manager has agreed to provide investment management, administrative and secretarial services to the Company for a quarterly fee of an amount equal to 0.25 per cent (plus VAT) of the value of the Company's assets under management (as defined in the Management Agreement, which excludes investments in other funds managed by the Manager) payable quarterly in arrear and calculated as of the last business day of March, June, September and December in each year. In addition the Company has agreed to pay to the Manager a fee for secretarial and administration services, payable quarterly in arrear, at the rate of £25,000 per annum (plus VAT) subject to annual indexation.

The Management Agreement will continue unless and until terminated by either party giving to the other not less than twelve months' notice. The Management Agreement may, however, be terminated without compensation if the Company is liquidated in 2004, or in any subsequent year thereafter, pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the agreement by two months' notice if the Manager ceases to be a subsidiary of Fidelity International Limited.

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 2003 were £56,143 (2002: £657).

An amount of £56,800, (2002: £172,791) was due to the Manager under the above agreements at 31 December 2003 and is included in creditors in note 12 on page 39.

The Manager uses certain services in the course of its work for the Company and other clients that are paid for or provided by brokers through whom the Manager executes transactions for the Company and other clients. The provision of such services to the Manager is governed by the rules of the Financial Services Authority. The Manager has in place procedures and controls in order to ensure compliance with those rules and the achievement of best execution when dealing on behalf of clients with brokers.

The Company participates in the Manager's interfund programme whereby Fidelity's traders, on occasion, identify situations where one fund managed by Fidelity is buying the same security that another fund is selling. If a trader can confirm that it would be in the interests of both accounts to execute a transaction between them rather than in the market then an interfund transaction is executed.

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

Directors' Report

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 2003 are set out on page 5.

Mr Nicholas Barber and Mr William Thomson will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr Simon Fraser has waived his entitlement to Directors' fees.

No Director is under a 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 in relation to Mr Fraser's interest in the Management Agreement. There have been no other related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8.

The interests of the Directors in the ordinary shares and warrants of the Company as at 31 December 2003 and 31 December 2002 were as follows:

	31 December 2003		31 December 2002	
	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	-

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

Substantial Share Interests

As at 10 March 2004 notification had been received of the following interests in 3% or more of the issued share capital of the Company:

	%
Asset Value Investors Limited*	13.73
Fidelity International Limited	9.73
British Empire Securities & General Trust plc*	8.47
Yale University Asset Value Investors*	5.26
Bank of England Pension Fund	3.56
Windsor Life Assurance Company Ltd	3.36
NFU Mutual Assurance Society	3.11

* These shares comprise the total holding shown for Asset Value Investors Limited.

As at 10 March 2004, 16.39% 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 2003	Number of Shareholders	% of issued Share Capital
Nominee Companies*	514	63.2
Individuals**	7,030	24.2
Limited Companies	31	7.5
Banks/Bank Nominees	14	3.4
Others	12	1.2
Pension Funds	5	0.3
Investment Trusts & Funds	10	0.2
Assurance/Insurance Companies	3	0.0
	7,619	100.00

* 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 6 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 10 March 2004.

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 7 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 net asset value per share.

The authority to issue ordinary shares for cash under Resolution 7 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 8 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 10 March 2004). 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.

Resolution 9 is a special resolution regarding changes to the Company's Articles of Association. The Company's Articles of Association were last amended in 1999. Since then there have been certain changes to company law and practice. Most notably, the Companies Act 1985 (Electronic Communications) Order 2000 enables companies to use electronic communications as an alternative to traditional means of communication. In February 2001, the UK Listing Authority amended the Listing Rules to allow listed companies (subject to certain conditions) to use electronic communications for sending documents to shareholders and to publish documents on a website, instead of sending them by conventional means.

We are therefore proposing to adopt revised Articles of Association. These will allow the Company, where the shareholder agrees, (a) to send the shareholder by electronic means certain information required relating to the Company (e.g. notices, proxy forms and accounts) or (b) to place such information on a website or other electronic notice board, but only if the shareholder has been sent notice that it is available in this way.

The revised Articles of Association do not compel shareholders to receive documents in electronic form and this method of communication will only apply to those shareholders who make appropriate elections when and if these services are made available by the Company. Shareholders who do not make an election to send or receive documents electronically will continue to receive communications by traditional means.

There are also a number of other minor changes proposed to reflect other minor legislative changes over the last five years, but also to reflect the Board's statement in 2001 that it will put forward an ordinary resolution every three (rather than the five) years that the Company should continue as an investment trust. An appropriate resolution was passed in 2001 and therefore such a proposal is included under Resolution 10 for this year's Annual General Meeting.

A copy of the draft Articles of Association as amended will be available for inspection at the registered office of the Company.

Directors' Report

Resolution 10 is an ordinary resolution regarding the continuation of the Company as an investment trust.

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 45 to 47.

Corporate Governance

Full details are given in the Application of Corporate Governance on pages 23 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 loss 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 Auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of such a website 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.

Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, are willing to continue in office and, in accordance with Section 385 and Section 390A of the Companies Act 1985, resolutions concerning their remuneration and re-appointment will be proposed at the Annual General Meeting.

By Order of the Board

Fidelity Investments International

Secretary

10 March 2004



Application of Corporate Governance

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 in 1998 which outlines corporate governance standards and requirements. Your Board of Directors is committed to the highest standards of corporate governance.

The provisions of the new Combined Code, introduced in 2003, will apply to the Company's accounting period beginning on 1 January 2004.

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.

Application of Corporate Governance

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 and 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 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 the Chairman, Nicholas Barber, Sir John Stanley and William Thomson 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 the Chairman, Sir John Stanley, Nicholas Barber and William Thomson 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 the meeting this year, following the rigorous review of the Manager's resources outlined in the Chairman's Statement, the Committee concluded that it was in the shareholders' interests that the Manager should continue in office.

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

Application of Corporate Governance

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 2003 with the following exception:

- a senior independent director as the Chairman fulfils this role

Internal Control

The Combined Code requires the Board to review the effectiveness of all internal controls. 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 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:

- 1) 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.
- 2) the Directors of the Company are recommending that shareholders vote in favour of the continuation resolution to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Alex Hammond-Chambers
10 March 2004

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 limit 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 make payments to Directors on termination.

Performance from 31 December 1998 to 31 December 2003

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

Remuneration for Qualifying Services

Name	2003 Salary and Fees £'000	2002 Salary and Fees £'000
Alex Hammond-Chambers†	15	15
Nicholas Barber	10	10
Simon Fraser*	-	-
John Morrell**	-	3
The Rt Hon Sir John Stanley MP	10	10
William Thomson	10	10
Total	45	48

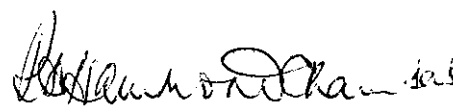
† Alex Hammond-Chambers' fees are paid to Alex Hammond-Chambers & Company

* Simon Fraser waived his fees of £10,000 in 2003 and 2002.

** 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 2003 or the year ended 31 December 2002.

On behalf of the Board



Alex Hammond-Chambers
Chairman

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

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, and the Cash Flow Statement and the related notes 1 to 22 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 and 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 Investment Manager's report, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the chairman's statement and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the 1998 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 2003 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- 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

10 March 2004

Note:

- A The maintenance and integrity of the Fidelity Japanese Values page on the Fidelity website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for the information presented on the website.
- B Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 2003

	notes	2003			2002		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains/(losses) on investments	9	-	17,973	17,973	-	(9,805)	(9,805)
Income	2	657	-	657	683	-	683
Investment management fee	3	(673)	-	(673)	(657)	-	(657)
Other expenses	4	(266)	-	(266)	(204)	-	(204)
Exchange losses		-	(14)	(14)	-	(61)	(61)
Net loss/(return) before finance costs and taxation		(282)	17,959	17,677	(178)	(9,866)	(10,044)
Interest payable	6	(286)	-	(286)	(384)	-	(384)
Exchange (losses)/gains on loans	15	-	(40)	(40)	-	150	150
Loss/(return) on ordinary activities before tax		(568)	17,919	17,351	(562)	(9,716)	(10,278)
Tax on ordinary activities	7	(66)	-	(66)	(119)	-	(119)
Loss/(return) on ordinary activities after tax for the period attributable to equity shareholders		(634)	17,919	17,285	(681)	(9,716)	(10,397)
(Loss)/return per ordinary share							
Basic	8	(0.65p)	18.25p	17.60p	(0.69p)	(9.83p)	(10.52p)

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 42 form an integral part of the accounts

Balance Sheet

as at 31 December 2003

		2003	2002
	notes	£'000	£'000
Fixed assets			
Investments	9	72,616	55,492
Current assets			
Debtors - amounts falling due within one year	11	865	548
Cash at bank		3,248	2,921
		4,113	3,469
Creditors - amounts falling due within one year			
Fixed rate unsecured loans	12	(16,660)	-
Other creditors		(731)	(288)
		(17,391)	(288)
Net current (liabilities)/assets		(13,278)	3,181
Total assets less current liabilities		59,338	58,673
Creditors - amounts falling due after more than one year			
Fixed rate unsecured loans	13	-	(16,620)
Total net assets		59,338	42,053
Capital and reserves			
Called up share capital	14	24,551	24,551
Share premium account	15	40	40
Capital redemption reserve	15	1,780	1,780
Other reserves			
Other reserve	15	60,369	60,369
Warrant exercise reserve	15	2	2
Warrant reserve	15	10,198	10,198
Capital reserve - realised	15	(30,687)	(7,193)
Capital reserve - unrealised	15	2,410	(39,003)
Revenue reserve	15	(9,325)	(8,691)
Total equity shareholders' funds	17	59,338	42,053
Net asset value per ordinary share:			
Basic	16	60.42p	42.82p

The accounts on pages 30 to 42 were approved by the Board of Directors on 10 March 2004 and were signed on its behalf by:



Alex Hammond-Chambers, Chairman

The notes on pages 33 to 42 form an integral part of these accounts

Cash Flow Statement

for the year ended 31 December 2003

		2003	2002
	notes	£'000	£'000
Operating activities			
Investment income received		570	557
Interest received		9	6
Investment management fee paid		(631)	(712)
Directors' fees paid		(32)	(54)
Other cash payments		(179)	(237)
Net cash outflow from operating activities	20	(263)	(440)
Returns on investments and servicing of finance			
Interest paid		(286)	(389)
Net cash outflow from returns on investments and servicing of finance		(286)	(389)
Financial Investment			
Purchases of investments		(42,489)	(16,682)
Exchange gains/(losses)		16	(377)
Disposals of investments		43,379	20,409
Net cash inflow from financial investment		906	3,350
Net cash inflow before financing		357	2,521
Financing			
Repurchase of ordinary shares		-	(1,470)
1.05% fixed rate unsecured loan drawn down		-	8,300
2.16% fixed rate unsecured loan repaid		-	(8,226)
Net cash outflow from financing		-	(1,396)
Increase in cash	18	357	1,125

The notes on pages 33 to 42 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 prepared its accounts in accordance with the AITC Statement of Recommended Practice ("SORP") for Investment Trusts dated January 2003. No prior year adjustments resulted from the adoption of the new SORP.

- a) The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom 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 unless there is sufficient evidence that they should be treated as capital. 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 a different valuation is warranted. In general, valuations are increased where a substantial arms 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. There were no unlisted investments held during the year (2002: none).
- 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 calculated and allocated to accounting periods over the term of the loan on the effective yield basis.
- 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 recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.

Deferred tax is measured on a non-discounted basis at the rate of Corporation Tax that is expected to apply when the timing differences are expected to reverse.

Notes to the Accounts

2 Income

	2003 £'000	2002 £'000
Income from investments		
Overseas dividends	648	677
	648	677
Other income		
Deposit interest	9	6
Total income	657	683
Total income comprises		
Dividends	648	677
Interest	9	6
	657	683
Income from investments		
Listed overseas	648	677
	648	677

3 Investment management fee

	2003 £'000	2002 £'000
Investment management fee	673	657
	673	657

A summary of the terms of the Management Agreement is given in the Company Summary on page 1.

4 Other expenses

	2003 £'000	2002 £'000
Directors' fees	49	51
Other	200	141
Auditors' remuneration		
Audit	17	12
	266	204

5 Directors' fees

	2003 £'000	2002 £'000
Directors' fees (including national insurance contributions)	49	48

Details of the breakdown of Directors' fees can be found on page 27 within the Directors' Remuneration Report.

6 Interest Payable

	2003 £'000	2002 £'000
On loans repayable within 5 years		
Bank overdraft	3	-
Fixed rate unsecured loans	283	384
	<u>286</u>	<u>384</u>

7 Tax on ordinary activities

a) Analysis of charge in year

	2003 £'000	2002 £'000
Overseas tax suffered	66	119
Total current tax for year (see note 7b)	<u>66</u>	<u>119</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK for an investment trust company (30%) (2002: 30%).

The differences are explained below.

	2003 £'000	2002 £'000
Return on ordinary activities before taxation	<u>(568)</u>	<u>(562)</u>
Corporation tax at 30% (2002: 30%)	(170)	(169)
Effects of:		
Overseas taxation	66	119
Overseas tax expensed	-	(30)
Increase in management expenses	170	199
Current corporation tax charge (note 7a)	<u>66</u>	<u>119</u>

Investment trust companies are exempt from tax on capital gains if they meet the Inland Revenue criteria set out in s842 Income and Corporation Taxes Act 1988 for a given period. Therefore, any capital return is not included in the above reconciliation.

c) The deferred tax asset of £2,704,373 in respect of unutilised expenses at 31 December 2003 (2002: £2,600,540) has not been recognised as it is unlikely that this asset will be utilised.

8 Return per ordinary share

	revenue	2003 capital	total	revenue	2002 capital	total
Basic	<u>(0.65p)</u>	<u>18.25p</u>	<u>17.60p</u>	<u>(0.69p)</u>	<u>(9.83p)</u>	<u>(10.52p)</u>

Notes to the Accounts

Returns per ordinary share are based on the net revenue loss on ordinary activities after taxation of £634,000 (2002: loss £681,000) and the capital appreciation in the year of £17,919,000 (2002: depreciation £9,716,000) and on 98,206,253 ordinary shares (2002: 98,825,157) 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 FRS14, 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

	2003 £'000	2002 £'000
Listed overseas	72,616	55,492
Total listed investments	72,616	55,492
	listed overseas £'000	
Opening book cost	99,998	
Opening unrealised depreciation	(44,506)	
Opening valuation	55,492	
Movements in the year		
Purchases at cost	42,719	
Sales - proceeds	(43,568)	
Sales - realised losses on sales	(17,564)	
Increase in unrealised appreciation	35,537	
Closing valuation	72,616	
Closing book cost	81,585	
Closing unrealised depreciation	(8,969)	
	72,616	
	2003 £'000	2002 £'000
Realised losses on sales	(17,564)	(4,055)
Increase in unrealised appreciation/(depreciation)	35,537	(5,750)
Gains/(losses) on investments	17,973	(9,805)

The annualised portfolio turnover rate for the year was 62% (2002: 39%)

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 and were the same throughout 2002.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Short-term debtors and other short-term creditors are excluded from the following analyses.

Market price risk

Market price 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.

Financial instruments are stated in the balance sheet at values which are not materially different to their fair values. Investments are held at mid market value. The Directors consider this equates to fair value and for cash book value approximates to fair value due to short maturity of the instruments. The exceptions are the long term fixed rate unsecured loans, whose fair values as at 31 December 2003 given below have been calculated by discounting future cash flows at current Japanese yen interest rates.

	2003		2002	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured loan @ 1.05% per annum	7,913	7,856	7,969	7,837
Fixed rate unsecured loan @ 2.155% per annum	8,986	8,804	9,145	8,783
	16,899	16,660	17,114	16,620

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 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 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 yen 589,023,145 (2002: £2,784,000). The rate of interest on the yen cash balance is currently nil% (2002: nil%) and sterling 3.69% (2002: 3.79%), consequently the risk of a decrease in cash interest earned is low.

Notes to the Accounts

The interest profile of the company's financial liabilities excluding short-term creditors, as at 31 December 2003 and 2002 was as follows:

	2003	2003
	fixed rate financial	fixed rate financial
	liabilities	liabilities
Currency	£'000	£'000
Yen	<u>16,660</u>	<u>16,620</u>
	2003	2003
	weighted average	fixed rate financial liabilities:
Currency	interest rate	weighted average period for
Yen	<u>1.60%</u>	<u>10 months</u>
	2002	2002
	weighted average	fixed rate financial liabilities:
Currency	interest rate	weighted average period for
Yen	<u>1.60%</u>	<u>22 months</u>

Foreign currency risk

The Company's total return and balance sheet can be affected by foreign exchange movements because the Company has assets, liabilities 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 and loans
- 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.

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 2003 and 2002:

Currency	2003			2002		
	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	76,392	(16,918)	59,474	58,764	(16,647)	42,117
UK sterling	337	(473)	(136)	197	(261)	(64)
Balance sheet total	<u>76,729</u>	<u>(17,391)</u>	<u>59,338</u>	<u>58,961</u>	<u>(16,908)</u>	<u>42,053</u>

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 notes 12 and 13 to the accounts. The maturity profile of the Company's financial liabilities at 31 December 2003 and 2002:

	2003 £'000	2002 £'000
Within one year, or on demand	16,660	-
After more than one year but less than two years	-	16,620
	16,660	16,620

The Company does not have any undrawn committed borrowing facilities.

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.

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 - amounts falling due within one year

	2003 £'000	2002 £'000
Securities sold for future settlement	655	466
Accrued income	34	22
Currency receivable	99	-
Other debtors	77	60
	865	548

12 Creditors - amounts falling due within one year

	2003 £'000	2002 £'000
Fixed rate unsecured loan @ 1.05% per annum	7,856	-
Fixed rate unsecured loan @ 2.155% per annum	8,804	-
Securities purchased for future settlement	230	-
Loan interest payable	28	28
Currency payable	99	-
Other creditors	374	260
	17,391	288

Notes to the Accounts

13 Creditors - amounts falling due after one year

	2003 £'000	2002 £'000
Fixed rate unsecured loan @ 1.05% per annum	-	7,837
Fixed rate unsecured loan @ 2.155% per annum	-	8,783
	-	16,620

The fixed rate loan from JPMorgan 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.

A fixed rate unsecured loan from JPMorgan Chase 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.

The Company has entered into an arrangement with JPMorgan 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%. 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.

At 31 December 2003, there were no cash deposits with the Bank subject to a charge in favour of JPMorgan Chase Bank Plc (2002: yen 380,000,000). As at 10 March 2004 there were no cash deposits subject to the charge.

Redemption costs may be payable in the event of the Directors electing to prepay the unsecured loans.

14 Called-up share capital

	2003 £'000	2002 £'000
Authorised:		
230,000,000 (2002: 230,000,000) ordinary shares of 25 pence each	57,500	57,500
Issued, allotted and fully paid:		
Beginning of year		
98,206,253 (2002: 101,506,253) ordinary shares of 25 pence each	24,551	25,376
1 January 2003 to 31 December 2003: nil repurchase of shares (2002: 3,300,000)	-	(825)
End of year		
98,206,253 (2002: 98,206,253) ordinary shares of 25 pence each	24,551	24,551

At 31 December 2003 there were 20,396,547 (2002: 20,396,547) warrants outstanding. Holders have the final opportunity to subscribe for ordinary shares at 100p on 30 April 2004 (see Share Capital and Warrants sections of the Directors' Report on pages 18 and 19 for full details).

15 Reserves

	2003							revenue reserve £'000
	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	
Beginning of year	40	1,780	60,369	2	10,198	(7,193)	(39,003)	(8,691)
Exchange gains/(losses) on other net assets	-	-	-	-	-	16	(30)	-
Net loss on realisation of investments	-	-	-	-	-	(17,564)	-	-
Net (depreciation)/appreciation therein already recognised in prior periods	-	-	-	-	-	(5,946)	5,946	-
Decrease in unrealised depreciation	-	-	-	-	-	-	35,537	-
Exchange losses on loans	-	-	-	-	-	-	(40)	-
Revenue loss for year	-	-	-	-	-	-	-	(634)
End of year	40	1,780	60,369	2	10,198	(30,687)	2,410	(9,325)

16 Net asset value per share

The basic net asset value per ordinary share is based on net assets of £59,338,000 (2002: £42,053,000) and on 98,206,253 (2002: 98,206,253) ordinary shares, being the number of ordinary shares in issue at the year end.

The fully-diluted net asset value per share has been calculated on the assumption that the outstanding warrants of 20,396,547 at 31 December 2003 (2002: 20,396,547) were exercised on that date.

The fully-diluted net asset value per ordinary share 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

	2003 £'000	2002 £'000
Opening shareholders' funds	42,053	53,920
Repurchase of ordinary shares	-	(1,470)
Total recognised gains/(losses)	17,285	(10,397)
Closing shareholders' funds	59,338	42,053

18 Reconciliation of net cash movements to movement in net debt

	2003 £'000	2002 £'000
Beginning of year	(13,699)	(15,216)
Net cash inflow	357	1,125
1.05% fixed rate unsecured loan drawn down	-	(8,300)
2.16% fixed rate unsecured loan repaid	-	8,226
Unrealised foreign exchange movement	(30)	74
Foreign exchange movement on fixed rate unsecured loans	(40)	392
Change in net debt	287	1,517
End of year	(13,412)	(13,699)

Notes to the Accounts

	2003 £'000	Change in the year £'000	Exchange Movements £'000	2002 £'000
Analysis of balances				
Cash at bank	3,248	357	(30)	2,921
Fixed rate unsecured loans	(16,660)	-	(40)	(16,620)
End of year	(13,412)	357	(70)	(13,699)

19 Analysis of changes in financing during the year

	2003			2002		
	share capital £'000	loans £'000	total £'000	share capital £'000	loans £'000	total £'000
Beginning of year	24,551	16,620	41,171	25,376	16,696	42,072
1.05% fixed rate unsecured loan drawn down	-	-	-	-	8,300	8,300
2.16% fixed rate unsecured loan repaid	-	-	-	-	(8,226)	(8,226)
Change in value of fixed rate unsecured loans	-	40	40	-	(150)	(150)
Cash outflow from repurchase of shares	-	-	-	(825)	-	(825)
End of year	24,551	16,660	41,211	24,551	16,620	41,171

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

	2003 £'000	2002 £'000
Net return before finance costs and taxation	(282)	(178)
Increase/(decrease) in other creditors	114	(122)
Increase in other debtors	(29)	(21)
Tax on investment income	(66)	(119)
Net cash outflow from operating activities	(263)	(440)

21 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 December 2003 (2002: nil).

22 Transactions with the Manager

The Directors have complied with the provisions of FRS8 which require disclosure of related party transactions and balances. Fidelity Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on pages 1 and 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. At the forthcoming Annual General Meeting and every three years thereafter, shareholders will have the right to approve, or otherwise, the *continued existence of the Company. 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).*

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 2003/2004 tax year. There is an initial charge of 3.25% (3.5% from 6 April 2004) 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 10.

The PEP – no further PEP investments may be made, but existing PEPs can continue to grow tax free. Since 6 April 2001 the range of investments that can be held in a PEP has been expanded to correspond with those available for investment in an ISA.

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 Financial Administration Services Limited and the Fidelity Share Plan is offered by Fidelity Investments International. Both companies are authorised and 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 10.

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 not a guide to 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 content of this report has been approved by Fidelity Investments International, authorised and 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 6 May 2004 at Fidelity's London office at 25 Cannon Street. It is hoped that as

Investor Information

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 45 to 47.

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 £7,900 of capital gains in the current tax year ie 2003/2004 (£7,700 2002/2003 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 2003:

31 December 2003 - financial year end.

10 March 2004 - announcement of results.

29 March 2004 - publication of this Annual Report.

30 April 2004 - final exercise date on which warrant holders may choose, for each warrant held, to pay £1 for an ordinary share.

6 May 2004 - Annual General Meeting.

30 June 2004 - half year end.

July 2004 - announcement of interim results to 30 June.

August 2004 - publication of Interim Report.

Contact Information

Private investors can call free on 0800 41 41 10, 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 – Fidelity Investment Trust Share Plan, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ.

Telephone: 0800 41 41 10

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

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

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

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

<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 6 May 2004 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 2003.
2. To re-elect Mr Nicholas Barber as a Director.
3. To re-elect Mr William Thomson as a Director.
4. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, 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.
5. To approve the Directors' Remuneration Report for the year ended 31 December 2003.

Special Business

Resolutions 6 and 7 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 10 March 2004. 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 6 will be proposed as an ordinary resolution and Resolution 7 as a special resolution:

6. 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 10 March 2004) 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.
7. THAT, subject to the passing of Resolution 6 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 6 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

Notice of Annual General Meeting

- 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 10 March 2004); 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 8 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 10 March 2004. 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 the net asset value per share.

8. 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.

Resolution 9 is a special resolution which relates to the amendments to the Articles of Association.

To consider, and if thought fit, to pass the following resolution as a special resolution:

9. THAT the revised Articles of Association, in the form produced to the Annual General Meeting and initialled by the Chairman for purposes of identification, be adopted.

Resolution 10 is an ordinary resolution, which relates to the continuation of the Company as an investment trust.

10. THAT the Company continue to carry on business as an investment trust.

By Order of the Board
Fidelity Investments International
Secretary
29 March 2004

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 4 May 2004 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 4 May 2004 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

CB17411

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

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