2972628

Fidelity Special Values PLC

Annual Report
31 August 1995

Fidelity Investments™

Fidelity Special Values PLC

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Registered Number : 2972628

CHAIRMAN'S STATEMENT

Summary of Results	31/08/95	At Launch (17.11.94)
Total Assets †	£50.7m	£43.8m
Net Asset Value per Ordinary Share (undiluted)	111.76p	95.50p *
Dividends per Ordinary Share: Final	0.50p	N/A
Special	0.50p	N/A

† *less current liabilities*
* *net of launch expenses*

I would like to take the opportunity, in this, the first annual report for Fidelity Special Values PLC ("the Company") to welcome all Shareholders to the Company. I am pleased to be able to report that since the launch, the Company has got off to a good start and its net asset value (NAV) per share (undiluted) has risen by 17.0% net of expenses. This increase, which compares with a rise of 10.7% in the FT-SE Actuaries All-Share Price Index (our performance benchmark), has been helped by the special form of gearing employed by the Company.

The investment strategy followed by the Company in achieving its objective of long-term capital growth will usually lead to a predominance of medium-sized and smaller companies being held within the portfolio. As the period under review has shown, such shares may perform very differently from those in larger companies, often depending on the confidence of investors.

This year has seen investors overall becoming more positive, encouraged by strong profits' growth, an improving interest rate outlook, a surge of bid activity and strength in the US market. As a result we have seen the relative performance of shares in medium-sized and smaller companies improve in 1995 and this has been reflected in the performance of the NAV of the Company. During the three months following the launch, the share price performance was weaker than that of the NAV but since then it is encouraging to note that it has performed in line with the NAV.

Our investment policy is to invest in those companies most likely to achieve the aim of capital growth, irrespective of dividend yield. With an active investment policy and low dividend yields, income from investments is likely to be small and will fluctuate from year to year. Nevertheless, the Directors would like to establish a progressive dividend policy, starting at a low base of 0.50 pence per ordinary share and growing as overall dividends grow over the longer term. During those years when exceptional income is earned, as it has been in this first period, extra dividends may be recommended. The Directors are recommending the payment of a final dividend of 0.50 pence per ordinary share together with an extra dividend of the same amount (0.50 pence).

It is important to recognise that an investment policy which focuses on "special situations' may result in greater volatility than that of our benchmark index. However, we believe that the good performance we have seen from the Company since its launch is indicative of its long-term potential and look forward to achieving above average capital growth.

Alex Hammond-Chambers
18 October 1995

INVESTMENT MANAGER'S REPORT

Investment Objective

The investment objective of the Company is to achieve long-term capital growth from an actively managed portfolio of "special situation" investments, consisting primarily of securities listed or traded on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. The Manager will have the flexibility to invest up to 20 per cent of the Company's assets in continental European and other overseas stock markets.

Investment Policy

The Company invests mainly in shares but may also invest in equity-related instruments (such as convertible bonds or warrants) and in debt instruments. The Company may invest up to 5 per cent of its assets in unquoted securities, but it is unlikely that the Manager will make such investments except where it is expected that the securities will shortly be listed. Save in respect of the Equity Index-Linked Loan Stock, it is not expected that the Company will exercise its power to borrow money on a long-term basis.

Performance

Over the period from launch to 31 August 1995, the net asset value (NAV) of the Company outperformed the FT-SE Actuaries All-Share Price Index, rising 17.0%, compared with a rise of 10.7% in the Index.

On 31 August 1995 the share price was 101.00p and the warrant price 40.00p.

	Over Last 6 Months % Change	**Since Launch % Change**
NAV per Ordinary Share (undiluted)	+24.6	+17.0 *
Share Price	+24.7	+1.0
Warrant Price	+33.3	N/A
FT-SE Actuaries All-Share Price Index	+15.6	+10.7

* *the NAV at launch used to calculate performance is net of expenses*

Shareholder returns have been enhanced by the gearing impact of the Equity Index-Linked Loan Stock as shown below:

From Inception to 31 August 1995	**% Return**
Total Assets †	+15.7
Loan Stock	+10.7
Total Net Assets	+17.0

† *less current liabilities*

UK Stockmarket and Economy

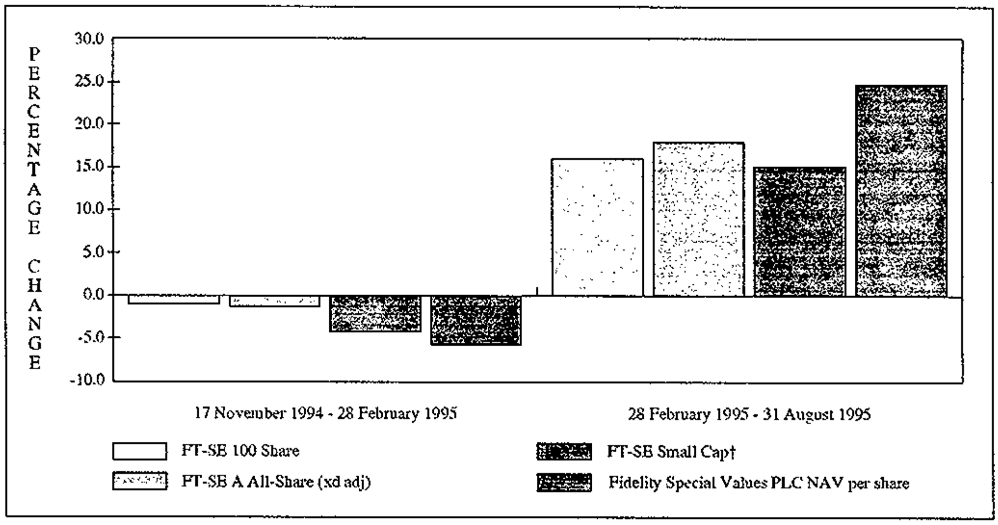
Over the period since incorporation of the Company, there has been a marked change in sentiment regarding the UK economy. Towards the end of last year the concern was the economy was growing at such a rate that inflationary pressures would pick up. In view of this, base rates were raised to 6.75% and further rate rises were anticipated. Since this time, the evidence has pointed to slowing economic growth with GDP growth for the second quarter of the year at 0.5%, the lowest for two years.

INVESTMENT MANAGER'S REPORT - continued

UK Stock Market and Economy - continued

Headline inflation has remained steady at around 3.5% and expectations for further rate rises have significantly reduced. These factors have led to a strong performance from the UK gilt market, providing a favourable background to the equity market. The weakness seen in the stock market between 17 November 1994 and 28 February 1995 was counteracted by the strength in the period 1 March 1995 to 31 August 1995. As the chart below shows, in the earlier part of the reporting period small cap stocks underperformed their larger counterparts. During the second part of the review period, small cap stocks still showed some underperformance of the All-Share Index but their relative performance against large cap stocks has improved considerably.

Small Cap v Large Cap Performance *



* *Data source: Micropal Limited*

† *The FT-SE Small Cap Index includes all stocks in the FT-SE A All-Share Index that are not included in the FT-SE 100 or FT-SE 250 Indices*

The UK stock market has benefited from the level of bid activity which has been seen. Cash bids have amounted to over £8 billion in the first half of 1995 with bids of around £7 billion uncompleted at the beginning of September. Investors have also been encouraged by the strong performance of the US equity market where again a change in the interest rate environment has prompted a strong bond and equity market. Towards the end of September, the UK market fell in common with other global markets, but has since recovered to near peak levels.

Portfolio Review

The improved performance of smaller and medium-sized companies during the latter half of the review period was a positive factor behind the Company's performance as the portfolio continues to be biased towards smaller and medium-sized companies which we believe offer the most promising investment opportunities. In terms of individual holdings, the portfolio's holdings of shares in the technology sector did particularly well. Amstrad's decision to launch a mobile phone resulted in investors taking a much more positive view on the company's prospects and this was reflected by a sharp rise in the share price. Psion, the maker of hand held computers reported that its sales and profits were much better than anticipated and this too resulted in a sharp rise in the share price.

INVESTMENT MANAGER'S REPORT - continued

Portfolio Review- continued

Another strong share price performance came from Filtronic Comtek which makes filters for mobile phone base stations. Nokia, a Finnish manufacturer of mobile phones also showed strong performance as a result of continuing rising demand for handsets. The portfolio also benefited from the fact that two of the largest holdings were taken over. These were First National Finance Corporation and ACT. However, there were also disappointments. The share price of McDonnell Information Systems, a computer software producer, fell sharply as a result of a number of profit warnings from the company. During this period we have maintained close contact with the company and believe that at current levels the shares are attractive and that the company should recover from its recent difficulties. Consequently we continue to hold the shares. Another company which disappointed was Lloyds Chemists which announced results below expectations, in addition to which the size of provisions it had made for closing down some areas of its business were considered too low. In the light of developments taking place in the company, we decided to sell the holding in Lloyds Chemists.

The portfolio is put together on a stock-by-stock basis and sector weightings are a reflection of this. At the current time, we find a number of companies in the service sector particularly attractive with the result that around 45% of the portfolio is currently invested in this sector. This includes retailers such as Wickes - a DIY company, Burtons - retailers of men's and women's clothing, and Betterware - a company involved in door-to-door sales of household products. These three companies are considered to be recovery situations. Two companies which are held for their growth prospects in the retailing sector are Oriflame which is involved in the direct sales and mail order of pharmaceutical and beauty products across Europe, and Tie Rack which specialises in the sale of ties and accessories.

Another area where we believe there are a number of attractive opportunities is the media sector which currently accounts for around 15% of the portfolio. Our interests in this area include holdings in four sectors: newspaper companies - News International and Mirror Group Newspapers; TV or TV related - Scottish TV, Yorkshire Tyne-Tees TV and Flextech; radio - Capital Radio; and advertising - WPP and Aegis.

Outlook

The UK equity market should continue to receive support from the relatively positive interest rate environment over the coming months provided the news on the inflation front remains as positive as it has been recently. Further stimulus is likely to come from the mergers and acquisitions activity in the market, which as yet is showing little sign of receding. The cash position within many companies is very strong and their chosen route for expansion appears to be more towards acquiring other companies rather than internal investment. An area where we could see some disappointment is on the earnings front as we have seen a number of companies becoming more cautious on the profits outlook as a result of slower economic growth worldwide. Investors therefore may place greater emphasis on companies where profits growth may be generated through cost cutting and where the company's prospects are not currently reflected in the share price.

We believe the improved environment for stocks outside the market leaders will continue over the coming months and that the Company is well positioned to benefit from this.

Fidelity Investments International
September 1995

DIRECTORS' REPORT

The Directors have pleasure in presenting their first report together with the audited accounts of the Company for the period ended 31 August 1995.

The Company was incorporated in England and Wales as a public limited company on 27 September 1994 under the name of Fidelity Special Values PLC with the registered number 2972628.

£36.7 million was raised by way of the issue of ordinary shares of 25 pence each; 2 of which were issued in September 1994, 199,998 were issued in October 1994 and a further 36.5 million in November 1994. The shares were issued at a premium of 75 pence per share and £8.76 million was raised by the issue of 563,839 units of Equity Index-Linked Unsecured Loan Stock 2004 at £15.54 per unit. This capital was raised for the purpose of investment in accordance with the prospectus. £1.65 million of the proceeds was absorbed by issue expenses. Dealings in units of five ordinary shares (with one warrant attached) and in units of Equity Index-Linked Loan Stock commenced on 17 November 1994. Separate dealings in ordinary shares and warrants commenced on 29 December 1994.

Activities and Status

A review of the period's activities and an indication of likely future developments are given in the Chairman's Statement on page 2 and in the Investment Manager's Report on pages 3 to 5.

The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for approval as an investment trust under Section 842 of the Income and Corporation Taxes Act, 1988. Such approval is granted retrospectively for each accounting period and the Directors will apply to the Inland Revenue for approval in respect of the period ended 31 August 1995.

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 £47,403,196 as at 31 August 1995. Shareholders' funds amounted to £41,014,761 resulting in a net asset value per share of 111.76p. Changes to investments are shown in note 8 to the accounts.

Results and Dividends

The net revenue of the Company available for distribution and the transfer to reserves are shown on page 16. The final dividend proposed is 0.50 pence per ordinary share, and the special dividend proposed is 0.50 pence per ordinary share, payable on 20 December 1995 to shareholders on record as at 7 November 1995.

Warrants

As at 31 August 1995, there were 7,339,480 warrants in issue.

Registered holders of warrants should note that the first annual subscription date is 1 January 1996. Warrant holders wishing to exercise their rights to subscribe in cash for ordinary shares at 100p in whole or in part must lodge the warrant certificate(s), having completed the Notice of Exercise of subscription rights thereon, at the office of the Registrars on or within 28 days prior to 1 January 1996 (but not later than 3.00 pm on that date). The warrant certificate should be accompanied by a remittance for the aggregate amount payable on subscription for the ordinary shares in respect of which the subscription rights are being exercised. Warrant holders should note that this is a right, as opposed to an obligation, and they should contact their financial adviser if they have any queries.

DIRECTORS' REPORT - continued

Corporate Governance

The Company has established procedures to comply with the Code of Best Practice included in the Cadbury Committee Report on the financial aspects of Corporate Governance issued in December 1992. In the Directors' view, for the period ended 31 August 1995, the Company has complied with all aspects of the Code that it is required to comply with. In addition, the Company has adopted the recommendation for Best Practice on Corporate Governance for investment trust companies prepared by the Association of Investment Trust Companies. Separate committees consisting of all non-executive independent Directors (i.e. Messrs Hammond-Chambers, Brooke, Kinloch Anderson and Laurenson) of the Company have been established with written terms of reference to consider audit and management remuneration issues.

In preparing the accounts, the Directors have adopted the going concern basis which is considered by them to be appropriate.

Our Auditors have reported to the Company that in their opinion the Directors' comments on going concern provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance) and are not inconsistent with the information of which they are aware from their audit work on the financial statements, and the above statement appropriately reflects the Company's compliance with the other paragraphs on the Code specified by the London Stock Exchange for their review. They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures, nor the ability of the Company to continue in operational existence.

Management Company

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, administrative and secretarial services to the Company under an agreement entered into on 19 October 1994, which is terminable by either party at any time by the giving of one year's notice in writing. The agreement provides for a fee at the rate of 0.95 per cent per annum (plus VAT) of the value of the total assets under management (as defined in the Management Agreement), calculated and payable quarterly in arrears, as of the last business day of March, June, September and December in each year.

Mr Barry R J Bateman is a Director of Fidelity Investments International.

Fidelity International Limited has an interest of 1,000,000 shares and 200,000 warrants in the Company.

DIRECTORS' REPORT - continued

Directors

Details of the Directors, all of whom are non-executive, are set out below:

Alex Hammond-Chambers (Chairman) a former Chairman of Ivory & Sime PLC, is also Chairman of American Opportunity Trust PLC and I & S Optimum Income Trust PLC. He is also a Director of a number of other companies including Fidelity Japanese Values PLC and Contra-Cyclical Investment Trust PLC.

Barry Bateman is President of Fidelity International Limited and a Director of Fidelity European Values PLC, Fidelity Japanese Values PLC and of a number of companies in the Fidelity organisation. He joined Fidelity in 1981 having previously been Research Director at Hoare Govett and Marketing Director at Datastream. He is a former Chairman of the Association of Unit Trusts and Investment Funds.

David Brooke is Chairman of JO Hambro & Partners and a Director of JO Hambro & Company. He is also Chairman of North Atlantic Smaller Companies Investment Trust PLC and of Govett Global Smaller Companies plc. He is a Director of HCG Lloyd's Investment Trust PLC, Templeton Emerging Markets Investment Trust PLC and a number of other companies. He is a former Director of SG Warburg Group PLC.

Douglas Kinloch Anderson is Chairman of Kinloch Anderson Ltd and a Director of Scottish Eastern Investment Trust plc. He has been President of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of the Institute of Directors. He was previously a Board Member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and was recently National President of the Royal Warrant Holders Association.

James Laurenson is Chairman of Nippon Assets Investments S.A. and a Director of I & S UK Smaller Companies Trust plc, NSM plc and Hiscox Trading Limited. He was Managing Director of Adam & Company Group plc and prior to that a Director of Ivory & Sime Limited.

Messrs A M Hougie and M J D Roberts served as Directors from 27 September 1994 to 18 October 1994.

Messrs Hammond-Chambers, Bateman, Brooke, Kinloch Anderson and Laurenson were appointed Directors on 18 October 1994. All Directors will retire at the Annual General Meeting and being eligible, will offer themselves for re-election.

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

DIRECTORS' REPORT - continued

Directors' Interests

The interests of the Directors in the ordinary shares and warrants of the Company as at 17 November 1994 and 31 August 1995 were as follows:

	Ordinary Shares of 25p each		Warrants	
	Beneficially owned	**Non-beneficially owned**	**Beneficially owned**	**Non-beneficially owned**
James Laurenson	20,000	-	4,000	-
David Brooke	10,000	-	2,000	-
Barry Bateman	6,000	-	1,200	-
Alex Hammond-Chambers	5,000	20,000	1,000	4,000
Douglas Kinloch Anderson	5,000	-	1,000	-

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

Substantial Share Interests

As at 18 October 1995 notification had been received of the following interests in 3% or more of the issued share capital of the Company:

	Number of Shares	% Interest
Fidelity Securities Limited *	11,251,400	30.66
TSB Group PLC	3,000,000	8.17
City of Bradford Metropolitan Council	1,500,000	4.09
Clients of Credit Suisse Asset Management Limited	1,139,000	3.10

Analysis of Ordinary Shareholders

as at 31 August 1995

Type of Shareholder	Number of Shareholders	% of Shareholders	Number of Shares	% of Issued Share Capital
Individuals	2,231	83.90	7,396,633	20.16
Nominee Companies **	343	12.90	11,633,913	31.70
Investment Companies ***	39	1.47	14,413,065	39.28
Assurance/Insurance Companies	17	0.64	308,800	0.84
Pension Funds	6	0.23	42,000	0.11
Commercial & Industrial Companies	18	0.67	1,122,706	3.06
Others	5	0.19	1,780,283	4.85
Total	2,659	100.00	36,697,400	100.00

* *The interest of Fidelity Securities Limited is as nominee for holders within the Fidelity Personal Equity Plan, Fidelity Investment Trust Savings Plan and for private clients.*

** *Nominees include individual Shareholders*

*** *Includes Fidelity Securities Limited and other investment companies*

DIRECTORS' REPORT - continued

Share Capital and Annual General Meeting

Details of the Company's authorised and issued share capital are set out in note 12 to the accounts on page 23 together with details of the shares issued during the period.

At the Annual General Meeting, resolutions will be proposed to renew the Directors' authority to allot securities in the Company. Resolution 5 provides the Directors with authority to allot securities in the Company up to an aggregate nominal value of £3,027,536. If passed, this resolution will enable the Directors to allot a maximum of 12,110,144 ordinary shares which represents approximately one-third of the issued ordinary share capital of the Company as at 18 October 1995. The Directors have no present intention of exercising the authority which will be conferred by Resolution 5. Resolution 6 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 and (b) other issues up to an aggregate nominal value of £458,718. The authority conferred by Resolution 6 is limited as regards issues of shares other than by way of rights issues to 5 per cent of the issued ordinary share capital of the Company as at 18 October 1995, amounting to 1,834,870 ordinary shares. 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. The Directors recommend that Shareholders vote in favour of these resolutions.

The full text of the resolutions is set out in the notice of meeting contained on pages 27 and 28.

Directors' and Officers' Insurance

The Company maintains liability insurance covering the Directors and Officers of the Company.

Auditors

The Auditors, Coopers & Lybrand, Chartered Accountants, 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 reappointment will be submitted at the Annual General Meeting of the Company.

Emma Barrott

By Order of the Board
On behalf of Fidelity Investments International
Secretary
18 October 1995

GENERAL INFORMATION ABOUT THE COMPANY

Fidelity Special Values PLC is an investment trust company incorporated in England and Wales and listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. Dealings in the ordinary shares and warrants of the Company commenced on 17 November 1994. At launch one warrant was attached to every five shares. The Company is managed by Fidelity Investments International.

Duration of the Company

The Articles of Association of the Company require that an ordinary resolution be proposed to Shareholders at the Annual General Meeting of the Company to be held in 2004 to approve the continuation of the Company. The Articles of Association provide that, if Shareholders vote in favour of continuation, they will have the opportunity to vote on this matter every five years thereafter.

Publication of Daily Prices

The net asset value, share price, warrant price and Loan Stock price are published daily in the Financial Times under the heading "Investment Trusts". The share price is also published daily in The Daily Telegraph, The Times and The Independent.

Price Information	**31/08/95**	**At Launch**
NAV per Ordinary Share (undiluted)	111.76p	95.50p *
Ordinary Share Price	101.00p	100.00p
Warrant Price	40.00p	1 for 5 shares
NAV discount (undiluted)	9.63%	N/A
FT-SE Actuaries All-Share Price Index	1,719.44	1,553.90

** net of launch expenses*

Capital Gains Tax

The Directors have been advised that for the purposes of taxation of capital gains, the base cost to Shareholders of ordinary shares and warrants acquired on initial subscription is as follows:

Cost of each ordinary share	94.95p
Cost of each warrant	25.25p

The above apportionment is based upon the respective market values of the ordinary shares and the warrants on 29 December 1994, the first day of separate trading. **

Financial Calendar

Financial period ended 31 August 1995

Annual Report and Accounts issued 7 November 1995

Annual General Meeting is scheduled for 19 December 1995

Interim Report for the six months ended 29 February 1996

** *Please note that the base cost figures published in the Interim Report have been revised. The correct figures to be used in the computation of UK investors' capital gains tax liabilities upon disposal of Fidelity Special Values PLC shares and warrants acquired on initial subscription are the above figures.*

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue of the Company for that period. In preparing those 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.

By Order of the Board
18 October 1995

AUDITORS' REPORT TO THE MEMBERS OF FIDELITY SPECIAL VALUES PLC

We have audited the accounts on pages 16 to 25.

Respective Responsibilities of Directors and Auditors

As described on page 12 the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31 August 1995 and of its net revenue, total recognised gain and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
18 October 1995

TOP TEN HOLDINGS

as at 31 August 1995

	Market Value £'000
MISYS A computer software company which recently took over a competitor, ACT, and so became the dominant software supplier to the international banking sector.	1,518
SECURITY SERVICES The principal subsidiary of Securicor which owns 50.75% of the shares in Security Services. The company provides a wide range of services such as mail services, transportation of cash and valuables, cash processing and security guards. It also has a major shareholding in Cellnet, BT's cellular network operator, which is the company's most valuable asset.	1,373
NEWS INTERNATIONAL (Special Dividend Shares) A subsidiary of News Corporation which is involved in publishing newspapers such as The Sun and Sunday Times and magazines as well as in BSkyB. The special dividend shares' value is linked to the parent although they sell at a large discount to the parent.	1,343
LONDON CLUBS INTERNATIONAL A gaming company which has a good portfolio of casinos. The business is cash generative and should benefit from any deregulation of the gaming business.	1,340
SECURICOR GROUP 4.55% (Preference Shares) A security, parcels and communications group which has a 40% stake in Cellnet. The Company owns participating preference shares.	1,218
WICKES A leading retailer of DIY products which has grown rapidly by opening new stores. The company is withdrawing from its peripheral businesses of builders merchanting and timber importing.	1,174
MIRROR GROUP NEWSPAPERS Best known for publishing The Mirror newspaper. New management has succeeded in improving the efficiency of the Group's operations.	1,140
NOKIA A Finnish company which is one of the world's leading producers of mobile phones. Its sales and profits growth has continued to exceed market expectations. The electronics business is also improving.	1,015
LONDON INTERNATIONAL GROUP It is a world leader in the manufacture of condoms and rubber gloves. It continues to improve manufacturing efficiency and introduce new products which promise future sales growth potential.	1,010
WPP The world's leading global advertising and marketing services company. The company recently announced good results with sales up and increased profit margins.	961
Total	12,092

DISTRIBUTION OF THE PORTFOLIO*

as at 31 August 1995

EQUITIES	UK £'000 †	UK %	Other £'000 †	Other %	Total %
Services					
Distributors	435	0.9	-	-	
Leisure & Hotels	3,470	7.3	-	-	
Media	6,934	14.6	250	0.5	
Retailers - Food	1,972	4.2	-	-	
Retailers - General	2,347	5.0	-	-	
Support Services	3,464	7.3	-	-	
Transport	578	1.2	-	-	
Other Services & Businesses	1,302	2.7	651	1.4	
	20,502	43.2	901	1.9	45.1
General Industries					
Building & Construction	525	1.1	245	0.5	
Building Materials & Merchants	2,253	4.7	-	-	
Chemicals	5	-	717	1.5	
Diversified Industries	239	0.5	-	-	
Electronic & Electrical Equipment	4,690	9.9	1,015	2.1	
Engineering	758	1.6	-	-	
Engineering Vehicles	202	0.4	-	-	
Textiles & Apparel	231	0.5	-	-	
	8,903	18.7	1,977	4.1	22.8
Financials					
Insurance	979	2.1	-	-	
Other Financial	954	2.0	-	-	
Property	1,505	3.2	412	0.9	
	3,438	7.3	412	0.9	8.2
Mineral Extraction					
Extractive Industries	937	2.0	364	0.8	
Oil Exploration & Production	1,253	2.6	504	1.1	
	2,190	4.6	868	1.9	6.5
Consumer Goods					
Spirits, Wines & Cider	326	0.7	-	-	
Food Producers	307	0.7	-	-	
Household Goods	911	1.9	-	-	
Health Care	1,082	2.3	-	-	
Pharmaceuticals	400	0.8	-	-	
	3,026	6.4	-	-	6.4
Utilities					
Telecommunications	2,591	5.5	273	0.6	6.1
Non-Financials	550	1.2	488	1.0	2.2
Investment Trusts	483	1.0	-	-	1.0
Total Equities	41,683	87.9	4,919	10.4	98.3
Fixed Interest	801	1.7	-	-	1.7
Total	42,484	89.6	4,919	10.4	100.0

* *Based on the Financial Times classification - excludes cash and other net assets*
† *Market Value*

REVENUE ACCOUNT

for the period from 27 September 1994 to 31 August 1995

	Notes	£'000
Income from fixed asset investments	1 & 2	
Franked		794
Unfranked		211
Other interest receivable and similar income		
Interest on short-term deposits		214
Underwriting commission		25
Gross revenue		1,244
Administrative expenses	3 & 4	(420)
Net revenue before interest payable and taxation		824
Interest payable	5	(222)
Net revenue on ordinary activities before taxation		602
Taxation on net revenue on ordinary activities	6	(117)
Net revenue on ordinary activities after taxation		485
Dividends		
On ordinary shares of 25p:		(367)
Final dividend proposed at 0.50p		
Special dividend proposed at 0.50p		
Revenue retained for the period		118
Earnings per ordinary share	7	1.32p

The notes on pages 20 to 25 form part of these accounts

BALANCE SHEET
as at 31 August 1995

	Notes	£'000
Fixed asset investments		
Investments	1 & 8	47,403
Current assets		
Debtors - amounts falling due within one year	9	410
Taxation recoverable		68
Cash at bank and on short-term deposits		3,977
		4,455
Creditors - amounts falling due within one year	10	(1,148)
Net current assets		3,307
Total assets less current liabilities		50,710
Creditors - amounts falling due after more than one year		
Equity Index-Linked Loan Stock	11	(9,695)
Total net assets		41,015
Capital and reserves		
Called up share capital	12	9,174
Share premium account	13	23,817
Warrant reserve	13	2,055
Other non-distributable reserves	14	5,851
Retained revenue reserve		118
Total shareholders' funds		41,015

The accounts on pages 16 to 25 were approved by the Board of Directors on 18 October 1995 and were signed on its behalf by:

Alex Hammond-Chambers

Chairman

James Laurenson

Director

The notes on pages 20 to 25 form part of these accounts

CASH FLOW STATEMENT

for the period from 27 September 1994 to 31 August 1995

	Notes	£'000	£'000
Operating activities			
Cash received from investments		764	
Interest and commission received		220	
Investment management fees paid		(230)	
Directors' emoluments paid		(26)	
Other cash payments		(43)	
Net cash inflow from operating activities	15		685
Servicing of finance			
Interest paid		(172)	
Net cash outflow from servicing of finance			(172)
Taxation			
Overseas tax paid		(10)	
UK tax paid		(163)	
Net tax paid			(173)
Investing activities			
Purchase of investments		(54,982)	
Realised currency losses		(9)	
Sale of investments		14,964	
Expenses charged to capital		(147)	
Net cash outflow from investing activities			(40,174)
Net cash outflow before financing			(39,834)
Financing			
Proceeds on issue of ordinary shares and warrants		(36,697)	
Issue of Loan Stock		(8,762)	
Issue expenses paid		1,651	
Net cash inflow from financing			(43,808)
Increase in cash and cash equivalents	16 & 17		3,974
			(39,834)

The notes on pages 20 to 25 form part of these accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the period from 27 September 1994 to 31 August 1995

	£'000
Non-distributable	
Realised gain on fixed asset investments	1,251
Net loss on foreign exchange	(9)
Net unrealised appreciation on fixed asset investments	5,716
Revaluation of Loan Stock	(933)
Capitalised expenses - net	(174)
Transfer to non-distributable reserves	5,851
Distributable	
Net revenue on ordinary activities after taxation	485
Total recognised gain for the period	6,336

Historical cost profits and losses

There are no differences between the amounts reported in the Revenue Account and their historical cost equivalents.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the period from 27 September 1994 to 31 August 1995

	£'000	£'000
Net revenue on ordinary activities after taxation		485
Dividend		(367)
		118
Proceeds from share capital issued	9,174	
Reserve created from warrants issued	2,055	
Premium from share capital issued	25,468	
Costs of share issue written off to share premium account	(1,651)	
		35,046
Net addition to shareholders' funds		35,164
Transfer to non-distributable reserves		5,851
Shareholders' funds as at 31 August		41,015

The notes on pages 20 to 25 form part of these accounts

NOTES TO THE ACCOUNTS

1. Accounting policies

a) The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted.

b) In accordance with Financial Reporting Standard no 4 (FRS4) a warrant reserve has been established.

c) Income from equity investments is credited to the revenue account on the date on which it is ex dividend. Interest receivable on fixed interest securities is accounted for on an accruals basis. Franked and unfranked investment income include the imputed tax credits or taxes deducted at source. Interest receivable on short-term loans and deposits, interest payable and expenses of management are dealt with on an accruals basis.

d) Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in other non-distributable reserves.

e) Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling on that date 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 the Fair Value Committee are aware that the company is experiencing operating difficulties.

f) Management fees and the financing costs of the Index-Linked Unsecured Loan Stock are charged to the revenue account and non-distributable reserves in the proportion the Directors consider appropriate taking all considerations into account including the investment objectives of the Company. Twenty five per cent of both these expenses have been charged to non-distributable reserves.

g) Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Costs of purchases and proceeds from sales on investments in foreign currencies are calculated in Sterling at the rate of exchange ruling at the date the transactions take place.

h) The Equity Index-Linked Loan Stock 2004 is revalued by reference to the FT-SE Actuaries All-Share Index; the difference arising is taken to non-distributable reserves.

i) Advance corporation tax on dividends paid and proposed at the balance sheet date is written off except to the extent that it is expected to be recovered against mainstream corporation tax.

NOTES TO THE ACCOUNTS - continued

2. Income from fixed asset investments

	£'000	£'000
Franked:		
Listed investments	707	
Unlisted investments	87	
		794
Unfranked:		
Listed investments	207	
Unlisted investments	4	
		211
		1,005

3. Administrative expenses

	£'000
Management fees	301
Other management expenses	70
Directors' emoluments (note 4)	33
Audit fees	14
Other fees paid to Auditors	2
	420

4. Directors' emoluments

The Chairman and highest paid Director (excluding VAT)		£9,166
Emoluments of the Directors		
Number of Directors within the range	£0 - £5,000	1
	£5,001 - £10,000	4

One Director waived his fee of £7,500 per annum for the period to 31 August 1995.

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

Mr James Laurenson's emoluments were paid directly to Hillhouse Investments Ltd on his behalf.

Mr David Brooke's emoluments were paid directly to Brooke & Partners on his behalf.

Messrs A M Hougie and M J D Roberts served as unpaid Directors from 27 September 1994 to 18 October 1994.

5. Interest payable

	£'000
Bank overdraft	2
Equity Index-Linked Loan Stock	220
	222

NOTES TO THE ACCOUNTS - continued

6. Taxation

	£'000
UK tax credit on franked investment income	159
UK income tax	3
Less relief for excess management charges	(68)
	94
Overseas taxation	10
Total tax charge for the period	104
Transfer to capital reserves of tax relief on expenses charged to capital	13
Revenue account tax charge	117

During the accounting period, the Company was liable to corporation tax at a rate of 33%.

7. Earnings per ordinary share

The calculation of earnings per ordinary share has been made using the weighted average number of ordinary shares in issue from the commencement of dealing in the units of ordinary shares on 17 November 1994. These shares and the shares in issue at 31 August 1995 were 36,697,400.

8. Fixed asset investments

	Valuation £'000	Cost £'000
Listed at market value:		
In Great Britain	41,597	37,200
On recognised stock exchanges overseas	4,919	3,579
Unlisted - directors' valuation	887	908
	47,403	41,687

The movement on fixed asset investments is as follows :	£'000
Purchases at cost	55,634
Sales at cost	(13,947)
Cost as at 31 August 1995	41,687
Unrealised appreciation	5,716
Valuation as at 31 August 1995	47,403

9. Debtors - amounts falling due within one year

	£'000
Securities sold for future settlement	235
Other debtors	175
	410

10. Creditors - amounts falling due within one year

	£'000
Securities purchased for future settlement	566
Bank overdraft	3
Proposed dividend	367
Accruals	212
	1,148

11. Equity Index-Linked Unsecured Loan Stock 2004

	£'000
Loan Stock issue	8,762
Revaluation during the period	933
Value as at 31 August 1995	9,695

The Equity Index-Linked Unsecured Loan Stock 2004 is constituted by a Trust Deed entered into between the Company and Sun Alliance Trust Company Limited. The Stock is in registered form and ranks as an unsecured liability of the Company. The Stock is issued for a fixed period ending on 31 December 2004. Repayment will be by reference to the movement in the FT-SE Actuaries All-Share Index since issue. As at 31 August 1995 there were 563,839 units in issue.

Interest is paid semi-annually in arrears and is calculated by reference to the gross dividend yield of the FT-SE Actuaries All-Share Index, that would be obtained on the capital value of the Loan Stock at the date of calculation.

12. Called up share capital

	£'000
Authorised:	
160,000,000 ordinary shares of 25p each	40,000
Issued, allotted and fully paid:	
36,697,400 ordinary shares of 25p each	9,174

The Company was incorporated with an authorised share capital of £50,000 divided into 200,000 shares of 25p each, of which two ordinary shares were issued to the subscribers to the Memorandum of Association.

Pursuant to resolutions passed on 18 October 1994:

(a) the authorised share capital was increased to £40,000,000 divided into 160,000,000 ordinary shares of 25p each;

(b) the Directors were granted the necessary authorities pursuant to sections 80 and 95 of the Companies Act 1985 to allot ordinary shares (with warrants attached) pursuant to the Placing and Offer for Subscription.

NOTES TO THE ACCOUNTS - continued

12. Called up share capital - continued

On 10 October 1994 Fidelity Investments International was allotted 199,998 ordinary shares of 25p each, against its irrevocable undertaking to pay or procure payment of 100p in cash for each ordinary share on or before the date of their admission to the Official List of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited unless such admission did not become effective by 19 December 1994. These ordinary shares and the two ordinary shares of 25p each issued to the subscribers to the Memorandum of Association, and held by or on behalf of the Manager, were included in the Offer.

On 16 November 1994 an additional 36,497,400 ordinary shares of 25p each were issued at £1 each along with 7,339,480 warrants following a Placing and Offer for Subscription. Warrants were issued in the ratio of 1 for every 5 ordinary shares.

At 31 August 1995 there were 7,339,480 warrants outstanding. Holders have the right to subscribe for one ordinary share at 100p on 1 January in any of the years 1996 to 2004, both inclusive.

13. Share premium account and warrant reserve

	Share Premium £'000	**Warrant Reserve £'000**
Received on issue of 36,697,400 ordinary shares of 25p at £1	25,468	2,055
Issue expenses capitalised	(1,651)	-
As at 31 August 1995	23,817	2,055

14. Other non-distributable reserves

	Unrealised appreciation/ (depreciation) £'000	**Other realised reserves £'000**	**Total £'000**
Net gain on fixed asset investments	5,716	1,251	6,967
Revaluation of Equity Index-Linked Loan Stock	(933)	-	(933)
Net loss on foreign exchange	-	(9)	(9)
Management fee charged to capital	-	(101)	(101)
Loan Stock interest charged to capital	-	(73)	(73)
Tax relief on management fee and interest charged to capital	-	13	13
Security charges	-	(13)	(13)
As at 31 August 1995	4,783	1,068	5,851

NOTES TO THE ACCOUNTS - continued

15. Reconciliation of operating revenue to net cash inflow from operating activities

	£'000	£'000
Net revenue before interest payable and taxation	824	
Increase in debtors	(175)	
		649
Increase in creditors	212	
Less non-revenue items	(176)	
		36
Net cash inflow from operating activities		685

16. Analysis of changes in cash and cash equivalents

	£'000
Cash balance at the beginning of the period	0
Net cash inflow	3,896
Effect of foreign exchange rate movements	78
As at 31 August 1995	3,974

17. Analysis of balances of cash and cash equivalents as shown in the balance sheet

	£'000
Cash at bank and short-term deposits	3,977
Bank overdraft	(3)
	3,974

18. Analysis of changes in financing during the period

	Shares Issued £'000	Equity Index-Linked Loan Stock £'000
Cash inflows from issue of shares and warrants	36,697	8,762
Change in value of Equity Index-Linked Loan Stock	-	933
Cash outflow from issue expenses	(1,651)	-
	35,046	9,695

19. Contingent Liabilities

There were no contingent liabilities as at 31 August 1995.

DIRECTORY

DIRECTORS (NON-EXECUTIVE)

Alex Hammond-Chambers (Chairman)
Barry Bateman
David Brooke
Douglas Kinloch Anderson
James Laurenson

MANAGER, SECRETARY AND REGISTERED OFFICE OF THE COMPANY

Fidelity Investments International
Oakhill House
130 Tonbridge Road
Hildenborough
Tonbridge
Kent TN11 9DZ
Telephone: (01732) 361144
Fax: (01732) 838886
Regulated by IMRO and the Personal Investment Authority

FINANCIAL ADVISORS AND STOCKBROKERS

SBC Warburg
1 Finsbury Avenue
London EC2M 2PP

REGISTRARS

Barclays Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

TRUSTEE FOR THE EQUITY INDEX-LINKED LOAN STOCK

Sun Alliance Trust Company Limited
40 Chancery Lane
London WC2A 1JN

AUDITORS

Coopers & Lybrand
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6NN

Fidelity Special Values PLC

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the first Annual General Meeting of Fidelity Special Values PLC will be held at 25 Lovat Lane, London EC3R 8LL, on 19 December 1995 at 12 noon for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Accounts for the period ended 31 August 1995.

2. To declare a dividend.

3. To re-elect the following as Directors:
   i) Alex Hammond-Chambers
   ii) Barry Bateman
   iii) David Brooke
   iv) Douglas Kinloch Anderson
   v) James Laurenson

4. To re-appoint Coopers & Lybrand as Auditors and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions which will be proposed, Resolution 5 as an ordinary resolution and Resolution 6 as a special resolution:

5. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £3,027,536 (approximately one-third of the aggregate nominal amount of the issued share capital of the Company as at 18 October 1995) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.

6. THAT, subject to the passing of Resolution 5 set out above, the Directors be and they are hereby authorised, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority given by the said Resolution 5 as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:-

   a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

Fidelity Special Values PLC

b) to the allotment (otherwise pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £458,718 (approximately 5 per cent of the aggregate nominal amount of the issued share capital of the Company as at 18 October 1995)

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.

By Order of the Board
Fidelity Investments International
Secretary

7 November 1995

Registered Office:
Oakhill House
130 Tonbridge Road
Hildenborough
Tonbridge
Kent
TN11 9DZ

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, and, on a poll, vote instead of him. Forms of Proxy must be lodged not less than 48 hours before the time fixed for the meeting. Completion of a Form of Proxy will not prevent any Shareholder from attending and voting in person at the meeting, if desired.
2. Only holders of ordinary shares are entitled to attend or to be represented or vote at the meeting.
3. In the case of joint holders, the vote of the senior who tenders a 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.
4. No Director has a service contract with the Company.

Fidelity Special Values PLC
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