Company Number: 2972628

Fidelity Special Values PLC

Annual Report
For the year ended
31 August 2000

Company Summary

as at 31 August 2000

Investment objective	To achieve long-term capital growth from an actively managed portfolio of special situation investments, consisting primarily of securities listed or traded on the London Stock Exchange.
Benchmark	FTSE All Share Index
Management company	Fidelity Investments International
Total net assets	£91.0m
Market capitalisation	£79.0m
Capital structure	ordinary shares of 25p 35,357,755 in issue warrants 4,724,125 in issue
Continuation vote	An ordinary resolution to approve the continuation of the Company will be proposed to shareholders at the Annual General Meeting in 2001 and every three years thereafter.
Management & secretarial fee	Fidelity provides management, accounting, 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 giving one year's notice in writing. The agreement provides for a fee at the rate of 0.95% 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.
Investment trust status	The Inland Revenue has approved the Company as an investment trust under S842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 August 1998. 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. Following the introduction of the Corporate Taxation Self Assessment (CTSA) regime approval for the year ended 31 August 1999 will not be received until September 2001 at the earliest.
Membership of AITC	The Company is a member of the AITC and is classified under the UK Growth Sector. The Company also supports the AITC 'its' campaign which is aimed at increasing awareness of and creating demand for investment trust shares.
ISA status	Investment limit £7,000 in the 2000/2001 tax year (£5,000 thereafter).

Company Number: 2972628

Contents

Company Number: 2972628

Summary of Results

		2000	1999	**% change***
Assets at 31 August				
Total assets employed		**£107.04m**	£89.23m	**+20.0**
Shareholders' funds		**£91.04m**	£72.66m	**+25.3**
Borrowings/Loan Stock as % of shareholders' funds		**17.6%**	22.8%	
Undiluted net asset value per share		**257.49p**	204.60p	**+25.9**
Fully-diluted NAV ie assumes warrants exercised		**238.93p**	191.44p	**+24.8**
Returns for the year to 31 August - see page 27				
Capital return per ordinary share		**52.69p**	43.19p	
Capital + revenue return per ordinary share		**55.38p**	47.55p	
Final dividend per ordinary share		**2.30p**	2.30p	
Interim dividend per ordinary share		**-**	1.00p	
Interest paid per unit of Loan Stock - December		**43.57p**	39.59p	
Additional interest payment in respect of June 1999†		**8.68p**	-	
Interest paid per unit of Loan Stock - January/June		**7.30p**	33.82p	
Stockmarket Data at 31 August				
FTSE All Share Index		**3,207.99**	2,939.11	**+9.1**
Share price	year end	**223.50p**	162.50p	**+37.5**
	high	**223.50p**	163.00p	
	low	**154.00p**	113.00p	
Discount	year end	**6.5%**	15.1%	
	low	**5%**	9%	
	high	**19%**	23%	
Warrant price	year end	**123.50p**	83.00p	**+48.8**
	high	**123.50p**	83.50p	
	low	**71.50p**	38.00p	
Loan Stock - price per unit		**-**	£28.25	
Loan Stock - index value per unit		**-**	£29.39	
Total Returns (includes reinvested income) for the year to 31 August (%)				
FTSE All Share Index		**+11.6**	+23.5	
NAV		**+27.3**	+30.1	
Share price		**+39.4**	+24.9	
Warrant price		**+48.8**	+44.3	
Total expense ratios#				
Total assets employed		**1.54%**	1.51%	
Shareholders' funds		**1.84%**	1.89%	

* price change

† Sum equal to additional interest that would have been paid to Loan Stock holders if the June 1999 interest payment had included an uplift to reflect the tax credits that had been available before legislative changes

\# 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

Company Number: 2972628

Summary of Performance

Historical Record as at 31 August	**2000**	1999	1998	1997	1996	1995
Shareholders' funds	**£91.0m**	£72.7m	£59.0m	£54.3m	£50.1m	£41.0m
NAV - undiluted	**257.49p**	204.60p	160.18p	147.60p	136.42p	111.76p
NAV - diluted	**238.93p**	191.44p	150.52p	137.74p	130.36p	109.80p
Share price	**223.50p**	162.50p	133.00p	123.00p	125.50p	101.00p
Warrant price	**123.50p**	83.00p	57.50p	44.00p	44.00p	40.00p
Discount to diluted NAV	**6.5%**	15.1%	11.6%	12.0%	3.7%	8.0%
Revenue return per ordinary share	**2.69p**	4.36p	2.70p	2.00p	0.22p	1.32p
Dividends per ordinary share	**2.30p**	3.30p	1.80p	1.80p	nil	1.00p
Cost of running trust (total expense ratio)*	**1.84%**	1.89%	1.71%	1.84%	1.80%	1.46%
Actual gearing ratio (Loan Stock)	**-**	22.6%	21.3%	22.8%	19.3%	13.9%
Actual gearing ratio (loans)	**13.6%**	-	-	-	-	-
NAV - undiluted performance†	**+27.3%**	+30.1%	+9.4%	+8.2%	+22.1%	+17.0%
Share price performance†	**+39.4%**	+24.9%	+9.2%	-2.0%	+25.5%	+1.0%
Index performance†	**+11.6%**	+23.5%	+10.0%	+22.2%	+15.8%	+10.7%

Total return performance from launch to 31 August 2000

Total return performance relative to the index from launch to 31 August 2000

Undiluted NAV, diluted NAV, share price and warrant price from launch to 31 August 2000

Share price discount to NAV from launch to 31 August 2000

* operating expenses (excluding interest before tax) based on average total assets less current liabilities and shareholders' funds at the end of each month

† on a total return basis

Investment Manager's Report

Performance Review – In the year to 31 August 2000, the total return on the Company's net asset value was 27.3% and the share price total return was 39.4%. This compared to a total return on the FTSE All Share Index of 11.6%.

Total return performance for year to 31 August 2000

Market Environment - The rise and fall of "new economy" stocks dominated UK equity markets during the twelve months under review. Unprecedented demand for telecommunications, media and technology-related stocks drove the UK stockmarket to a new high in December 1999, but volatility ensued as investors became concerned that shares in some companies had become too expensive. Following a sharp worldwide correction in share prices in April, equity markets stabilised before rising again.

The Bank of England increased interest rates from 5% to 6% during the year, in order to reduce inflationary pressures caused by low unemployment and a booming housing market. In fact, inflation remained relatively subdued.

In common with the rest of the world, UK equity markets were turbulent during April and May, as investors switched out of "new economy" stocks and sought the safer haven of the "old economy". Nevertheless, "new economy" sectors dominated performance during the year, with sectors such as information technology hardware (+348.5%), electronic and electrical equipment (+145.7%), software and computer services (+103.2%) and media and photography (+52.5%) performing strongly. In contrast, sectors that performed less well over the year included sectors such as steel and other metals (-44.8%), engineering and machinery (-14.9%), and construction and building materials (-13.7%).

Defensive or less volatile sectors recovered towards the end of the year, but this was not enough to offset earlier declines. Sectors such as water (-19.5%), food producers and processors (-17.3%) and tobacco (-13.5%) performed poorly over the period as a whole.

Investors witnessed extensive corporate activity in the UK stockmarket over the last year. Although the high-profile deals stole the limelight – for example, Vodafone Airtouch's takeover of Germany's Mannesmann, and Glaxo Wellcome's merger with SmithKline Beecham – there was a proliferation of mergers and acquisitions amongst medium-sized and smaller companies.

Portfolio Review - The Company performed strongly during the year to 31 August 2000. Performance was enhanced by holdings in sectors such as support services, electronics and media, which were driven by strong demand for technology-related stocks. Stock selection in the leisure, entertainment and hotels, transport, and food and drug retailers also enhanced performance, as these sectors benefited from stronger consumer spending. Despite the overall weakness in some economy sensitive sectors, stock selection in the chemicals, construction and engineering and machinery sectors proved rewarding to performance. A number of holdings were the subject of takeover bids which also helped performance.

As stated above, much of the stockmarket's strong performance towards the end of 1999 was driven by demand for technology-related stocks. However, we sought to identify the indirect consequences and the indirect beneficiaries of the

Sector Breakdown v FTSE All Share Index as at 31 August 2000

growth in technology and specifically the internet. This resulted in about 25% of the portfolio being invested in stocks that were – direct or indirect – beneficiaries of the "new economy". Indirect beneficiaries of the internet included holdings in Garban-Intercapital, Inchcape, Iceland, British Airways, 4imprint Group and Findel.

Meanwhile, much of the balance of the portfolio continued to be invested in "old economy" companies where we identified little or no effect resulting from the internet – for example, housebuilders, ports, airports, property and tobacco companies. A holding in airport operators BAA was added during the year.

The Company has a relatively large exposure to the retailing sector, investments in the sector were increased during the year. Amongst food and drug retailers, exposure to Safeway was increased, and a holding in Somerfield was added. Some holdings in some of the smaller general retailers were also added to the portfolio.

Exposure to the media sector was increased during the year. Although the Company's holding in Reuters was sold, holdings in two large media and publishing companies were added: Reed International and Carlton Communications. Reed International publishes international business, scientific and legal materials, whilst Carlton's operations centre on television broadcasting and production. A number of holiday and hotel operators have also been added, increasing the portfolio's exposure to the leisure, entertainment and hotels sector. The Company benefited from the takeover of Brands Hatch Leisure during the year.

The holdings in technology shares were reduced during the first three months of 2000, as these shares began to look expensive. Holdings in Autonomy and Kewill Systems were sold earlier in the year, following strong performance.

The Company's exposure to food producers and processors was also increased, whilst its investment in the insurance sector declined – although this was partly due to the acquisition of LIMIT by QBE Insurance Group of Australia

High levels of corporate activity in the shape of mergers, acquisitions and disposals were a feature of the UK stockmarket over the year. The Company benefited from this activity. In the 12 month period there were 30 takeovers within the portfolio, including Monument Oil & Gas, Tarmac, Medeva, Waddington, Dorling Kindersley and Booker.

The Company retained its strong bias towards medium-sized and smaller companies during the year. This proved beneficial for performance, as medium-sized and smaller companies performed particularly strongly relative to their larger counterparts.

At the end of the year, the Company was more exposed than its benchmark index to the leisure, entertainment and hotels, insurance, support services, real estate, construction and building materials, food and drug retailers, and transport sectors. The Company has a relatively low exposure to telecommunications, banks, pharmaceuticals and oil and gas sectors, in addition to the life assurance, IT hardware, restaurants, pubs and breweries, gas distribution and beverages sectors. Sector weights are largely as a result of where we can find attractive medium and smaller companies.

Investment Manager's Report

The Company retained a strong bias towards "value" stocks , which are typically found amongst sectors that have been avoided by investors. Although growth shares outperformed value shares during the year, the Company performed very strongly relative to its benchmark, demonstrating our strong stockpicking discipline.

Outlook - The UK stockmarket has stabilised following the turbulence of the spring, and UK equity markets have broadened. Medium-sized and smaller companies remain attractively valued compared to their larger counterparts. The economic environment still appears relatively favourable: interest rates are only expected to rise marginally in the short to medium term, the outlook for corporate profits growth is stable, and forecasts for UK economic growth are positive. Despite the strong rise of medium-sized and smaller companies over the past year, there is still value to be found in the UK market outside the market leaders.

Fidelity Investments International
26 October 2000

'Despite the strong rise of medium-sized and smaller companies over the past year, there is still value to be found in the UK outside the market leaders.'

Portfolio Listing

as at 31 August 2000

Holdings by value	Market Value £'000	%†
Reed International *Publisher and information provider*	2,813	2.6
Iceland *Frozen foods retailer*	2,804	2.6
Safeway *Supermarket chain*	2,574	2.4
Caradon *Electrical extrusions and security printing company*	2,393	2.2
Johnson Matthey *Materials technology company*	2,186	2.0
De La Rue *Prints banknotes/produces money handling equipment*	2,087	1.9
BAA *Airport facilities provider/property investment and development*	2,031	1.9
Gallaher *Tobacco product manufacturer*	1,902	1.8
Cadiz *Agricultural development company with water interests*	1,669	1.6
Charter *Welding and cutting products/air and gas handling equipment*	1,585	1.5
Jarvis Hotels *Owns and operates hotels*	1,393	1.3
Balfour Beatty *Engineering construction and services company*	1,369	1.3
NDS *Pay TV conditional access supplier*	1,353	1.3
British Energy *Generates and sells electricity*	1,349	1.3
Wembley *Leisure and property company*	1,348	1.3
Garban-Intercapital *Money/securities broker*	1,280	1.2
Babcock International *Engineering/facilities management firm*	1,271	1.2
Great Universal Stores *Mail order and general retailer*	1,261	1.2
BRIT Insurance *Holding company - Lloyds insurance*	1,220	1.1
Royal & Sun Alliance Insurance *UK insurance and related financial services holding company*	1,216	1.1
Carillion *Construction company*	1,195	1.1
Enodis *Manufactures and sells commercial food service equipment and consumer products.*	1,125	1.1
David S Smith *Paper and packaging company*	1,122	1.0
Azlan *Networking/communication products distributor*	1,111	1.0
Inchcape *Independent vehicle distribution company*	1,089	1.0
Top 25 holdings	**40,746**	**38.0**

† % total assets less current liabilities including short-term loans

Portfolio Listing

as at 31 August 2000

Holdings by value	Market Value £'000	%†
First Choice Holidays *Tour operator and travel retailer in the UK, Ireland and Canada*	1,084	1.0
Findel *Sells greetings cards, paper products, gift and education supplies through mail order catalogues*	1,083	1.0
Ellis & Everard *Sales, marketing and distribution of chemicals and polymers*	1,004	1.0
Ashtead *Plant and machinery hire*	984	0.9
4Imprint *Promotional products supplier*	964	0.9
Cox Insurance *Insurance underwriter*	951	0.9
Minerva *Property investment/development/trading*	950	0.9
Unigate *Food processing and logistics*	949	0.9
United News & Media *Broadcasting and entertainment, consumer publishing and business services*	946	0.9
SVB Holdings *Insurance underwriter*	943	0.9
Telecom Italia *Italian telephone operator*	893	0.8
Bank of Ireland *Irish bank*	887	0.8
Hazlewood Foods *Food manufacturer*	877	0.8
Fairey *Electronic measurement and control instrument manufacturer*	833	0.8
Wimpey (George) *House and land developer*	827	0.8
British Airways *International and domestic schedule and charter air services operator*	813	0.8
Cairn Energy *Exploration, development and production of oil and gas*	795	0.7
Cookson *Manufacturing conglomerate*	792	0.7
Amlin *Insurance underwriter*	751	0.7
Ascot *Holding company with chemical interests*	748	0.7
Eurodis Electron *European distributor of electronic components*	737	0.7
Jardine Lloyd Thompson *Insurance broker*	714	0.7
Trinity Mirror *Newspaper and magazine printer*	710	0.7
Ockham *Insurance underwriter*	693	0.6
Mersey Docks & Harbour *Operation and maintenance of port facilities, cargo handling and associated services*	677	0.6
Top 50 holdings	**62,351**	**58.2**
Other holdings (90)	**42,171**	**39.4**
	104,522	**97.6**
Cash & other net assets	**2,521**	**2.4**
	107,043	**100.0**

† % total assets less current liabilities including short-term loans

Distribution of the Portfolio*

as at 31 August 2000	UK %	Non-UK %	Total %	Index† %	1999 %
Equities (including convertibles)					
Cyclical Services					
Support Service	7.7	0.1	7.8	1.8	6.6
Leisure Entertainment & Hotels	6.4	0.6	7.0	0.7	5.1
Transport	5.8	0.4	6.2	1.8	2.4
General Retailers	5.6	-	5.6	2.2	6.2
Media & Photography	5.4	-	5.4	6.1	5.8
Distributors	2.0	-	2.0	0.4	2.0
Restaurants, Pubs & Breweries	0.1	-	0.1	1.7	0.1
	33.0	1.1	34.1	14.7	28.2
Financials					
Insurance	6.9	-	6.9	1.3	9.1
Real Estate	4.9	1.6	6.5	1.3	6.8
Speciality & Other Finance	2.4	-	2.4	1.4	3.7
Banks	-	0.8	0.8	12.8	1.0
Investment Companies	0.4	-	0.4	3.0	1.1
Life Assurance	-	-	-	3.3	-
	14.6	2.4	17.0	23.1	21.7
Basic Industries					
Construction and Building Materials	6.4	-	6.4	1.4	6.6
Chemicals	4.4	-	4.4	0.7	1.3
Forestry and Paper	1.1	0.2	1.3	-	1.2
Steel and Other Metals	-	-	-	0.1	-
	11.9	0.2	12.1	2.2	9.1
Non-Cyclical Consumer Goods					
Food Producers & Processors	3.0	-	3.0	1.5	3.3
Tobacco	1.8	-	1.8	0.8	0.8
Packaging	1.3	-	1.3	0.1	2.1
Health	0.8	-	0.8	0.7	1.2
Pharmaceuticals	0.7	-	0.7	10.3	1.7
Beverages	0.6	-	0.6	1.7	0.6
Personal Care & Household Products	0.5	-	0.5	0.3	1.6
	8.7	-	8.7	15.4	11.3
General Industries					
Engineering & Machinery	5.1	-	5.1	0.9	8.0
Electronic & Electrical Equipment	2.5	0.2	2.7	0.9	3.4
Aerospace & Defence	0.2	-	0.2	1.2	0.6
Diversified Industrials	-	-	-	-	0.5
	7.8	0.2	8.0	3.0	12.5
Non-Cyclical Services					
Food & Drug Retailer	6.1	-	6.1	1.6	2.4
Telecommunication Services	0.6	0.8	1.4	16.2	2.7
	6.7	0.8	7.5	17.8	5.1
Resources					
Mining	1.3	0.8	2.1	1.9	1.7
Oil & Gas	1.7	0.3	2.0	11.2	1.9
	3.0	1.1	4.1	13.1	3.6
Information Technology					
Software & Computer Services	3.1	-	3.1	3.4	7.0
Information Technology Hardware	-	-	-	3.0	-
	3.1	-	3.1	6.4	7.0
Utilities					
Electricity	1.4	-	1.4	1.9	-
Gas distribution	-	-	-	1.3	-
Water	0.7	-	0.7	0.7	-
	2.1	-	2.1	3.9	-
Cyclical Consumer Goods					
House Goods & Textiles	0.6	-	0.6	-	1.8
Automobiles	0.3	-	0.3	0.4	-
	0.9	-	0.9	0.4	1.8
Total Equities 2000	91.8	5.8	97.6	100.0	100.3
Cash & Other Net Assets	-	-	2.4	-	(0.3)
Total 2000	91.8	5.8	100.0	100.0	
Total Equities 1999	92.0	8.3	100.3		100.0

* % total assets less current liabilities including short-term loans

† FTSE All Share Index

Directors' Report

The Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31 August 2000.

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.

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 8 and in the Investment Manager's Report on pages 10 to 12.

The Inland Revenue has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the accounting period to 31 August 1998. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section.

The introduction of the Corporate Taxation Self Assessment (CTSA) regime will delay approval under section 842, as the new procedures now provide the earliest approval date as 12 months after the statutory deadline for submission of the return, in effect no sooner than 2 years after the year end. The 31 August 1999 year end is the first affected by this regime. Consequently section 842 approval will not be received for these accounts before September 2001, under current Inland Revenue practice.

In order that the Company might purchase its own shares for cancellation, the Company had applied for its investment company status under section 266 of the Companies Act 1985 to be revoked on 20 May 1999. Following the issue of statutory instrument number 2770, which became effective on 8 November 1999, the Company re-registered as an investment company on 13 January 2000.

The Company is not a close company and has no employees.

Net Asset Value

Investments were valued at £104,522,000 as at 31 August 2000. Shareholders' funds amounted to £91,043,000 resulting in a net asset value per share of 257.49p. Changes to investments are shown in note 10 to the accounts on page 34.

Results and Dividends

The amount available for distribution as dividend in the year is £952,000 as shown on page 27. The Directors recommend the payment of a final dividend of 2.30p (note 8) per ordinary share, payable on 15 December 2000 to shareholders on the register at close of business on 17 November 2000 (ex dividend date 13 November 2000). An amount of £139,000 has been transferred to reserves.

Under current tax legislation, only individuals holding shares in a PEP or ISA will be entitled to a refund of the tax credit on UK dividend distributions.

Share Capital

On 6 January 2000, 145,007 ordinary shares of 25p per share were allotted and issued, fully paid at a rate of 100p, following an exercise of warrants on 1 January 2000. Further to the authority granted by shareholders on 8 April 1999, a total of 300,000 ordinary shares (0.84% of the issued share capital) were purchased for cancellation as detailed below:

Date of purchase	number of shares	price per share (p)	discount to NAV
15 November 1999	250,000	159.00	15.5%
14 April 2000	50,000	164.50	18.3%

The resultant uplift in the NAV per share was 0.22p. As at 31 August 2000, the total number of shares in issue was 35,357,755.

Directors' Report

Warrants

The following purchases of warrants for cancellation have been made:

Date of purchase	number of warrants	price per warrant (p)
7 December 1999	120,000	81.50
4 April 2000	120,000	88.00

As at 31 August 2000, there were 4,724,125 warrants in issue (1999: 5,109,132). On 1 January 2000, 145,007 warrants were exercised.

Registered holders of warrants should note that the next annual subscription date is 1 January 2001. If the subscription rights are not exercised on 1 January 2001, there will be further opportunities to exercise your right on 1 January in the years 2002 to 2004 inclusive.

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 warrantholder must lodge the warrant certificate(s), having completed a Notice of Exercise of subscription rights, at the office of the Registrars from 4 December 2000 to 3pm on 1 January 2001. 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 warrantholders reminding them of their subscription rights.

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

Political and Charitable Donations

The Company has not made any political or charitable donations in the year.

Payment of Creditors

The Company's policy for the year to 31 August 2001, 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.

Management Company

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement ('the Management Agreement') entered into on 19 October 1994. Further details of the agreement are given in the Company Summary on page 1.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account under an agreement dated 17 April 1996. The amount payable for these services for the year to 31 August 2000 is £64,470. If the amount paid by the Manager for the provision of these services is less than this amount, the balance is carried forward to cover the cost of the provision of these services in future years.

An amount of £268,065 was due to the Manager under the above agreements at 31 August 2000 and is included in creditors in note 13 on page 38.

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

The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce expenses. Amounts received by the Company under this arrangement are offset against other expenses.

There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

Directors

The names of the Directors who served in the year to 31 August 2000 are set out below. Mr Simon Haslam was appointed as a Director of the Company on 4 November 1999 and Mr Barry Bateman resigned on that date. Sir Richard Brooke retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Mr Simon Haslam is a director of Fidelity Investments International and 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 under the heading of 'Management Company'. Except as disclosed above, there have been no related party transactions requiring disclosure under Financial Reporting Standard ('FRS') 8.

The interests of the Directors and Fidelity International Limited in the ordinary shares and warrants of the Company as at 31 August 2000 and 31 August 1999 were as follows:

	31 August 2000		31 August 1999	
	shares	warrants	shares	warrants
Alex Hammond-Chambers†	**20,000**	**4,000**	20,000	4,000
Sir Richard Brooke	**10,000**	**2,000**	10,000	2,000
Simon Haslam*	**3,000**	**-**	-	-
Douglas Kinloch Anderson	**16,357**	**1,000**	16,273	1,000
James Laurenson	**15,000**	**3,000**	15,000	3,000
Fidelity International Ltd	**890,000**	**200,000**	680,000	200,000

† of which 15,000 shares (1998 : 15,000) and 3,000 warrants (1998 : 3,000) are non-beneficially owned

* date of appointment, 4 November 1999

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

Substantial Share Interests

As at 26 October 2000 the Company was not aware of any interests in 3% or more of the issued share capital of the Company. The Directors are aware that 44.4% of the issued share capital was held by investors in the Fidelity Investment Trust PEP, ISA and the Fidelity Investment Trust Share Plan.

Analysis of Ordinary Shareholders

as at 31 August 2000

	Number of Shareholders	% of Issued Share Capital
Private Shareholders††	5,843	62.9
Nominee Companies**	453	16.9
Limited Companies	33	13.6
Insurance Companies	9	2.9
Pension Funds	3	1.2
Bank & Bank Nominees	6	0.4
Investment Trusts	3	0.2
Other Institutions	13	1.9
Other	3	0.0
	6,366	**100.0**

†† includes Share Plan, ISA and PEP investors

** nominees may also include individual shareholders

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.

Directors' Report

Resolution 5 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £441,972. If passed, this resolution will enable the Directors to allot a maximum of 1,767,887 ordinary shares which represents approximately 5% of the issued ordinary share capital of the Company as at 26 October 2000.

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 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 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 £441,972 (5%).

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 6 will enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan and ISA in the event that the ordinary shares are trading at a premium to their diluted net asset value. The Directors would not intend to use this power unless such premium were in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

Resolution 7 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 5,250,000 ordinary shares of 25 pence (equivalent to 14.8% of the shares in issue at 26 October 2000). 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 net asset value per share.

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 46 to 48.

Corporate Governance

Full details are given in the Application of Corporate Governance on pages 22 to 25.

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The Auditors, PricewaterhouseCoopers, 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
26 October 2000

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 explains how the directors of Fidelity Special 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 Stock Exchange has established "The Combined Code" which outlines its corporate governance standards and requirements. Your Board of Directors is committed to the highest standards of corporate governance, which include following the spirit of The Combined Code as well as box ticking its 45 points checklist. It should be remembered that, following The Combined Code will not produce good company performance, only establish a certain standard of corporate governance.

The corporate governance of an investment trust company

The corporate governance of most investment trust companies, including Fidelity Special 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 maximizing 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 its 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 Special 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 maximizing 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.

The Board of Directors of Fidelity Special Values believes that these three matters are important aspects of the corporate governance policy of your Company.

Fidelity Special 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 Special Values has taken the trouble to consider its own circumstances and determine its own corporate governance policies and modus operandi. Because it is important that shareholders should be aware of them, and indeed approve of them, the Board has chosen to outline them in this report.

The composition and the conduct of the Board of Directors are a matter of concern for shareholders. Having laid out its 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 Special 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 recognize that any individual who is employed or otherwise materially financially associated to the Manager, Fidelity International Investments, 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 International Investments 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 on page 5 for shareholders' perusal.

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

1. The stewardship of the affairs of the Company, which includes the management of risk, the monitoring of the controls at work in the Company;
2. The promotion of the Company's prosperity so as to maximize 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 minimize the level and the volatility of the discount at which the shares sell in relation to the net asset value;
3. 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 International Investments, 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 the Board itself 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 bureaucratic burden of corporate governance procedure tends to crowd out investment and shareholder value matters at board meetings, it has decided to discharge as much as possible of its corporate governance responsibilities through three committees:

The Audit Committee consists of all of the independent directors and is charged with reviewing and monitoring the production of the annual and interim 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 their ongoing reappointment and level of fees). The Committee meets with the auditors at least once a year to review all these matters.

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

The Management Engagement Committee consists of all of the independent directors and is charged with reviewing and monitoring the performance of 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 Nomination Committee consists of all of the independent 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 independent 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 Board of Directors as a whole, however, makes the decision to appoint a new director (for subsequent approval by shareholders). The Nomination Committee also considers the reappointment of directors.

This Committee meets once a year and reports to the Board of Directors, making recommendations where appropriate.

The Board 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.

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 raises as one that should be put to all shareholders at the AGM.

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

Compliance with the Combined Code

The Board considers that the Company has complied with the provisions of the Combined Code throughout the year to 31 August 2000 with the following exception:-

- As the Chairman is independent the Board has not appointed another senior independent director.

Internal Control

The Code requires the Board to review the effectiveness of internal controls rather than simply internal financial controls, following the final publication of the Turnbull Committee's guidance on 27 September 1999. Our procedures have been reviewed so as to ensure that the Committee's guidance complements and is embedded in our internal control of ongoing business, operational and compliance as well as financial risk management. The Company has procedures in place to enable it to implement the guidance in full from 1 January 2000. In accordance with the exemption granted by the London Stock Exchange, the Board has continued to review the effectiveness of internal financial controls only for the year to 31 August 2000. The controls operated by the Board in the year to 31 August 2000 include the authorization of the investment strategy and regular review of the financial results and investment performance. 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 Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls. The effectiveness of the internal financial controls is assessed by the Investment Manager's compliance and internal audit departments on a continuing basis. 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. These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. By the procedures set out above, the Directors have kept under review the effectiveness of the internal financial controls throughout the period.

Going Concern

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

On behalf of the Board
Alex Hammond-Chambers
26 October 2000

Auditors' Report to the Members of Fidelity Special Values PLC

We have audited the financial statements on pages 27 to 43, which have been prepared under the historic cost convention, as modified by the revaluation of investments and the accounting policies set out on page 30.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on pages 20 and 21, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or by Listing Rules 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.

We review whether the statement on pages 22 to 25 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, 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, 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. 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 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 August 2000 and of its revenue, total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
26 October 2000

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

for the year ended 31 August

	notes	2000 revenue £'000	2000 capital £'000	2000 total £'000	1999 revenue* £'000	1999 capital £'000	1999 total £'000
Gains on investments	10	-	19,854	19,854	-	19,328	19,328
Income	2	3,250	-	3,250	3,188	-	3,188
Investment management fee	3	(1,055)	-	(1,055)	(875)	-	(875)
Other expenses	4	(380)	-	(380)	(298)	-	(298)
Exchange (losses)/gains		-	(21)	(21)	-	9	9
Purchase of warrants for cancellation		-	(136)	(136)	-	(693)	(693)
Net return before finance costs and taxation		**1,815**	**19,697**	**21,512**	2,015	18,644	20,659
Interest payable	6	(858)	-	(858)	(410)	-	(410)
Revaluation of Loan Stock	16	-	(1,049)	(1,049)	-	(2,809)	(2,809)
Return on ordinary activities before tax		**957**	**18,648**	**19,605**	1,605	15,835	17,440
Tax on ordinary activities	7	(5)	-	(5)	(5)	-	(5)
Return on ordinary activities after tax for the year attributable to equity shareholders		**952**	**18,648**	**19,600**	1,600	15,835	17,435
Dividends	8	(813)	-	(813)	(1,185)	-	(1,185)
Transfer to reserves		**139**	**18,648**	**18,787**	415	15,835	16,250
Return per ordinary share	9						
Basic		2.69p	52.69p	55.38p	4.36p	43.19p	47.55p
Fully-diluted		2.54p	49.69p	52.23p	4.18p	41.40p	45.58p

The revenue column of this statement is the profit and loss account for 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 1999 figures have been restated to reflect the adoption of FRS16 "Current Taxation" - see note 1(c).

The notes on pages 30 to 43 form an integral part of the accounts

Company Number: 2972628

Balance Sheet

as at 31 August

	notes	2000	1999
		£'000	£'000
Fixed assets			
Investments	10	**104,522**	89,488
Current assets			
Debtors - amounts falling due within one year	12	398	1,284
Cash at bank		3,650	155
		4,048	1,439
Creditors - amounts falling due within one year			
Fixed rate loans	14	(6,000)	-
Other creditors	13	(1,527)	(1,696)
		(7,527)	(1,696)
Net current liabilities		**(3,479)**	(257)
Total assets less current liabilities		**101,043**	89,231
Creditors - amounts falling due after more than one year			
Fixed rate loan	15	(10,000)	-
Equity Index-Linked Loan Stock	16	-	(16,572)
Total net assets		**91,043**	72,659
Capital and reserves			
Called up share capital	17	8,839	8,878
Share premium account	18	24,098	23,949
Capital redemption reserve	18	404	329
Other Reserves			
Warrant reserve	18	1,325	1,433
Capital reserve - realised	18	49,074	36,539
Capital reserve - unrealised	18	6,128	495
Revenue reserve	18	1,175	1,036
Total equity shareholders' funds	20	**91,043**	72,659
Net asset value per ordinary share:	19		
Basic		257.49p	204.60p
Fully-diluted		238.93p	191.44p

The accounts on pages 27 to 43 were approved by the Board of Directors on 26 October 2000 and were signed on its behalf by:

Alex Hammond-Chambers, *Chairman*

The notes on pages 30 to 43 form an integral part of the accounts

Cash Flow Statement

for the year ended 31 August

	notes	2000 £'000	1999 £'000
Operating activities			
Investment income received		2,386	3,013
Deposit interest received		131	129
Underwriting commission received		6	10
Investment management fee paid		(1,022)	(843)
Directors' fees paid		(52)	(48)
Other cash payments		(298)	(264)
Net cash inflow from operating activities	23	**1,151**	1,997
Returns on investments and servicing of finance			
Interest paid		*(816)*	*(421)*
Net cash outflow from servicing of finance		**(816)**	(421)
Taxation			
UK income tax recovered		2	-
UK income tax paid		(62)	(81)
Tax paid		**(60)**	(81)
Financial investment			
Purchase of investments		(58,521)	(33,383)
Realised currency (losses)/gains		(21)	9
Disposals of investments		64,739	35,115
Net cash inflow from financial investment		**6,197**	1,741
Equity dividends paid		**(817)**	(1,030)
Net cash inflow before financing		**5,655**	2,206
Financing			
Repurchase of ordinary shares		(480)	(2,035)
Repurchase of warrants		(203)	(1,226)
Proceeds on exercise of warrants		144	25
Repayment of Equity Index-Linked Loan Stock		(17,621)	-
Fixed rate loans drawn down		16,000	-
Net cash outflow from financing		**(2,160)**	(3,236)
Increase/(decrease) in cash	21	**3,495**	(1,030)

The notes on pages 30 to 43 form an integral part of the accounts

Notes to the Accounts

1. Accounting policies

A summary of the accounting policies used is set out below. The Company has adopted the AITC Statement of Recommended Practice (SORP) for Investment Trusts dated December 1995, other than in respect of the treatment of the Loan Stock as explained in note 16. On 20 May 1999, the Company revoked its investment company status as a consequence of the share buy-backs. The Company re-registered as an investment company on 13 January 2000. However, the Directors consider that in order to present a true and fair view, the accounts have been drawn up in accordance with the SORP, as explained in note 26.

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 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 dividends are accounted for net of any tax credit. This is a change in accounting policy to comply with Financial Reporting standard 16 "Current Taxation" which has replaced Statement of Standard Accounting Practice 8. Under the latter Standard, dividends (other than foreign income dividends) were recognised inclusive of an attributable tax credit which also formed part of the tax charge. The effect of this change is that the return on ordinary activities before taxation is £302,000 lower (1999 : £386,000 lower). The comparative for 1999 has been restated to reflect this change. However, there is no effect on the return on ordinary activities after taxation or on total equity shareholder's funds. 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 in 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 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 is 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 Manager is aware that the company is experiencing operating difficulties.

f) All expenses are accounted for on an accruals basis and are charged in full to the revenue account within the Statement of Total Return. Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS4 "Capital Instruments".

g) Gains and losses on the realisation of investments and realised exchange differences of a capital nature are accounted for in the Capital Reserve - Realised.

Increases and decreases in the valuation of investments held at the year end and unrealised exchange differences of a capital nature are accounted for in the Capital Reserve - Unrealised.

2. Income

	2000 £'000	1999* £'000
Income from investments		
Franked investment income	2,267	2,556
UK unfranked investment income	-	2
Overseas dividends	141	76
Foreign income dividends	-	180
Overseas interest	5	-
Scrip dividends: UK	666	251
Scrip dividends: Overseas	34	-
	3,113	3,065
Other income		
Deposit interest	131	113
Underwriting commission	6	10
	137	123
Total income	**3,250**	3,188
Total income comprises		
Dividends	3,108	3,063
Interest from securities	5	2
Other income	137	123
	3,250	3,188
Income from investments		
Listed UK	2,933	2,989
Listed overseas	180	76
	3,113	3,065

3. Investment management fee

	2000 £'000	1999 £'000
Investment management fee	898	745
Irrecoverable VAT thereon	157	130
	1,055	875

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

* Restated to reflect the adoption of FRS16 "Current Taxation"

Notes to the Accounts

4. Other expenses

	2000 £'000	1999 £'000
Directors' fees (including National Insurance contributions and irrecoverable VAT)	54	45
Other	312	240
Auditors' remuneration		
Audit	13	12
Other services to the Company	1	1
	380	298

The Company employed no staff and therefore has no staff costs (1999: nil).

5. Directors' fees

	2000 £'000	1999 £'000
Directors' fees	**46**	39

During the year the Chairman, Alex Hammond-Chambers, received fees of £14,667 (1999 : £12,000). Sir Richard Brooke, Douglas Kinloch Anderson and James Laurenson received fees of £10,333 (1999 : £9,000). Simon Haslam waived his fees of £8,749 in the year (1999 : nil) and Barry Bateman waived his fees of £1,574 in the year (1999 : £9,000). With effect from 1 January 2000, the Chairman receives an annual fee of £16,000 (1999 : £12,000) and each other Director £11,000 (£9,000). The maximum aggregate fee payable under the Company's Articles of Association is £75,000.

6. Interest payable

	2000 £'000	1999 £'000
Bank overdraft	2	8
Fixed rate unsecured loans	585	-
Equity Index-Linked loan stock	271	402
	858	410

7. Tax on ordinary activities

	2000 £'000	1999* £'000
Overseas taxation	**5**	5

* Restated to reflect the adoption of FRS16 "Current Taxation"

8. Dividends

	2000 £'000	1999 £'000
Interim dividend paid of nil (1999: 1.00p)	-	368
Final proposed dividend of 2.30 pence per share (1999: 2.30p)	813	817
	813	1,185

9. Return per ordinary share

	2000 revenue	2000 capital	2000 total	1999 revenue	1999 capital	1999 total
Basic	2.69p	52.69p	55.38p	4.36p	43.19p	47.55p
Fully-diluted	2.54p	49.69p	52.23p	4.18p	41.40p	45.58p

Returns per ordinary share are based on the net revenue on ordinary activities after taxation of £952,000 (1999 : £1,600,000), and the capital appreciation in the year of £18,648,000 (1999 : £15,835,000) and on 35,391,031 ordinary shares (1999 : 36,657,614), being the weighted average number of ordinary shares in issue during the year.

According to the provisions of FRS14, the fully-diluted returns have been calculated on the assumptions that the warrants in issue were converted on the first day of the financial period, as adjusted for subsequent capital transactions on a weighted average basis for the period over which they were outstanding and that the proceeds from conversion have been used by the Company to purchase its own shares at a fair market price.

	revenue £'000	capital £'000	weighted average number of shares	revenue earnings per share (pence)	capital earnings per share (pence)
Basic return per share					
Return on ordinary activities after tax attributable to ordinary shareholders	952	18,648	35,391,031	2.69	52.69
Effect of dilutive warrants	-	-	2,140,402	(0.15)	(3.00)
Fully-diluted return per share					
Return on ordinary activities after tax attributable to ordinary shareholders after assumed conversion of warrants	952	18,648	37,531,433	2.54	49.69

Notes to the Accounts

10. Investments

	2000 £'000	1999 £'000
Listed in the UK	94,047	81,951
Listed overseas	6,360	7,083
Total listed investments	**100,407**	89,034
Unlisted investments	4,115	454
	104,522	89,488

	listed in UK £'000	listed overseas £'000	unlisted* £'000	total £'000
Opening book cost	73,315	6,780	1,088	81,183
Opening unrealised appreciation	8,636	303	(634)	8,305
Opening valuation	**81,951**	**7,083**	**454**	**89,488**
Movements in the year				
Purchases at cost	53,913	3,015	2,026	58,954
Sales				
- proceeds	(58,830)	(4,944)	-	(63,774)
- realised gains on sales	21,175	856	-	22,031
Reclassification	(1,097)	178	919	-
Decrease in unrealised appreciation	(3,065)	172	716	(2,177)
Closing valuation	**94,047**	**6,360**	**4,115**	**104,522**
Closing book cost	88,476	5,885	4,033	98,394
Closing unrealised appreciation	5,571	475	82	6,128
	94,047	**6,360**	**4,115**	**104,522**

* including stocks quoted on the Alternative Investment Market (AIM)

	2000 £'000	1999 £'000
Realised gains on sales	22,031	6,006
(Decrease)/increase in unrealised appreciation	(2,177)	13,322
Gains on investments	**19,854**	19,328

11. FRS13 – 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 directly from its operations
- UK sterling borrowings to finance operations

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

Market price risk

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

Fair value of financial assets and liabilities

Financial assets and liabilities are stated in the balance sheet at values which are not materially different to their fair values, with the exception of the long-term fixed rate unsecured loan, whose fair value as at 31 August 2000 given below has been calculated by discounting future cash flows at current UK sterling interest rates.

	2000		1999	
	fair value	**book value**	fair value	book value
	£'000	**£'000**	£'000	£'000
Fixed rate loan @ 7.82% per annum	10,780	10,000	-	-
Equity Index-Linked Loan Stock 2004	-	-	15,928	16,572
	10,780	**10,000**	15,928	16,572

Interest rate risk

The Company has raised finance available for its operations through a UK sterling fixed rate bank loan, which falls due for repayment in January 2005. The Company is therefore not exposed to a financial risk from any change in UK sterling interest rates on this loan.

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 £3,650,000. The rate of interest on the cash balances is currently 5.90%, consequently the risk of a decrease in cash interest earned is low.

Notes to the Accounts

The interest rate profile of the Company's financial liabilities excluding short-term creditors, as at 31 August 2000 was as follows:

Currency	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000
UK sterling	10,000	-	10,000

Currency	Weighted average interest rate	Fixed rate financial liabilities: Weighted average period for which rate is fixed	Financial liabilities on which no interest is paid: weighted average period for which rate is fixed
UK sterling	7.82%	48 months	-

Foreign currency risk

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

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

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

The Company does not hedge the sterling value of investments or other net assets priced in other currencies by the use of derivatives.

The Company may be subject to short-term exposure from exchange rate movements, for example between the date when an overseas investment is bought or sold and the date when settlement of the transaction occurs.

The following is an analysis of the Company's foreign currency exposure as at 31 August 2000 and 1999:

	2000			1999		
Currency	**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
Australian dollar	988	-	988	265	-	265
Euro	2,309	-	2,309	2,828	-	2,828
Japanese yen	-	-	-	527	-	527
South African rand	1,512	-	1,512	1,297	-	1,297
US dollar	3,223	-	3,223	2,467	-	2,467
Canadian dollar	231	-	231	-	-	-
Total	**8,263**	**-**	**8,263**	7,384	-	7,384
UK sterling	100,307	(17,527)	82,780	83,543	(18,268)	65,275
Balance sheet total	**108,570**	**(17,527)**	**91,043**	90,927	(18,268)	72,659

Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be sold easily 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 14 and 15 to the accounts.

The maturity profile of the Company's financial liabilities at 31 August 2000 is as follows:

	2000 £000	1999 £000
Within one year, or on demand	6,000	-
After more than one year but less than five years	10,000	16,572
	16,000	16,572

Short-term debtors and creditors are excluded from the above analysis, with the exception of the short-term loan.

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.

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 individual broker at any time, the limits being reviewed on a regular basis.

Notes to the Accounts

12. Debtors

	2000 £'000	1999 £'000
Securities sold for future settlement	24	989
Taxation recoverable	7	5
Other debtors	367	290
	398	1,284

13. Creditors : amounts falling due within one year

	2000 £'000	1999 £'000
Securities purchased for future settlement	281	548
Proposed dividends	813	817
Accruals	327	266
Loan interest payable	106	-
Loan Stock interest payable	-	65
	1,527	1,696

14. Creditors : fixed rate loans

	2000 £'000	1999 £'000
Fixed rate loan @ 7.04094% per annum	2,500	-
Fixed rate loan @ 7.095% per annum	3,500	-
	6,000	-

The fixed rate loan from Robert Fleming & Co Limited of £2,500,000 was drawn down on 28 July 2000 for a period of six months at an interest rate of 7.04094% per annum.

The fixed rate loan from Robert Fleming & Co Limited of £3,500,000 was drawn down on 1 August 2000 for a period of six months at an interest rate of 7.095%.

15. Creditors: amounts falling due after more than one year

	2000 £'000	1999 £'000
Fixed rate loan @ 7.82% per annum	**10,000**	-

The fixed rate loan from Robert Fleming & Co Limited of £10,000,000 was drawn down on 28 January 2000 for a period of 5 years at an interest rate of 7.82% per annum.

16. Equity Index-Linked Unsecured Loan Stock 2004

	2000 £'000	1999 £'000
Opening cost of loan stock	8,762	8,762
Opening unrealised appreciation	7,810	5,001
Opening valuation	**16,572**	13,763
Increase in unrealised appreciation	1,049	2,809
Repayment of loan stock	(17,621)	-
Closing valuation	-	16,572

The Equity Index-Linked Unsecured Loan Stock 2004 was constituted by a Trust Deed entered into between the Company and Royal & Sun Alliance Trust Company Limited (the Trustee). The Stock was in registered form and ranked as an unsecured liability of the Company. The Stock was issued for a fixed period ending on 31 December 2004. However, at the end of January 2000 the Equity Index-Linked Loan Stock was redeemed following legal advice that under the terms of the Trust Deed governing the Loan Stock the Index to which it was linked (FTSE All Share Index) had been discontinued for the purpose of calculating the yield on the Loan Stock.

Although the Company has adopted a policy of charging all finance costs and expenses to the revenue account in the Statement of Total Return, the Board considered that in order to present a true and fair view the revaluation element of the Loan Stock, which was an element of the overall finance cost, should be taken to capital reserves. By adopting this treatment the revaluation of the Loan Stock was matched against the capital appreciation or depreciation of the investment portfolio, in which the original proceeds of the Loan Stock were invested.

Interest was paid semi-annually and was calculated by reference to the dividend yield of the FTSE All Share Index that would be obtained on the capital value of the Loan Stock at the date of calculation. The interest payments were charged to the revenue account in line with the Company's stated accounting policy.

Notes to the Accounts

17. Called-up share capital

	2000 £'000	1999 £'000
Authorised:		
160,000,000 (1999: 160,000,000) ordinary shares of 25p each	40,000	40,000
Issued, allotted and fully paid:		
Beginning of year		
35,512,748 (1999: 36,803,985) ordinary shares of 25p each	8,878	9,201
1 January: Exercise of 23,763 warrants	-	6
25 May: Repurchase of 225,000 ordinary shares for cancellation	-	(56)
20 July: Repurchase of 500,000 ordinary shares for cancellation	-	(125)
2 August: Repurchase of 350,000 ordinary shares for cancellation	-	(88)
5 August: Repurchase of 240,000 ordinary shares for cancellation	-	(60)
15 November: Repurchase of 250,000 ordinary shares for cancellation	(63)	-
1 January: Exercise of 145,007 warrants	36	-
14 April: Repurchase of 50,000 ordinary shares for cancellation	(12)	-
End of year		
35,357,755 (1999: 35,512,748) ordinary shares of 25p each	**8,839**	8,878

At 31 August 2000 there were 4,724,125 (1999: 5,109,132) warrants outstanding. On 1 January 2000 145,007 warrants were exercised at 100p per ordinary share. Holders have the right to subscribe for ordinary shares at 100p on 1 January in any of the years 2001 to 2004, both inclusive. The Company made the following purchases of warrants for cancellation during the year:

	number of warrants	price per warrant p
7 December 1999	120,000	81.50
4 April 2000	120,000	88.00
Total number of warrants repurchased	**240,000**	

18. Reserves

	share premium account £'000	capital redemption reserve £'000	warrant reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
Beginning of year	**23,949**	**329**	**1,433**	**36,539**	**495**	**1,036**
Exchange difference	-	-	-	(21)	-	-
Net gain on realisation of investments	-	-	-	22,031	-	-
Decrease in unrealised appreciation of investments	-	-	-	-	(2,177)	-
Redemption of Equity Index-Linked Loan Stock	-	-	-	(8,859)	7,810	-
Retained net revenue for the year	-	-	-	-	-	139
Exercise of warrants	149	-	(41)	-	-	-
Repurchase of warrants	-	-	(67)	(136)	-	-
Repurchase of ordinary shares	-	75	-	(480)	-	-
End of year	**24,098**	**404**	**1,325**	**49,074**	**6,128**	**1,175**

19. Net asset value per ordinary share

The basic net asset value per ordinary share is based on net assets of £91,043,000 (1999: £72,659,000) and on 35,357,755 (1999: 35,512,748) ordinary shares, being the number of ordinary shares in issue at the year end.

The fully-diluted net asset value per ordinary share has been calculated on the assumption that the outstanding warrants of 4,724,125 at 31 August 2000 (1999: 5,109,132) were exercised on that date. This basis of 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.

20. Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Opening shareholders' funds	72,659	58,952
Exercise of warrants	144	24
Repurchase of ordinary shares	(480)	(2,035)
Repurchase of warrants	(67)	(532)
Total recognised gains before dividends	19,600	17,435
Interim dividend paid	-	(368)
Proposed final dividend	(813)	(817)
Closing shareholders' funds	**91,043**	72,659

Notes to the Accounts

21. Reconciliation of net cash flow to movement in net debt during the year

	2000 £'000	1999 £'000
Beginning of year	**(16,417)**	(12,578)
Net cash inflow/(outflow)	3,495	(1,030)
Fixed rate loans drawn down	(16,000)	-
Revaluation of Equity Index-Linked Loan Stock	(1,049)	(2,809)
Repayment of Equity Index-Linked Loan Stock	17,621	-
Change in net debt	**4,067**	(3,839)
End of year	**(12,350)**	(16,417)

	2000 £'000	Change in the year £'000	1999 £'000
Analysis of balances			
Cash at bank	3,650	3,495	155
Fixed rate loans	(16,000)	(16,000)	-
Revaluation of Equity Index-Linked Loan Stock	-	(1,049)	1,049
Repayment of Equity Index-Linked Loan Stock	-	17,621	(17,621)
End of year	**(12,350)**	4,067	(16,417)

22. Analysis of changes in financing during the year

	2000 share capital £'000	2000 Loans/Loan Stock £'000	2000 total £'000	1999 share capital £'000	1999 Loan Stock £'000	1999 total £'000
Beginning of year	34,589	16,572	51,161	35,097	13,763	48,860
Proceeds on exercise of warrants	144	-	144	24	-	24
Movement in warrant reserve from repurchase of warrants for cancellation	(67)	-	(67)	(532)	-	(532)
Fixed rate loans drawn down	-	16,000	16,000	-	-	-
Revaluation of Equity Index-Linked Loan Stock	-	1,049	1,049	-	2,809	2,809
Repayment of Equity Index-Linked Loan Stock	-	(17,621)	(17,621)	-	-	-
End of year	**34,666**	**16,000**	**50,666**	34,589	16,572	51,161

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

	2000 £'000	1999 £'000
Net revenue return before finance costs and taxation	1,815	2,015
Scrip dividends	(700)	(251)
Increase in other creditors	61	16
(Increase)/decrease in other debtors	(77)	217
Tax on investment income	52	-
Net cash inflow from operating activities	**1,151**	1,997

24. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 August 2000 (1999: nil).

25. Related party disclosures

The Directors have complied with the provisions of FRS8 which requires disclosure of related party transactions and balances. Full details are set out in the Directors' Report on page 19.

26 Loss of investment company status

A technical consequence of the share repurchases is that the Company ceased to be an investment company within the meaning of s266, Companies Act 1985. However, it continued to conduct its affairs as an investment trust for taxation purposes under section 842 of the Income and Corporate Taxes Act 1988 and the Articles of the Company prohibit capital profits from being distributed by way of dividend. As such, the Directors consider it necessary to continue to present the accounts in accordance with the SORP ('Financial Statements of Investment Trust Companies'). Under the SORP, the financial performance of the Company is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes net profits on disposals of investments, calculated by reference to their previous carrying amount of £22,031,000 (1999 : £6,006,000) and currency loss on income held during the year of £21,000 (1999 : gain £9,000). Since the Company was not an investment company for the entire year, the Companies Act and/or FRS3 would ordinarily require this amount to be included in the profit and loss account. In the opinion of the Directors, the inclusion of these items in the profit and loss account would be misleading because it would obscure and distort both the revenue and capital performance of the Company, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet. Following the issue of statutory instrument number 2770, which became effective on 8 November 1999, the Company re-registered as an investment company on 13 January 2000.

Investor Information

The objective of Special Values is to achieve long-term capital growth from an actively managed portfolio of 'special situation' investments, mainly in the UK.

The Company was launched on 17 November 1994 with one warrant attached to every five shares. The original subscription price for each share was £1. 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 : info@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 four 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 four times 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 2000/2001 tax year, £5,000 thereafter. There is an initial charge of 3.25% and for those investors who use a professional adviser, the ISA allows for commission of up to 3% to be paid directly to your adviser. The full range of Fidelity's investment trusts are available through the ISA. For more information about ISAs, you can request a free guide from Fidelity on 0800 41 41 15.

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

For PEP and ISA investors, the reclaimable tax credit attached to dividends is 10% until 5 April 2004. Interest on uninvested cash in a stocks and shares component of an ISA is subject to a 20% flat rate charge, which extinguishes any liability to tax on the interest. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future.

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

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. Fidelity only provides information about its products and will not give investment advice.

Should you wish to seek advice, please contact an Independent Financial Advisor. For the purpose of section 57 of the Financial Services Act 1986, the content of this report has been approved by Fidelity Investments International, regulated by IMRO and the Personal Investment Authority.

Annual General Meeting - with this Report you will find an invitation to attend the AGM at noon on 12 December 2000 and it is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan, PEP and the 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 pages 47 to 49.

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

Investor Information

Telegraph and The Independent. You can also obtain current price information by phoning FT Cityline on 0336 43 then 4782 (share price) or 4764 (warrant price) or 4783 (Loan Stock). The Reuters code for Special Values is FSV.L and the ICV page can be accessed by entering *51079#.

NAV Information - the net asset value of the Company is calculated on a daily basis and released to the 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 94.95p for ordinary shares and 25.25p for warrants. All UK individuals, under present legislation, are permitted to have £7,200 of capital gains in the current tax year ie 2000/2001 (£7,100 1999/2000 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and from 6 April 2000 will be 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 August 2000.

31 August - financial year end

26 October - announcement of results

11 November - publication of this Annual Report

12 December - Annual General Meeting

15 December - dividend payment date

1 January 2001 - exercise date on which warrantholders may choose, for each warrant held, to pay £1 for an ordinary share

28 February - half year end

April - announcement of interim results to 28 February

end of April - publication of Interim Report

Contact Information

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

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

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

Holders of ordinary shares or warrants - the Company's registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
Telephone : **020 8639 2000**

Share Plan investors - Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
Telephone : **0800 41 41 20**

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

General Enquiries - should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office :-

Fidelity Investments International
Investment Trusts
Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP
Fax : 01737 836892
Internet site : http://www.fidelity.co.uk/fidinv.html
Email address : nicola.phillips@uk.fid-intl.com

Notice of Annual General Meeting

Notice is hereby given that the next Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA, on 12 December 2000 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 August 2000.

2. To declare a dividend.

3. To re-elect Sir Richard Brooke as a Director

4. To re-appoint PricewaterhouseCoopers as Auditors of the Company in place of the retiring Auditors, to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

These resolutions 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 26 October 2000. The Directors will only issue new shares in the Fidelity Investment Trust Share Plan or Fidelity Individual Savings Account 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 5 will be proposed 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 £441,972 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 26 October 2000) 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 to the allotment of equity securities:-

    a) otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £441,972 (approximately 5 per cent of the aggregate nominal amount of the issued share capital of the Company as at 26 October 2000); and

c) to the allotment of equity securities at a price of not less than the fully-diluted net asset value per share.

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

Resolution 7 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.8% of the number of ordinary shares in issue on 26 October 2000. 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 increased net asset value per share.

7. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of section 163 of the Act) of shares of 25p each in the capital of the Company (the 'shares') provided that:

   a) the maximum number of shares hereby authorised to be purchased shall be 5,250,000;

   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 5 business days immediately preceding the day on which the share is purchased;

   d) The authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and

   e) The Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board
Fidelity Investments International
Secretary
11 November 2000

Notice of Annual General Meeting

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 IRG plc, 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 34 of the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 8 December 2000 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 8 December 2000 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

6 No Director has a service contract with the Company.