

FIDELITY

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Annual Report for the year ending 31 August

2004/05



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Company Summary

as at 31 August 2004

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. (Past performance is not a guide to future returns)	
Benchmark	FTSE All Share Index	
Management company	Fidelity Investments International ("Fidelity")	
Shareholders' funds	£216.9m	
Market capitalisation	£220.7m	
Capital structure	ordinary shares of 25p warrants	63,419,923 in issue nil - all warrants exercised
Continuation vote	Annual General Meeting in 2004 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, further details of which may be found on pages 19 and 20.	
Investment trust status	The Inland Revenue has granted the Company approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 August 2002 and has granted provisional approval for the accounting period ended 31 August 2003. 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.	
Membership of the AITC	The Company is a member of the AITC and is classified under the UK Growth Sector.	
ISA status	Investment limit £7,000 in the 2004/2005 tax year.	

Standardised Performance

(on a total return basis)

	01/09/1999 to 31/08/2000	01/09/2000 to 31/08/2001	01/09/2001 to 31/08/2002	01/09/2002 to 31/08/2003	01/09/2003 to 31/08/2004
Diluted NAV (debt at par)	+26.3%	+14.4%	-11.0%	+20.4%	+20.0%
Share price	+39.4%	+31.0%	-11.4%	+18.8%	+16.2%

(Past performance is not a guide to future returns)

Summary of Results

	2004	2003	% change*	
Assets at 31 August				
Total assets employed [†]	£249.86m	£161.22m	+55.0	
Shareholders' funds	£216.86m	£136.22m	+59.2	
Borrowings as % of shareholders' funds	15.2%	18.4%		
Borrowings less cash as % of shareholders' funds	14.8%	17.1%		
NAV per share (2003: fully diluted)	341.94p	285.93p	+19.6	
Returns for the year to 31 August - see pages 31 and 37				
Capital return per ordinary share	52.98p	52.64p		
Capital + revenue return per ordinary share	54.53p	53.55p		
Final dividend per ordinary share	1.40p	1.00p		
Stockmarket Data at 31 August				
FTSE All Share Index	2,214.19	2,064.74	+7.2	
Share price	year end	348.00p	300.50p	+15.8
	high	362.00p	300.50p	
	low	289.50p	198.00p	
Premium	year end	1.8%	5.1%	
	high	9.0%	9.5%	
	low	0.0%	0.5%	
Warrant price	year end	n/a	200.00p	n/a
	high	216.00p	200.00p	
	low	190.00p	98.50p	
Total Returns (includes reinvested income)				
for the year to 31 August (%)				
FTSE All Share Index	+10.8	+4.6		
NAV (2003: fully diluted)	+20.0	+20.4		
Share price	+16.2	+18.8		
Total expense ratios [#]				
Total assets employed	1.22%	1.44%		
Shareholders' funds	1.42%	1.75%		

* Price change

[†] Total net assets plus fixed rate unsecured loans

[#] Operating expenses (excluding interest before tax) based on shareholders' funds at the end of each month

The Board's Policies

Investment Goal: Capital Growth - The Board of Directors recognises that investing in equities is a long term process and that there will be good and bad years in the Company's returns to shareholders. However, our primary objective is to make money for you, the shareholders, over the long term. In our assessment of the progress towards that end, we consider a five year time span to be the most appropriate.

While making money is the most important objective, we are aware that shareholders invest in the shares of Fidelity Special Values because Fidelity Investments International is the Manager and we therefore monitor our progress against that of competing investment trust companies. And, finally, we are aware that they invest in the Company's shares because of the belief that they will perform better than the stock market as a whole. So progress is also monitored against an index which reflects the performance of the stock market, the FTSE All Share index; it has been adopted as the Company's benchmark.

Dividend Policy: short term variable, long term growth - The portfolio is managed actively in the pursuit of capital gains. In any one year therefore the dividend income received from investments will vary according to what stocks and shares are owned during the period – and so therefore will the net income earned and the dividend paid in that year.

Investment Policy: special situations - The objective of the Company is pursued by investing in the stocks and shares of companies with certain characteristics which, in the Manager's judgement, offer unusual opportunities to make capital gains. These characteristics are usually found in one of the following investment themes:

- An anomaly within an industry;
- Turnaround or recovery situation within the company concerned;
- Unrecognised growth relative to the price of the shares;
- Undervalued asset situation;
- The potential for some merger and acquisition activity.

Although the portfolio consists predominantly of holdings in UK companies, up to 20% can be, and often is, invested in the shares of overseas companies.

Gearing Policy: borrowings of 15-20 percent of shareholders' funds in normal circumstances - The Board takes the view that long term capital gains can be enhanced by the judicious use of long term borrowings – commonly

referred to as gearing. In times when we do not regard stockmarket values generally as being either very over or undervalued, our policy is to maintain borrowings of between 15 and 20 per cent of shareholders' funds.

Neither the Board nor the Manager attempts short term management of gearing levels, believing that it is as likely to lose money as to make it by trying to guess the short term trends in the stock market. Gearing, like stock selection, is undertaken with a long term view.

Liquidity policy: fully invested in normal circumstances - In normal times it is the Board's policy to be fully invested – by which we mean at least 95 per cent of the Company's assets are invested in stocks and shares. However we are aware of our duty to be concerned about preservation of our Shareholders' capital as well that of making capital gains; if the valuation of stocks and shares generally is deemed to be very overvalued or if the Manager finds it difficult to identify many attractively priced opportunities for investment – such that the chances of losing money in the medium term (three to five years) are considerable – liquidity (uninvested cash) would rise to a level which at least matches the amount of borrowings. It is not our policy to own shares for the sake of it.

Currencies: no hedging - It is not the policy of the Board to hedge the underlying currencies of the holdings in the shares of overseas companies in the portfolio but rather to take the currency risk into consideration when making the investment.

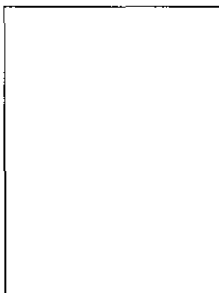
Investment in other investment trusts: limit of 15% - The Board has set a limit of 15% on the proportion of the Company's total assets that can be invested in the securities of other investment trust companies.

Corporate Activism - The Board believes that the Company should, where necessary, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any controversial issues (which are then referred to the Board), it delegates the responsibility for corporate activism and shareholder voting to Fidelity.

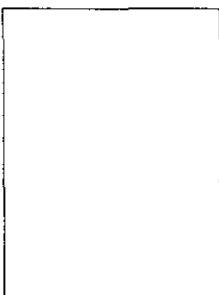
Premium/Discount Management: enhancing shareholder value - The Board seeks authority from shareholders each year to issue new shares at a premium or buy in shares at a discount to the net asset value. It uses these authorities to enhance the net asset value and to protect or improve the premium/discount rating of the shares.

Board of Directors

All of the Directors are non-executive and, with the exception of Mr Haslam, independent.

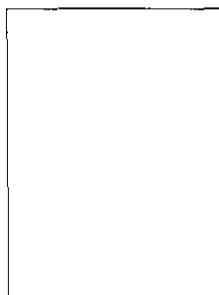


Alex Hammond-Chambers^{*†} (Chairman of the Board, the Management Engagement Committee and the Nomination and Remuneration Committee) (age 62, date of appointment: 18 October 1994) a former Chairman of Ivory & Sime plc, he is also Chairman of Fidelity Japanese Values PLC, American Opportunity Trust PLC, Hansa Trust plc and Aurora Investment Trust plc, and a Director of International Biotechnology Trust plc, ISIS Smaller Companies Trust plc and a number of non-UK investment companies. He is also Chairman of Dobbies Garden Centres plc and Chairman of the AITC. He worked at Ivory & Sime for 27 years, being responsible for the management of a number of its investment trusts, before becoming its Chairman in 1985. He retired from Ivory & Sime at the end of 1991 and has become a professional non-executive Director, specialising in investment trusts and investment companies.



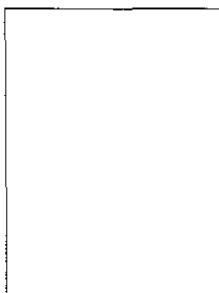
Sir Richard Brooke, Bt^{*†} (age 66, date of appointment: 18 October 1994) is a former partner of Rowe & Pitman, member of the International Capital Markets Advisory Committee to the Board of Directors of the New York Stock Exchange, a Vice-Chairman of the Board of Governors of the National Association of Securities Dealers, a member of the

Board of Directors of SG Warburg Group and J O Hambro & Company Limited and of a number of investment trust companies. He is currently a Director of Avocet Mining plc. His career has included all aspects of securities work including stockbroking, investment banking, investment management and the management and administration of businesses in the UK and worldwide.



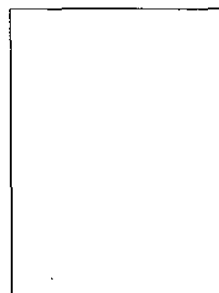
Douglas Kinloch Anderson^{*†} (age 65, date of appointment: 18 October 1994) is Chairman of Kinloch Anderson Limited and a Director of Martin Currie Portfolio Investment Trust PLC and Martin Currie Capital Return Trust PLC. He has been President of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of

the Institute of Directors. He was previously a Board Member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and was recently National President of the Royal Warrant Holders Association. His career has included wide experience in manufacturing, retailing and exporting, particularly to Europe, North America and the Far East.



Simon Haslam[†] (age 47, date of appointment: 4 November 1999) is Chief Administrative Officer at Fidelity International Limited. His responsibilities include oversight of relationships between Fidelity and all of the external directors of Fidelity managed Investment Trusts. Before joining Fidelity in 1995, he was an

audit and consulting partner at what is now Deloitte, where he specialised in the fund management and securities industry. He is also a non-executive Director of Fidelity Asian Values PLC and of Euroclear plc. His career in financial services, spanning more than twenty years, has concentrated on financial, compliance and business matters affecting stockbroking, investment banking and fund management businesses internationally.



James Laurenson^{*†} (Chairman of the Audit Committee) (age 63, date of appointment: 18 October 1994) is a Director of ISIS Smaller Companies Trust plc and Chairman of Hiscox Investment Management Limited. Having qualified as a Chartered Accountant in London, he trained as an Investment Analyst at Ivory & Sime

in Edinburgh, where he became a partner. His career at Ivory & Sime included responsibility for the unit trusts and the UK and US pension funds managed by the firm. In 1984 he helped to found Adam & Company, the Edinburgh based private bank, becoming its first Managing Director.

* Member of the Audit Committee, Management Engagement and Nomination and Remuneration Committees.

† Member of the Nomination and Remuneration Committee.

Summary of Performance

Historical Record as at 31 August	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Shareholders' funds	£216.86m	£136.22m	£105.38m	£109.03m	£91.0m	£72.7m	£59.0m	£54.3m	£50.1m	£41.0m
NAV - diluted	341.94p	285.93p	238.87p	270.76p	238.93p	191.44p	150.52p	137.74p	130.36p	109.80p
Share price	348.00p	300.50p	254.50p	290.00p	223.50p	162.50p	133.00p	123.00p	125.50p	101.00p
Premium/(discount) to diluted NAV	1.8%	5.1%	6.0%	7.1%	(6.5%)	(15.1%)	(11.6%)	(12.0%)	(3.7%)	(8.0%)
Revenue return per ordinary share	1.55p	0.91p	1.39p	3.04p	2.69p	4.36p	2.70p	2.00p	0.22p	1.32p
Dividends per ordinary share	1.40p	1.00p	1.40p	2.50p	2.30p	3.30p	1.80p	1.80p	nil	1.00p
Cost of running trust (total expense ratio)*	1.42%	1.75%	1.70%	1.64%	1.84%	1.89%	1.71%	1.84%	1.80%	1.46%
Actual gearing ratio	14.8%	17.1%	17.2%	9.7%	13.6%	22.6%	21.3%	22.8%	19.3%	13.9%
NAV - diluted performance [†]	+20.0%	+20.4%	-11.0%	+14.4%	+26.3%	+29.6%	+8.7%	+7.2%	+18.7%	+15.1%
Share price performance [†]	+16.2%	+18.8%	-11.4%	+31.0%	+39.4%	+24.9%	+9.2%	-2.0%	+25.5%	+1.0%
Index performance [†]	+10.8%	+4.6%	-18.7%	-17.3%	+11.6%	+23.5%	+10.0%	+22.2%	+15.8%	+10.7%

Total return performance from launch to 31 August 2004

Total return performance relative to the index from launch to 31 August 2004

+298.4%
+282.6%

+90.4%

Diluted NAV and share price from launch to 31 August 2004

Share price premium/discount to NAV from launch to 31 August 2004

Past performance is not a guide to future returns

* Operating expenses (excluding interest before tax) based on shareholders' funds at the end of each month

† On a total return basis

Chairman's Statement

**Alex
Hammond-Chambers**
Chairman

Ten Years' Performance: NAV: 95.5p to 341.94p: + 258.0%

- This annual report marks the tenth anniversary of the formation of Fidelity Special Values in the autumn of 1994. It has been a topsy-turvy ten years for the stock market but I am proud to be able to report a remarkably good one for your Company. Since its formation the net asset value has risen by no less than 258.0%, a compound rate of return of about 14% per annum. Our benchmark, the FTSE All Share Index, on the other hand more than doubled (+110%) before it peaked in 1999 - thereafter falling - and at our year end it was over 30% lower than that peak. The table below illustrates these results:

	Net Asset Value per share	Change since previous period	Change since launch	Benchmark (FTSE All Share Index)	Change since previous period	Change since launch
Launch	95.5p	-	-	1,560	-	-
31 Aug 1999	191.44p	+100.5%	+100.5%	3,208	+105.6%	+105.6%
31 Aug 2004	341.94p	+78.6%	+258.0%	2,214	-31.0%	+41.9%

While it is indeed a remarkable performance that Anthony Bolton and his Fidelity colleagues have produced, it should be remembered there are times when the performance is not quite so stellar and indeed that can be seen from the table. Although we achieved our primary objective of capital growth during our first five years, our net asset value performance trailed the benchmark by a little bit; there will be times in the future when that happens again. But the second five years has proved to be quite outstanding -- with an *increase* in the net asset value of just under 80% at a time when the market itself *declined* by some 30%. That truly does fulfil our goal of making money for shareholders over the longer term and shows that it can be done in difficult times. During the last ten years we have been able to report, on nine out of ten occasions, increases in the annual net asset value. I believe that this performance stems in part from having had a consistent team (both Manager and Board) throughout the period.

I am sure shareholders would like to join the Directors, all of whom are shareholders, in congratulating the Manager and his colleagues for this performance and in thanking them for it.

Performance of the Company for the year ended 31 August 2004 (capital only)

(Past performance is not a guide to future returns)

The Year's Performance: NAV: 285.93p to 341.94p: + 19.6%

- This last year proved to be one of those nine years, with our net asset value increasing from the 285.93p per share reported last year to 341.94p per share at 31 August 2004. That is an increase of 19.6% and it compares with an increase in our benchmark of 7.2%. In fact, as is often the case it was a tale of two halves, the net asset value having risen by 20.5% in the first half but declining slightly - by 0.7% - in the second half.

On page 11 we have included an attribution analysis of the underlying factors which have helped produce the results for the year. Of the 56p increase in the net asset value per share, 23p was the result of superior stock selection and is the main reason why we performed rather better than the stock market. Our gearing of course helped, as it always will when we are making money - adding circa 9p per share. The Manager's report which follows this goes into some of the detail behind the performance.

During the course of the year your Company participated in the reconstruction of two investment trusts, Govett Strategic Trust and The Derby Trust. In both cases the arrangements for their respective shareholders included the option of receiving ordinary shares of Fidelity Special Values, should any shareholder wish to do so. A number of them did and as a consequence we issued 9,351,136 shares to a number of Govett Strategic Trust shareholders and 2,806,948 to The Derby Trust shareholders. It is important to say that it was a condition of our part of these arrangements that our own net asset value benefited and I can report that it did so to the tune of approximately 1.5p per share. We would like to welcome all new shareholders to the Company, including those former shareholders of Govett Strategic Trust and The Derby Trust and we trust that your faith in Fidelity Special Values will be rewarded.

To add to the 12,158,084 shares issued above, we also issued 2,462,790 for cash in the market at a premium to net asset value and, finally, 3,309,360 shares in satisfaction of

Chairman's Statement

warrantheolders' subscriptions. In all therefore we issued 17,930,234 shares bringing the total number of shares in issue to 63,419,923. We were able to do all of this without affecting the premium rating of the Company's shares. That was a matter of great concern to your Board at the time and is something we continue to monitor carefully.

Dividend: 1.40p per share - Your Board is recommending a dividend of 1.40p per share to shareholders, which, if approved, will be paid on 13 December 2004 to those on the register on 5 November 2004. As you will see later in the report, your Board has laid out a number of its policies in writing, one of which is the dividend policy. In summary it says that in general the amount of the dividend will be determined by what is earned each year and that is the case for this year.

Corporate Governance:

Governance: Your Board has devoted a considerable amount of time during this past year to the matter of corporate governance. There are now new Listing Rules for investment trusts and companies and there is the new Combined Code. To add to this the Association of Investment Trust Companies, of which your Company is a member, has produced a code specially for investment trusts, which we have used as the basis of our own corporate governance schedule. This can be found on the Fidelity Special Values website, which in turn can be found on the Fidelity website at www.fidelity.co.uk. Our Corporate Governance report, on pages 23 to 28, highlights those areas of either the AITC Code of Corporate Governance© or the Combined Code where we have deemed it sensible and appropriate to explain a different approach to that suggested in either code. In particular, being a small Board with a Chairman who has to be independent under the Listing Rules for investment trusts, we do not regard it as necessary or appropriate to have a senior independent director, the Chairman being *de facto* that person. We agree with and have followed the AITC's Code on the matter of directors' tenure. We have not yet undertaken an appraisal of the Board but we will do so during the course of this year.

Directorate: One of the decisions that the Board made in respect of the appointment and the re-election of Directors is that each Director should stand for re-election every year. It gives shareholders a chance to vote on each Director annually. As a consequence of this and as part of the Board evaluation process, each of the independent Director's candidacies is considered with a robust examination as to whether they have performed their duties during the year in an independent manner – the ultimate test for independent status. The criteria we use for such examination is set out in our Corporate

Governance Report on page 24. I can confirm that such an examination has been undertaken and that all four of the non-Fidelity Directors are regarded as independent.

During the course of the year the Board decided that James Laurenson, a chartered accountant by training and an experienced investment trust man, should take on the role as Chairman of the Audit Committee. He is well qualified to do this and is therefore an appropriate choice.

Although we believe it to be an effective Board that is working well with the necessary skills to undertake its responsibilities, in reviewing the Board and its composition, we have concluded that it would be beneficial to add a new non-executive, independent director to it. We are in the process of looking for and appointing one. This appointment will be subject to shareholder approval at the Annual General Meeting in 2005.

Very sadly the growing pressures of his duties at Fidelity has meant that Simon Haslam will be stepping down as a Director of the Company, which he will do by resigning at the conclusion of the AGM. It is sad because he is an outstanding Director and I have no doubt that the workings of the Board have benefited enormously from his contribution and I would like to thank Simon for this. We will be appointing a replacement for Simon subsequent to the AGM and a further announcement will be made at that time.

Directors' Fees: The changes to corporate governance, to the Listing Rules, to new accounting standards and other matters, have resulted in a considerable increase in the work load and in the risks of being a director of an investment trust company. We anticipate that these burdens will continue to increase in the years to come. As a consequence the Board has determined that there should be a new structure to the Directors' fees. The new basis is explained in the Directors' Remuneration Report on page 29, together with a table showing the details of future payments. Shareholders are being asked to approve a new limit of £150,000 on the overall amount that can be paid in Directors' fees at the AGM (Resolution 13).

Manager Evaluation: The new Listing Rules require that boards of directors of investment trust companies carry out a formal evaluation of the manager annually and report to shareholders on the outcome with a justification for the manager remaining *in situ*. Two observations should be made about this, namely that (i) the Board monitors the performance of Fidelity at every Board and Committee meeting and always has and (ii) the Board monitors all aspects of Fidelity's management of the Company, not just the net asset value track record. The criteria for the annual evaluation are set out in the Corporate Governance Report on pages 26 and 27.

As I mentioned earlier, the track record of the NAV, considered over five and ten years, is excellent. The Board reviewed all other aspects of the management of the Company and I can report to you that that performance too was of a high standard. Importantly, the Board reviewed the quality of the team that manages our affairs; it is very good. As a consequence of this I can report that the Board had no difficulty in concluding that it is in shareholders' interests that Fidelity Investments International remains as the Manager of the Company.

Board Policies: Your Board believes that it would be helpful to shareholders and indeed in keeping with the modern spirit of transparency if it were to spell out in the Annual Report its major policies. On page 4 therefore we have laid out nine policies covering amongst others, our investment goal, dividends, investment policy and gearing. I hope that this proves helpful to shareholders.

Annual General Meeting: The Annual General Meeting of the Company will be held this year at 11.30am on 9 December at Fidelity's offices at 25 Cannon Street, near St Paul's Cathedral. May I repeat what I said last year and what is written in our Corporate Governance Statement, namely that "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 general meeting". We do therefore encourage as many shareholders as possible to attend – both individual and institutional – as it gives you the chance to air your views, hear other shareholders' views or ask any questions you may wish in front of the body of shareholders. Following the formal meeting Anthony Bolton will review the past year and look at the prospects for the current one.

Every three years we ask shareholders whether they wish the Company to continue in business as an investment trust company – the continuation vote. One of our resolutions this year therefore is a proposal that Fidelity Special Values does indeed continue in business. Clearly in its first ten years, the Company has performed well and your Board believes that it will continue to do so. We therefore recommend that shareholders vote in favour of continuation.

Outlook: Encouraging for our portfolio - In re-reading last year's comments on the outlook for the year just ended, I am minded to say much the same things again – namely that the global outlook is much dependent on the economy of the United States and increasingly on that of China; that the European Union continues to be a drag on global economic

growth; and that our own economy continues to do remarkably well despite Mr Brown's largesse and stealth taxation and despite rather higher interest rates.

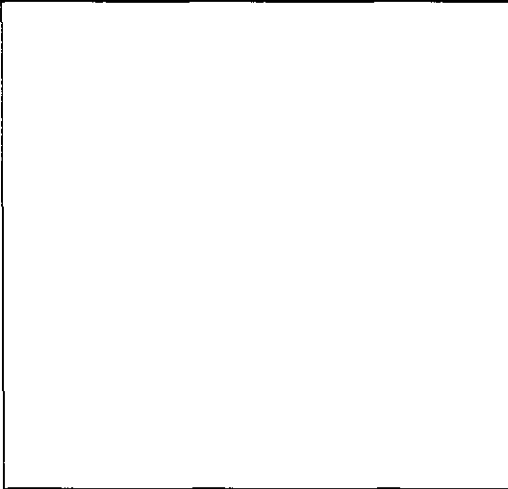
However, the new big factor in the outlook is that of the price of oil. A year ago, as I write, the price of a barrel of Brent crude oil stood at under US\$30; today it stands at around US\$50. Much the same is true for a lot of other commodity prices, steel, copper etc. Quite what the economic effect of these much higher prices will be depends largely on how the various central banks handle the situation. If they do as they did in 1973 and 1974 then there could be a large increase in the rate of inflation at both producer as well as consumer levels. If however, the central banks are concerned to restrain the emergence of inflation – which is certainly the case in the UK and in Euroland but less certainly so in the United States – then these increases will act more like a tax increase and will depress economic activity. Even the emergence of higher inflation must eventually result in higher interest rates and thence lesser economic activity. So either way the higher oil and other commodity prices are not good for economic growth in the shorter term. In the longer run, however, the higher oil price will lead to more investment in finding new sources of oil and in energy conservation – both good for the longer term - just as it did after 1981.

So the circumstances of the moment would seem likely to result in a squeeze on corporate profit margins. Not only are input prices rising but there are the burdens of the costs of rising regulation and taxation, not to mention the problems that many companies face in funding pension liabilities. It all seems to add up to a period of lacklustre economic and corporate profits growth and one that therefore is not conducive to the re-emergence of another bull market of the scale of 1975-2000. However, even in markets that move sideways – to describe markets that drift – there are always good opportunities to make money. In the last five years, during which the market has fallen, our team has managed to increase the net asset value. Without making any shorter term forecast, I can say that the Board continues to have confidence in the ability of Fidelity to find stocks and shares that will make money for shareholders over the next five years.



Alex Hammond-Chambers
Chairman
27 October 2004

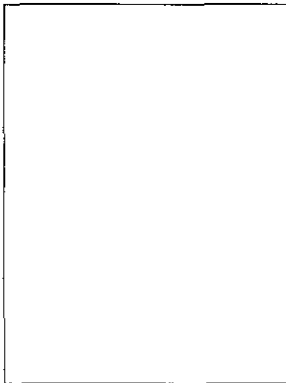
Investment Manager



Fidelity's Offices at 25 Cannon Street, London.

Fidelity Investments International

The Company is managed by Fidelity Investments International, (authorised and regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity International Limited group. Fidelity International Limited and its US affiliate, FMR Corp, together form what is commonly referred to as Fidelity Investments®. Fidelity Investments®, as at 30 June 2004, had total assets under management exceeding £650 billion. Fidelity Investments® has developed into the world's largest independent investment management organisation.



Anthony Bolton (age 54)

is a director of Fidelity Investment Management Limited. He began his career as an investment analyst at Keyser Ullmann and subsequently worked as a fund manager at Schlesinger Investment Management services. He joined Fidelity Investments in 1979, at the time when its unit trust operation was set up. In addition to Fidelity Special Values PLC, he also manages the Fidelity Special Situations Fund (a Sub-Fund of Fidelity's Retail OEIC).

Attribution Analysis

Analysis of change in the year	pence
Starting NAV at 1 September 2003	286
Effect of the market	31
Effect of stock selection	23
Effect of issuing new shares	2
Effect of gearing	9
Effect of charges	-9
Closing NAV at 31 August 2004	342

Top 5 and Bottom 5 Sector Contributions (pence per share)

10 Highest Contributors (pence per share)

10 Highest Detractors (pence per share)

Investment Manager's Report

The UK Market Environment - The UK stock market advanced over much of the year as investors welcomed signs of improving corporate earnings and economic conditions. UK equities, as represented by the FTSE All Share Index, returned 10.8% in sterling terms during the twelve-month period. The UK market rose strongly in line with other developed markets during the final months of 2003 as further evidence began to emerge that the global economic recovery was hardening. However, investors' concerns about terrorism following the attacks in Madrid in March, as well as a pause in the rise of global economic indicators, led to subdued returns for the first three months of 2004. Equities then suffered increased volatility and setbacks in the second half of the year under review. This was as a result of concerns about rising oil prices, inflation, interest rates and further violence in the Middle East.

There was a wide divergence between sector performances during the year under review. The best-performing area of the market was steel & other metals (effectively the steel group Corus). Steel prices have risen substantially over the past 18 months, largely driven by demand from China. Utilities was also among the leading sectors. Investors appeared to be attracted mainly by rising power prices; however other defensive sectors, including tobacco and health, were also favoured by investors. In contrast, information technology stocks were relatively weak. Small and medium-sized companies outperformed larger companies.

Meanwhile, economic conditions continued to improve. Annual GDP growth quickened to 3.6% in the second quarter, the fastest pace in nearly four years. Productivity also grew strongly during this period, reducing the impact of rising labour costs. However, following a period of robust expansion, retail sales growth declined in the three months to August to the slowest rate since the three months ended September 2003.

The Bank of England raised its base rate from 3.50% to 3.75% in November, to 4.00% in February, to 4.25% in May, to 4.50% in June and then to 4.75% in August. These moves were designed to moderate the continued strength of

consumer demand and combat persistent house price inflation and, in the latter respect, rising interest rates did indeed appear to slow the booming housing market. Figures released by the Bank of England showed the number of mortgages approved in August fell for the third consecutive month. The indices of house-price inflation compiled by the Halifax and Nationwide building societies both reflected a similar slowdown.

Inflation data produced mixed signals. The annual rate of UK inflation fell in August to 1.3%, the second successive monthly decrease. However, UK producer price inflation was surprisingly strong in August, with core output prices rising 0.5% from a month earlier, the sharpest rise for nine years, pushing the annual rate up to 2.1%.

Portfolio review - The Company's portfolio performed well in comparison to the broad UK market. In particular, individual investment decisions in the oil & gas, telecommunications services and leisure & hotels sectors proved rewarding. The Company's holding in Cairn Energy made the single largest contribution to relative returns. The share price of this oil and natural gas exploration company rose steadily throughout the period after making several oil discoveries in India. The new wells firmly established the widespread distribution of reservoirs across the area and boded well for the company's continued exploration program. During the review period, exposure to the oil & gas sector, traditionally an area in which the portfolio's exposure lagged that of the benchmark index, was increased and now also represents the Company's largest absolute sector allocation. Indeed, BP, Cairn Energy, Shell and BG Group featured among the top-ten holdings at the end of August.

Within the telecommunications services sector, mm02 performed well as the company continued to post good results, while in the leisure & hotels sector, William Hill and Hilton Group benefited from de-regulation within the gambling industry. Hilton Group owns the Hilton hotel chain and through its ownership of Ladbrokes, operates betting shops, telephone and internet betting & gaming. The latter now accounts for about two thirds of the Group's profits.

Sector Breakdown v FTSE All Share Index as at 31 August 2004

Aside from the changes to the Company's weighting in the oil & gas sector, other principal sector positions remained broadly unchanged during the period. Media & entertainment was the next largest sector position, followed by leisure & hotels and non-life insurance.

While the portfolio continues to have a bias toward small and medium-sized firms, exposure to FTSE 100 stocks was gradually increased during the period. This move was partly a by-product of the increased exposure to oil stocks, some of which rank among the UK's largest companies; however, given the previous strength of small and medium-sized companies, the Manager was able to identify a broad number of opportunities within this segment of the market. Elsewhere, the Manager introduced a small allocation to investments in China and companies listed in Hong Kong with an exposure to the mainland.

While the portfolio is constructed through a process of bottom-up stock selection, its holdings currently reflect several themes. These include exposure to property companies or investment trusts set to benefit from the potential introduction of Real Estate Investment Trusts ("REIT"); casinos and betting shops positioned to take advantage of de-regulation within the gambling industry; and those companies involved with the Public Finance Initiative ("PFI").

Outlook – The economic and market environment has demonstrated impressive resilience in the face of renewed strength in oil prices and heightened geopolitical uncertainty. Looking ahead, the UK economy looks set to continue its

recent growth, albeit at a slower pace. The Bank of England (BoE) forecasts that annual expansion will dip from a peak of 3.8% in coming months to 2.0% in 2005 as falling house-price inflation is expected to contribute to a slowdown in consumer spending. Although the Treasury is currently predicting growth of 3.0%-3.5% for next year, unchanged from its figure for the current year, this is widely regarded as optimistic and is expected to be revised downwards.

The peak of the current cycle of UK interest rate rises may be in sight. Using market expectations of interest rates of just over 5.0% early next year, the BoE forecasts in its latest quarterly report that inflation will reach its target of 2.0% in two years' time but will not exceed that level thereafter.

Meanwhile, the impact of a higher oil price on inflation is still unclear. The OECD predicts that it will have only a limited effect on core inflation and wages in the world's major economies. However, inflationary pressures may be moving down the supply chain. Successive rises in recent monthly producer-price inflation data indicate that companies are passing on the higher costs of raw materials.

With interest rates now rising on both sides of the Atlantic, the very favourable monetary environment for financial markets appears to be in its latter stages.

On the other hand, the strong upwards momentum in economic activity in the US and UK is unlikely to slow significantly without repeated central bank intervention. In this environment, stockmarkets should be able to make progress and appear more healthily placed. At this juncture, the short-term risks are more likely to be of the Middle Eastern geopolitical kind than a synchronised world economic downturn.

Fidelity Investments International
29 October 2004

Portfolio Listing

as at 31 August 2004

Holding	Market Value £'000	%*
BP Oil company	12,546	5.0
mm02 Mobile telephone company	7,353	2.9
ITV Media company	6,907	2.8
Calm Energy Oil company	6,046	2.4
Shell Transport & Trading Oil company	6,026	2.4
BG Gas company	5,858	2.4
Standard Chartered International banking group	5,349	2.1
Hilton Hotel and betting company	5,133	2.1
Rank Leisure and entertainment company	4,886	2.0
Allied Irish Banks Irish bank	4,767	1.9
Top 10 Holdings	64,871	26.0
Roche Pharmaceutical company	3,847	1.5
Yell Directory company	3,842	1.5
Reuters International news and information organisation	3,624	1.5
Shire Pharmaceuticals Pharmaceutical company	3,557	1.4
Amlin Insurance company	3,178	1.3
Land Securities Property company	3,162	1.3
William Hill Betting company	3,101	1.2
Dixons Consumer electronics retailer	3,052	1.2
Minerva Property company	3,013	1.2
Provident Financial International personal finance group	2,892	1.2
Top 20 Holdings	98,139	39.3

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

Portfolio Listing

as at 31 August 2004

Holding	Market Value £'000	%*
Novo-Nordisk <i>Pharmaceutical company</i>	2,529	1.0
British Land <i>Property company</i>	2,478	1.0
Enodis <i>Manufacturer and supplier of commercial food service equipment</i>	2,476	1.0
Fresenius <i>Supplier of dialysis care products and services</i>	2,415	1.0
London Stock Exchange <i>UK's primary stock exchange</i>	2,413	1.0
John Laing <i>PFI investment company</i>	2,401	1.0
Trinity Mirror <i>Newspaper and magazine publisher</i>	2,326	0.9
Royal & Sun Alliance Insurance <i>Insurance company</i>	2,323	0.9
Telewest Global <i>UK cable company</i>	2,322	0.9
Aviva <i>Insurance company</i>	2,256	0.9
Wellington Underwriting <i>Insurance company</i>	2,180	0.9
Fresenius Medical Care <i>Dialysis centre operator</i>	2,173	0.9
Stanley Leisure Organisation <i>Betting company</i>	2,155	0.9
DNB <i>Norway's largest bank</i>	2,129	0.9
Hiscox <i>Insurance company</i>	2,051	0.8
Carillion <i>Construction and service company</i>	1,945	0.8
Balfour Beatty <i>Engineering, construction and services company</i>	1,912	0.8
Vivendi Universal <i>French conglomerate with telephone and media interests</i>	1,907	0.8
NTL <i>UK cable company</i>	1,883	0.8
Prudential <i>Insurance company</i>	1,872	0.7
Woolworths <i>General merchandise retailer</i>	1,843	0.7
Body Shop International <i>Retailer of naturally-based cosmetics, skincare and hair products</i>	1,763	0.7
Marconi <i>Manufacturer of telecommunications equipment</i>	1,649	0.7
Countrywide <i>Estate agency company</i>	1,619	0.6
Royal P & O Nedlloyd <i>Container shipping company</i>	1,600	0.6
Davis Service <i>Provides a range of commercial, industrial, leisure and public services</i>	1,598	0.6
De Vere <i>Hotel group</i>	1,592	0.6
ICAP <i>Currency and futures broker</i>	1,592	0.6
Babcock International <i>Engineering company</i>	1,577	0.6
Syngenta <i>Producer of crop protection products and seeds</i>	1,527	0.6
Top 50 Holdings	158,645	63.5
Other Holdings (138)	92,493	37.0
	251,138	100.5
Cash & other net current liabilities	(1,281)	(0.5)
	249,857	100.0

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

Distribution of the Portfolio*

as at 31 August 2004	UK %	Non-UK %	Total %	Index+ %	2003 %
Equities (Including convertibles)					
Cyclical Services					
Media & Entertainment	9.8	2.0	11.8	4.0	8.4
Leisure & Hotels	8.7	-	8.7	2.4	6.1
General Retailers	5.8	0.1	5.9	3.7	6.3
Support Service	3.4	-	3.4	2.8	6.9
Transport	0.6	1.3	1.9	1.8	1.1
	28.3	3.4	31.7	14.7	28.8
Financials					
Insurance	7.4	0.5	7.9	0.5	10.6
Real Estate	5.5	0.2	5.7	1.9	6.3
Banks	2.5	2.8	5.3	19.6	4.0
Speciality & Other Finance	3.8	0.7	4.5	1.5	3.8
Life Assurance	1.9	0.5	2.4	2.7	2.8
Investment Companies	0.3	-	0.3	2.4	0.6
	21.4	4.7	26.1	28.6	28.1
Resources					
Oil & Gas	15.9	1.3	17.2	12.7	4.0
Mining	0.4	0.4	0.8	4.1	1.9
	16.3	1.7	18.0	16.8	5.9
Non-Cyclical Consumer Goods					
Pharmaceuticals & Biotechnology	2.0	2.6	4.6	9.0	6.4
Health	0.2	2.1	2.3	0.5	2.7
Food Producers & Processors	0.7	0.6	1.3	2.3	0.4
Beverages	-	0.6	0.6	2.8	-
Personal Care & Household Products	0.2	0.1	0.3	0.9	-
Tobacco	-	-	-	2.0	0.4
	3.1	6.0	9.1	17.5	9.9
Non-Cyclical Services					
Telecommunication Services	3.5	1.8	5.3	8.6	5.1
Food & Drug Retailer	1.0	-	1.0	2.3	9.0
	4.5	1.8	6.3	10.9	14.1
Basic Industries					
Construction & Building Materials	3.0	-	3.0	2.6	4.0
Chemicals	0.4	0.7	1.1	0.8	0.5
Steel & Other Metals	0.3	-	0.3	0.2	-
	3.7	0.7	4.4	3.6	4.5
General Industries					
Engineering & Machinery	2.0	-	2.0	0.8	2.8
Electronic & Electrical Equipment	0.1	-	0.1	0.3	0.9
Aerospace & Defence	-	-	-	1.3	0.3
	2.1	-	2.1	2.4	4.0
Information Technology					
Software & Computer Services	1.4	-	1.4	0.7	1.8
Information Technology Hardware	0.7	-	0.7	0.3	-
	2.1	-	2.1	1.0	1.8
Cyclical Consumer Goods					
Automobiles & Parts	0.6	-	0.6	0.3	1.1
Household Goods & Textiles	-	-	-	0.1	-
	0.6	-	0.6	0.4	1.1
Utilities					
Electricity	-	0.1	0.1	1.3	0.3
Other	-	-	-	2.8	1.2
	-	0.1	0.1	4.1	1.5
Total Equities - 2004	82.1	18.4	100.5	100.0	99.7
Cash & Other Net Assets			(0.5)	-	0.3
Total - 2004	82.1	18.4	100.0		
Total Equities - 2003	84.4	15.3	99.7		100.0

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

+ 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 2004.

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 7 to 9 and in the Investment Manager's Report on pages 12 and 13.

The Inland Revenue has approved the Company as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 August 2002 and has granted provisional approval for the accounting period ended 31 August 2003, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section.

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

Net Asset Value

Investments were valued at £251,138,000 as at 31 August 2004. Shareholders' funds amounted to £216,857,000 resulting in a net asset value per share of 341.94p. Changes to investments are shown in note 9 to the accounts on pages 38 and 39.

Results and Dividends

The amount available for distribution as dividend in the year is £886,000 as shown on page 31. The Directors recommend the payment of a final dividend of 1.40p (note 7 on page 37) per ordinary share, payable on 13 December 2004 to shareholders on the register at close of business on

5 November 2004 (ex dividend date 3 November 2004). An amount of £4,000 has been transferred from reserves.

Share Capital

On 22 December 2003, 9,351,136 ordinary shares of 25p per share were allotted and issued at a price representing a premium in excess of 2% over the net asset value in respect of the rollover of assets following the reconstruction of Govett Strategic Trust plc.

On 5 January 2004, 2,806,948 ordinary shares of 25p per share were allotted and issued at a price representing a premium in excess of 2% over the net asset value in respect of the rollover of assets following the reconstruction of The Derby Trust plc.

On 1 January 2004, 2,554,135 ordinary shares of 25p per share were allotted and issued, fully paid at a rate of 100p per share, following an exercise of warrants.

The Company appointed Capita IRG Trustees Limited as trustee to act on behalf of the holders of the 755,225 outstanding warrants. On 7 January 2004, Capita IRG Trustees Limited exercised all outstanding warrants and 755,225 ordinary shares of 25p per share were issued and allotted, fully paid at a price of 100p per share.

Under authorities granted by Shareholders there were 262 separate issues of shares during the year to 31 August 2004, at prices representing premia in excess of 2% over the net asset value, as follows:

	Number of issues	Total number of shares issued	Price range
Fidelity Share Plan	124	692,414	292p-363p
Fidelity ISA	134	1,020,376	292p-363p
Apollo Nominees Ltd (UBS Limited)	4	750,000	344p-363p

As at 31 August 2004, the total number of shares in issue was 63,419,923.

Since the year end a further 539,957 ordinary shares of 25p have been issued at prices representing premia in excess of 2% over the net asset value and as at 27 October 2004, the total number of shares in issue was 63,959,880.

Under the authority granted by shareholders at the

Extraordinary General Meeting held on 11 December 2003, a total of 5,350,660 ordinary shares of 25p has been issued (approximately 8.37% of the aggregate nominal amount of the issued share capital). The authority expires on 9 December 2004 and resolutions to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting to be held on 9 December 2004.

At the Extraordinary General Meeting held on 11 December 2003 the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 6,300,000 ordinary shares in the market for cancellation. No shares were repurchased for cancellation during the year (2003: nil). The authority expires on 9 December 2004 and a special resolution to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

Warrants

No warrants were purchased for cancellation during the year (2003: nil).

As noted above, all remaining warrants outstanding at the start of the year have now been exercised and, consequently, as at 31 August 2004, there were no warrants in issue (2003: 3,309,360).

Gearing

During the year to 31 August 2004 the Company entered into a loan agreement with The Royal Bank of Scotland plc for £8 million at a fixed rate of 5.655% for a period of five years. The loan was drawn down on 16 January 2004.

On 22 October 2004 the Company entered into a loan facility with Barclays Bank PLC. The facility is for £27 million and has been made available by way of two tranches: Tranche A of £7 million to provide the Company with new funding and Tranche B of £20 million to be used to refinance the JPMorgan Chase Bank loans totalling £20 million which are due for repayment in January 2005. Tranche A was drawn down in full on 25 October 2004 at a rate of 5.435%. This sum will be invested in a manner consistent with the Company's

investment objective. Tranche B (with a rate also fixed at 5.435%) is available for drawdown in one single tranche, the anticipated drawdown date being 26 January 2005. The facility will be repayable on 26 January 2010.

Political and Charitable Donations

The Company has not made any political or charitable donations during the year (2003: nil).

Payment of Creditors

The Company's principal supplier is the Manager who is paid in the month following the end of each calendar quarter, in accordance with the terms of the management agreement. The Company's policy for the year to 31 August 2005 (2004: same) for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year (2003: nil). Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

Management Company

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement (the "Management Agreement") entered into on 19 October 1994.

The Management Agreement provides for an annual fee of an amount equal to 0.95 per cent (plus VAT) of the value of the Company's total assets under management (as defined in the Management Agreement, which excludes investments in other funds managed by the Manager) payable quarterly in arrear and calculated as of the last business day of March, June, September and December in each year. In 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.

The Manager agreed to reduce the management fee payable by the Company in respect of the quarter ending on 31 December 2003 by a sum equal to 0.75 per cent of the aggregate sum subscribed by Govett Strategic Trust

Directors' Report

shareholders as detailed in the Company's Prospectus dated 17 November 2003. This amounted to £259,700.

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

The Management Engagement Committee met on 20 October 2004 and reviewed the performance of the Manager for the year to 31 August 2004. The Committee concluded that it was in the interests of shareholders that the Management Agreement should continue.

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 2004 is £150,861 (2003: £130,932). 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 £109,667 (2003: £206,716) was due to the Manager under the above agreements at 31 August 2004 and is included in other creditors in note 11 on page 40.

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

with those rules and the achievement of best execution when dealing on behalf of clients with brokers.

The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are credited to capital. In the year to 31 August 2004 £52,000 was received (2003: £21,000).

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

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

Fidelity International Limited has an interest of 805,000 shares in the Company.

Corporate Social Responsibility

The Manager believes that high standards of corporate social responsibility make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in its view, these have a material impact on either investment risk or return.

Directors

Details of the Directors who served in the year to 31 August 2004 are set out on page 5.

All Directors served throughout the year to 31 August 2004.

The Board has decided that, henceforth, all Directors will be subject to re-election on an annual basis. Mr Haslam is not seeking re-election at the Annual General Meeting.

Mr Simon Haslam is a Director of Fidelity International Limited, the ultimate holding company of Fidelity Investments International, and has waived his entitlement to Director's fees.

No Director has 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 were significant in relation to the Company's business, except as disclosed above in relation to Mr Haslam's interest in the Management Agreement. There have been no other related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8.

The interests of the Directors and Fidelity International Limited in the ordinary shares and warrants of the Company as at 31 August 2004 and 31 August 2003 are shown below. There have been no changes since the year end.

	31 August 2004 shares	31 August 2003 shares	warrants
Alex Hammond-Chambers [†]	16,000	20,000	4,000
Sir Richard Brooke	12,000	10,000	2,000
Simon Haslam	3,000	3,000	-
Douglas Kinloch Anderson	17,442	16,520	1,000
James Laurenson	37,000	35,000	3,000
Fidelity International Ltd	805,000	855,000	200,000

[†] Of which 11,000 shares (2003: 15,000) and nil warrants (2003: 3,000) are non-beneficially owned

Substantial Share Interests

As at 27 October 2004 the Company was not aware of any interests in 3% or more of the issued share capital of the Company 37.59% 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 2004

	Number of Shareholders	% of Issued Share Capital
Private Shareholders [†]	14,227	50.26%
Nominee Companies*	1,337	44.39%
Limited Companies	44	2.50%
Other Institutions	25	2.08%
Insurance Companies	5	0.32%
Banks & Bank Nominees	9	0.31%
Investment Trusts	5	0.10%
Pension Funds	4	0.04%
	15,656	100.00%

[†] 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.

Resolution 9 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,598,750. If passed, this resolution will enable the Directors to allot a maximum of 6,395,000 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company as at 27 October 2004.

This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. If new ordinary shares are 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 other 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 10 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 £1,598,750 (approximately 10% of the issued ordinary share capital of the Company as at 27 October 2004).

The Directors would not issue ordinary shares pursuant to this power at less than the then current net asset value per share.

The authority to issue ordinary shares for cash under Resolution 9 will, inter alia, enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan, Fidelity ISA and to other FSA

Directors' Report

authorised persons in the event that the ordinary shares are trading at a premium to their net asset value. The Directors would not intend to use this power unless the premium was in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

Resolution 11 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 9,590,000 ordinary shares of 25 pence each (equivalent to 14.99% of the shares in issue at 27 October 2004). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share.

Resolution 12 is an ordinary resolution regarding the continuation of the Company as an investment trust.

The Board undertook to give shareholders the opportunity to vote on the continuation of the Company in 2004 and every three years thereafter. Accordingly a resolution for the continuation of the Company as an investment trust will be put to shareholders at the forthcoming Annual General Meeting.

Resolution 13 is an ordinary resolution which, if approved, will increase the maximum aggregate fees payable to Directors from £75,000 to £150,000. Further details of Directors' remuneration may be found in the Directors' Remuneration Report on page 29.

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 50 to 52.

Corporate Governance

Full details are given in the Application of Corporate Governance on pages 23 to 28.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The financial statements may be published on a website. The Auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of any websites and accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved. Visitors to any website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, are willing to continue in office and, in accordance with Sections 385 and 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
29 October 2004

Rebecca L. Battenwood

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 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.

Corporate governance requirements

There have been further extensive reviews of corporate governance in the UK which have resulted in a new Combined Code - a set of governance principles which companies are expected to consider and either comply with or explain their own different approach. However, the Association of Investment Trust Companies, of which Fidelity Special Values is a member, has established a Code of Corporate Governance[©] especially for investment trust companies which your Board believes to be the appropriate template for the structure of its own corporate governance. Where there are pertinent issues within the Combined Code not covered by the AITC Code of Corporate Governance, they are addressed separately.

The Board has drawn up a detailed corporate governance schedule which is available for inspection by shareholders and investors at the Company's registered office, which takes each of the detailed points in the AITC's Code of Corporate Governance and the Combined Code and sets out exactly how the Board has chosen to respond to those points. Extracts from that schedule are included in this corporate governance report.

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 investment trusts 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 or 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 both for 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 Manager's business is not dedicated solely to the interests of investment trust companies and their shareholders, the composition of investment trust boards 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. 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 an 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 investment trust company, while following the guidelines of the AITC Code of Corporate Governance, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values has

Application of Corporate Governance

considered its own circumstances and determined its own corporate governance policies and *modus operandi*. Because it is important that shareholders should be aware of them, and indeed approve of them, the Board has chosen to outline them in this report.

The composition and the conduct of the Board of Directors are a material consideration for shareholders. Having laid out the Board's 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 the above 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, marketing, general business experience 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 by or otherwise materially financially associated with the Manager, Fidelity Investments International, cannot be regarded as independent. However, as already explained, the Board regards it as important that there

should be one senior executive from Fidelity Investments International serving as a Director. Other relationships, age or time served as a Director are not regarded *prima facie* as compromising independent behaviour but may nevertheless be of interest to shareholders and consequently the Directors' current business associations are set out on page 5 for shareholders' perusal.

There are 21 principles which form the substance of the AITC's Code of Corporate Governance. The complete details of how your Company has adopted them are provided in its corporate governance schedule (referred to earlier). This report contains a summary of how the Board has adopted these principles.

All of the Directors are non-executive and four of the five have no relationship with the Manager. Their individual independence, including that of the Chairman, has been considered, taking into consideration:

- integrity, selflessness, intelligent scepticism (but not cynicism), positiveness, courageousness and decisiveness;
- independence of mind and character;
- experience and knowledge of investment trusts, of the investment business generally and of Fidelity;
- financial literacy;
- conflicts of interest; and
- performance as a Director.

Based on the above considerations all four non-Fidelity Directors, including the Chairman, are considered to be independent.

Tenure, the term served by a director of a company, is a controversial issue. It is the belief of the Board that it can best do its job if it works as a team composed of individuals who work well together, if each contributes to its performance. In order to do so it believes that its membership should include both directors who have served a long time and bring both experience and past knowledge of the Company (and its business) to its governance and also include newer members who bring additional/further attributes to the Company's governance. The Board believes that if a person is naturally of an independent nature, then that independence is strengthened as length of service progresses. The annual board

assessment includes consideration of independence. These policies of tenure also apply to committee membership.

Recognising that different shareholders have different views on tenure, the Board has decided that each director will be subject to annual re-election by shareholders.

At the time of the appointment of a new director, the appointment process for that director will be disclosed in the annual report. When the Board looks for a new director it looks for those criteria outlined above. Because personal attributes are difficult to assess, the Board relies heavily on third party experience and endorsement of the individual concerned.

The formality of the self-assessment process has yet to be established but it will focus on the composition and performance of the Board as a whole, on its committees and on individual contributions. In particular it will undertake a rigorous assessment of each director's "independence" performance.

The Board considers that it meets sufficiently regularly to discharge its duties efficiently and the table below gives the attendance record for the meetings held in the year.

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 and 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 or premium at which the shares may 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.

The Board believes that a good working relationship comes from Board and Management working harmoniously together: In particular the Board should support the Manager in difficult times but challenge it when necessary; it is a *sine qua non* to good performance.

Authority - The Board of Directors is furnished by the shareholders with the authority to manage the Company on their behalf, being required to discharge the responsibilities outlined above. The Board, being wholly non-executive and (by majority) independent of management, carries out its duties through the mechanism of Board meetings and Board Committee meetings. The most important aspect of the Directors' duties concerns the management of the Company's portfolio of assets and of the risk profile of its balance sheet. While the day to day investment management is delegated to Fidelity Investments International, there are certain decisions which are retained and made by the Directors, including the payment of dividends, the share buyback guidelines and the gearing policy.

In structuring the Board meetings, the Directors try to concentrate as much as possible of their regular Board meetings on (i) investment matters (including gearing policy, investment policy, portfolio and stock reviews, portfolio

	Board Meetings		Audit Committee Meetings		Management Engagement Committee Meetings		Nomination & Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Alex Hammond-Chambers	8	8	2	2	1	1	2	2
Sir Richard Brooke	8	8	2	2	1	1	2	2
Simon Haslam	8	8	n/a	n/a	n/a	n/a	2	2
Douglas Kinloch Anderson	8	6	2	2	1	1	2	2
James Laurenson	8	7	2	2	1	1	2	2

Application of Corporate Governance

turnover, monitoring performance, etc) and (ii) shareholder value matters (including share buybacks 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 relation issues while the Manager meets with the larger shareholders at least once a year and reports back to the Board on those meetings. 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 the Custodian) and finally the relationship with the independent auditors (and their ongoing re-appointment and level of fees). The Committee meets with the independent auditors at least once a year to review all these matters. The Committee itself meets at least twice a year and reports to the Board of Directors, making recommendations where appropriate.

Given the nature of investment trust companies and their small boards, it is important that the Chairman of the Board should be a member of it but not chairman. In practice the Audit Committee does most of the work of preparing the annual and interim reports, much of which is prepared by the Chairman of the Board. It seems impractical to duplicate the process of much of the work of the Audit Committee and in any event the Chairman of an investment trust company should have the

skills and experience required by its audit committee. Both the Chairman and the Chairman of the Audit Committee should and do have a working relationship with the auditor.

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 level of remuneration of the Manager is determined by the Management Engagement Committee; it relates to the investment management function, on which a percent of the funds under management is paid (thereby relating this part of its remuneration to performance) and to the administrative function. The Board of Directors is mindful that the amounts paid to the Manager should be sufficient to ensure that both the fund manager and the administrators within the management house appointed to the job of looking after its affairs are highly skilled and that those individuals should be largely focused on the Company's business. There is no additional fee for administration. The independent directors, constituted as the Management Engagement Committee, meet alone to consider any issues considered relevant by the non executive independent directors.

The criteria which are taken into consideration in reviewing the performance of the Manager are set out below.

- Quality of team – the skills and particularly the experience of the team involved in managing all aspects of the Company's business;
- Commitment of the Manager to the investment trust business generally and to the Company in particular;
- Managing the Company – in running and controlling the administration, the accounting, the secretaryship of the Company;
- Investment management – portfolio management skills, experience and track record and other investment related considerations including gearing, currencies, hedging, buybacks etc;

- Shareholders – shareholder consciousness and relations, discount management and commitment to the Company's goals; and
- Management agreement - consideration of fees, notice periods and duties.

The Nomination and Remuneration Committee consists of all of the Directors and is charged with nominating new directors for consideration by the Board of Directors, in turn for approval by the shareholders. It believes that the best way of ensuring that the Board as a whole and each 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 Nomination and Remuneration Committee also considers the reappointment of Directors. The Committee also concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors' fees of other investment trust companies and other comparable entities.

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

The level of remuneration of the non-executive Directors is set by the Nomination and Remuneration Committee. The non-executive Directors' remuneration is fixed as a rate for the role and/or the roles undertaken. The Director from Fidelity Investments International waives his fee.

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 re-appointment of Directors every year. In addition to the normal matters of approving the accounts, the election of Directors, the appointment of the independent auditors and the issue of new shares, your Board has an established policy that it should enable shareholders to decide on whether they wish to continue the Company's existence by putting a "continuation vote" before the shareholders at every third AGM. The next such vote will be at the forthcoming Annual General Meeting on 9 December 2004.

Compliance with the Combined Code

The Board considers that the Company has complied with those provisions of The 1998 Combined Code which are relevant to investment trust companies throughout the year to 31 August 2004 with the following exceptions:

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

This report has been written in accordance with The Combined Code in effect as at 1 September 2003.

Internal Control

The Board is responsible for the Company's system of internal control and reviewing its effectiveness. The Board has contractually delegated to external agencies, including the Manager (Fidelity Investments International), 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

Application of Corporate Governance

cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company.

The Board has established a continuing process for the identification, control and evaluation of risk through a series of quarterly investment performance reports, a semi-annual internal controls report and quarterly compliance reports which are provided by the Manager. This process is in accordance with the Guidance for Directors on the Combined Code published in September 1999 and has been in place for the year ended 31 August 2004 and up to the date of the approval of the annual report and accounts.

The systems of internal control are designed to reduce rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Company's Audit Committee meets representatives of the Manager and receives reports on 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 the nature and scope and findings of the statutory audit. The Board carries out a risk and control assessment including a review of the corporate strategy and the Manager's and other third party suppliers' risk management processes. The key element of this assessment is the semi-annual internal controls report prepared by the Manager for its investment trust clients. The internal controls report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. Whilst the Company, in common with most investment trusts, has no internal audit department, the effectiveness of these controls is monitored by the Manager's internal audit function. The Audit Committee has received and reviewed the internal controls report on the effectiveness of the internal controls maintained on behalf of the Company and an annual compliance report from the Manager's Global Oversight Director.

By means of the procedures set out above, the Directors have reviewed the effectiveness of the Manager's internal control systems throughout the period.

Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts since:

- 1) the assets of the Company consist mainly of securities which are readily realisable and accordingly the Company has adequate financial resources to continue in operational existence for the foreseeable future; and
- 2) the Directors of the Company are recommending that shareholders vote in favour of the continuation resolution to be proposed at the forthcoming Annual General Meeting.

For fuller understanding, the entire detail is contained in the Company's Corporate Governance schedule which may be found on the Fidelity website: www.fidelity.co.uk or obtained from Fidelity's Investor Centre or the Company's registered office.

On behalf of the Board
Alex Hammond-Chambers
29 October 2004

Directors' Remuneration Report

Remuneration Committee - The Company has a Nomination and Remuneration Committee and the determination of the Directors' fees is a matter dealt with by this Committee. Further details may be found on page 27.

The Company's Articles of Association currently limit the aggregate fees payable to the Board of Directors to a total of £75,000 per annum. A resolution will be proposed at the forthcoming Annual General Meeting to increase this limit to £150,000. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil, the time committed to the Company's affairs and the responsibilities and potential liabilities, both financial and reputational.

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

Comparison of NAV and Share Price Total Return Performance Against the Benchmark Index from 1 September 1999 to 31 August 2004

The Company's investment objective is capital growth. The graph above measures this against the FTSE All Share Index.

Remuneration of Directors*

Name	2004 Fees £	2003 Fees £
Alex Hammond-Chambers	17,750	17,750
Sir Richard Brooke	12,000	12,000
Simon Haslam ⁽¹⁾	-	-
Douglas Kinloch Anderson	12,000	12,000
James Laurenson	12,000	12,000

No Director received any bonus, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 August 2004 or the year ended 31 August 2003.

* audited information

(1) Mr Haslam waived his Director's fees of £12,000 in 2004 (£12,000 in 2003)

As explained in the Chairman's Statement, the Board has determined that there should be a new structure adopted for the payment of fees to the Directors, reflecting (i) the duties, responsibilities and liabilities of being a Director and (ii) the work done by Board Committees. The new overall cost would be £79,500, representing 0.04% of shareholders' funds. Subject to shareholder approval of a new overall limit of £150,000, the new fee structure will come into effect from 1 January 2005 and will be as set out below.

	Board Fee	Audit Committee Fee	Management Engagement Committee Fee	Total
Chairman	£23,000	£1,500	£1,500	£26,000
Chairman of the Audit Committee	£15,000	£2,500	£1,000	£18,500
Director	£15,000	£1,500	£1,000	£17,500



On behalf of the Board
Alex Hammond-Chambers
29 October 2004

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

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, and the corporate governance statement and the other items included in the contents section.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs at 31 August 2004 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

29 October 2004

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

for the year ended 31 August 2004

	notes	2004			2003		
		revenue	capital	total	revenue	capital	total
		£'000	£'000	£'000	£'000	£'000	£'000
Gains on investments	9	-	30,404	30,404	-	23,027	23,027
Income	2	5,591	-	5,591	3,856	-	3,856
Investment management fee	3	(2,238)	-	(2,238)	(1,458)	-	(1,458)
Other expenses	4	(434)	-	(434)	(408)	-	(408)
Exchange (losses)/gains	14	-	(43)	(43)	-	48	48
Net return before finance costs and taxation		2,919	30,361	33,280	1,990	23,075	25,065
Interest payable	5	(1,965)	-	(1,965)	(1,560)	-	(1,560)
Return on ordinary activities before taxation		954	30,361	31,315	430	23,075	23,505
Tax on ordinary activities	6	(68)	-	(68)	(31)	-	(31)
Return on ordinary activities after taxation for the year attributable to equity shareholders		886	30,361	31,247	399	23,075	23,474
Dividends	7	(890)	-	(890)	(466)	-	(466)
Transfer (from)/to reserves	14	(4)	30,361	30,357	(67)	23,075	23,008
Return per ordinary share	8						
Basic		1.55p	52.98p	54.53p	0.91p	52.64p	53.55p
Fully-diluted		-	-	-	0.85p	48.79p	49.64p

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

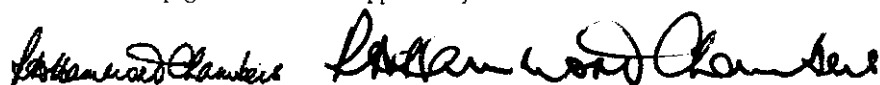
The notes on pages 34 to 47 form an integral part of the accounts

Balance Sheet

as at 31 August 2004

		2004	2003
	notes	£'000	£'000
Fixed assets			
Investments	9	251,138	160,678
Current assets			
Debtors - amounts falling due within one year	10	3,470	2,060
Cash at bank		1,007	1,677
		4,477	3,737
Creditors - amounts falling due within one year			
Fixed rate unsecured loans	11	(20,000)	-
Other creditors	11	(5,758)	(3,191)
		(25,758)	(3,191)
Net current (liabilities)/assets		(21,281)	546
Total assets less current liabilities		229,857	161,224
Creditors - amounts falling due after more than one year			
Fixed rate unsecured loans	12	(13,000)	(25,000)
Total net assets		216,857	136,224
Capital and reserves			
Called up share capital	13	15,855	11,373
Share premium account	14	87,923	44,611
Capital redemption reserve	14	404	404
Other reserves			
Other non-distributable reserve	14	5,152	1,742
Warrant reserve	14	-	928
Capital reserve - realised	14	82,169	62,519
Capital reserve - unrealised	14	24,144	13,433
Revenue reserve	14	1,210	1,214
Total equity shareholders' funds	16	216,857	136,224
Net asset value per ordinary share:			
Basic	15	341.94p	299.46p
Fully-diluted		341.94p	285.93p

The accounts on pages 31 to 47 were approved by the Board of Directors on 29 October 2004 and were signed on its behalf by:



Alex Hammond-Chambers, Chairman

The notes on pages 34 to 47 form an integral part of these accounts

Cash Flow Statement

for the year ended 31 August 2004

		2004	2003
	notes	£'000	£'000
Operating activities			
Investment income received		2,903	2,387
Underwriting commission received		17	9
Deposit interest received		134	57
Investment management fee paid		(2,080)	(1,382)
Directors' fees paid		(64)	(61)
Other cash payments		(468)	(256)
Net cash inflow from operating activities	17	442	754
Returns on investments and servicing of finance			
Interest paid		(1,905)	(1,544)
Net cash outflow from servicing of finance		(1,905)	(1,544)
Financial investment			
Purchase of investments		(194,565)	(90,221)
Exchange (losses)/gains		(49)	48
Disposals of investments		175,578	78,514
Net cash outflow from financial investment		(19,036)	(11,659)
Equity dividend paid		(457)	(600)
Net cash outflow before financing		(20,956)	(13,049)
Financing			
Exercise of warrants		3,309	151
Fixed rate 4.91% unsecured loan drawn down		-	5,000
Fixed rate 5.655% unsecured loan drawn down		8,000	-
Issue of ordinary shares		8,495	7,658
Cash element from issue of shares to shareholders of Govett Strategic Trust and The Derby Trust	13	931	-
Issue costs relating to issue of shares to shareholders of Govett Strategic Trust and The Derby Trust	14	(454)	-
Net cash inflow from financing		20,281	12,809
Decrease in cash	18	(675)	(240)

Material non-cash financing transactions are set out in note 13 on page 41.

The notes on pages 34 to 47 form an integral part of these accounts

Notes to the Accounts

1 Accounting Policies

A summary of the accounting policies used is set out below. The Company has prepared its accounts in accordance with the AITC Statement of Recommended Practice ("SORP") for Investment Trusts dated January 2003.

- a) **Basis of accounting** - The accounts have been prepared on a going concern basis in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted and that the continuation vote is approved.
- b) **Income** - Income from equity investments is credited to the revenue account on the date on which the right to receive the payment is established. Interest receivable on fixed interest securities is accounted for on an accruals basis. Franked dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short-term loans and deposits, interest payable and expenses of management are dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.
- c) **Special dividends** - Special dividends are treated as a repayment of capital unless there is sufficient evidence that they should be treated as revenue.
- d) **Expenses and finance costs** - 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 Financial Reporting Standard ("FRS") 4 "Capital Instruments".
- e) **Taxation** - Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.
- Deferred tax is measured on a non-discounted basis at the rate of Corporation Tax that is expected to apply when the timing differences are expected to reverse.
- f) **Foreign currency** - 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.
- g) **Valuation of investments** - Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling where an organised market in such investments exists; other unquoted investments are included at Directors' estimate of fair value. Where a price is not readily available the holding would be valued at cost unless circumstances indicate a different valuation is warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition, at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost or where Fidelity's Fair Value Committee is aware that the company is experiencing operating difficulties.
- h) **Capital reserve - realised** - Gains and losses on the realisation of investments and realised exchange differences of a capital nature are accounted for in the capital reserve - realised.
- Capital reserve - unrealised** - 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.
- i) **Warrant reserve** - In accordance with FRS4, a warrant reserve was established which, following the exercise of warrants, is no longer required.

2 Income

	2004 £'000	2003 £'000
Income from Investments		
Franked investment income	2,657	2,123
UK unfranked investment income	83	20
Overseas dividends	706	338
Overseas scrip dividends	76	16
UK scrip dividends	1,923	1,289
	<u>5,445</u>	<u>3,786</u>
Other Income		
Deposit interest	129	61
Underwriting commission	17	9
	<u>146</u>	<u>70</u>
Total Income	<u>5,591</u>	<u>3,856</u>
Total income comprises		
Dividends	5,362	3,766
Interest from securities	83	20
Other income	146	70
	<u>5,591</u>	<u>3,856</u>
Income from Investments		
Listed UK	4,663	3,432
Listed overseas	782	354
	<u>5,445</u>	<u>3,786</u>

3 Investment management fee

	2004 £'000	2003 £'000
Investment management fee	1,905	1,241
Irrecoverable VAT thereon	333	217
	<u>2,238</u>	<u>1,458</u>

A summary of the terms of the Management Agreement is given in the Company Summary on page 2 and the Directors' Report on pages 19 and 20.

Notes to the Accounts

4 Other expenses

	2004 £'000	2003 £'000
Directors' fees	54	54
Other	361	339
Auditors' remuneration		
Audit	19	15
	434	408

Details of the breakdown of Directors' fees can be found on page 29 within the Directors' Remuneration Report.

Expenses amounting to £454,000 in connection with the issue of shares to shareholders of Govett Strategic and Derby Trust were shown as revenue expenses in the interim accounts. These have been transferred to shareholders' funds in these accounts and are offset against the share premium to record the issue of shares at net proceeds in accordance with FRS4. Included in this amount are fees of £56,000 paid to our auditors in respect of non-audit services.

5 Interest payable

	2004 £'000	2003 £'000
Repayable within five years		
Bank overdraft	4	1
Fixed rate unsecured loans	1,961	1,559
	1,965	1,560

6 Tax on ordinary activities

a) Analysis of charge in year

	2004 £'000	2003 £'000
Overseas tax suffered	68	33
Avoir fiscal	-	(1)
Prior year adjustment	-	(1)
Total current tax for year (see note 6b)	68	31

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an investment trust company of 30% (2003: 30%).

The differences are explained below.

	2004 £'000	2003 £'000
Return on ordinary activities before taxation	954	430
Corporation tax at 30% (2003: 30%)	286	129
Effects of:		
Income not included for tax purposes	(1,234)	(1,024)
Avoir fiscal	-	(1)
Overseas taxation	68	33
Increase in unutilised management expenses	948	894
Current corporation tax charge (note 6a)	68	31

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

c) The deferred tax assets of £4,844,000 in respect of unutilised expenses at 31 August 2004 (2003: £3,896,000) and £185,000 (2003: £53,000) in respect of eligible unrelieved foreign taxation have not been recognised as it is unlikely that these assets will be utilised.

7 Dividends

	2004 £'000	2003 £'000
Final proposed dividend of 1.40 pence per share (2003: 1.00p)	888	455
Under-provision of final dividend in prior year due to issue of shares	2	11
	890	466

8 Return per ordinary share

	revenue	2004 capital	total	revenue	2003 capital	total
Basic	1.55p	52.98p	54.53p	0.91p	52.64p	53.55p
Fully-diluted	-	-	-	0.85p	48.79p	49.64p

Returns per ordinary share are based on the net revenue return on ordinary activities after taxation of £886,000 (2003: £399,000) and the capital appreciation in the year of £30,361,000 (2003: appreciation £23,075,000) and on 57,306,860 ordinary shares (2003: 43,833,901) 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 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.

Notes to the Accounts

	revenue £'000	capital £'000	2004 weighted average no. of shares 000's	revenue earnings per share pence	capital earnings per share pence
Basic return per share					
Return on ordinary activities after tax attributable to ordinary shareholders	886	30,361	57,307	1.55	52.98
Effect of dilutive warrants	-	-	-	-	-
Fully-diluted return per share					
Return on ordinary activities after tax attributable to ordinary shareholders after assumed exercise of warrants	886	30,361	57,307	1.55	52.98
	revenue £'000	capital £'000	2003 weighted average no. of shares 000's	revenue earnings per share pence	capital earnings per share pence
Basic return per share					
Return on ordinary activities after tax attributable to ordinary shareholders	399	23,075	43,834	0.91	52.64
Effect of dilutive warrants	-	-	3,462	(0.06)	(3.85)
Fully-diluted return per share					
Return on ordinary activities after tax attributable to ordinary shareholders after assumed exercise of warrants	399	23,075	47,296	0.85	48.79

9 Investments

	2004 £'000	2003 £'000
Listed in the UK	200,093	133,404
Listed overseas	47,409	24,338
Total listed investments	247,502	157,742
AIM listed investments	2,354	2,511
Unlisted investments - Directors' valuation	1,282	425
Total other investments	3,636	2,936
	251,138	160,678

	listed UK £'000	listed overseas £'000	2004 other £'000	total £'000
Opening book cost	121,846	21,701	3,698	147,245
Opening unrealised appreciation/(depreciation)	11,558	2,637	(762)	13,433
Opening valuation	133,404	24,338	2,936	160,678
Movements in the year				
Purchases at cost*	191,010	42,117	1,605	234,732
Sales - proceeds	(149,946)	(23,579)	(1,151)	(174,676)
Sales - realised gains/(losses) on sales	17,142	2,619	(62)	19,699
Increase in unrealised appreciation	8,483	1,914	308	10,705
Closing valuation	200,093	47,409	3,636	251,138
Closing book cost	180,052	42,858	4,090	227,000
Closing unrealised appreciation/(depreciation)	20,041	4,551	(454)	24,138
	200,093	47,409	3,636	251,138

	2004 £'000	2003 £'000
Realised gains/(losses) on sales	19,699	(6,794)
Increase in unrealised appreciation	10,705	29,821
Gains on Investments	30,404	23,027

The portfolio turnover for the year was 75% (2003: 71%)

* Included in this figure is an amount of £38,056,000, being the value of gilts received as part of the proceeds from the issue of shares to the shareholders of Govett Strategic Trust and The Derby Trust, which were used to fund the purchase of securities. Details of these transactions are given in notes 13 and 14 and in the Chairman's statement on page 7.

10 Debtors - amounts falling due within one year

	2004 £'000	2003 £'000
Securities sold for future settlement	610	1,533
Income tax recoverable	-	4
Overseas tax recoverable	36	27
Currency receivable	1,902	-
Amounts receivable for issue of ordinary shares	-	61
Brokers' rebate receivable	21	-
Other debtors	901	435
	3,470	2,060

Notes to the Accounts

11 Creditors - amounts falling due within one year

	2004 £'000	2003 £'000
Securities purchased for future settlement	2,106	1,994
Proposed dividend payable	888	455
Currency payable	1,898	-
Fixed rate unsecured loans	20,000	-
Other creditors	656	592
Loan interest payable	210	150
	25,758	3,191

12 Creditors - amounts falling due after one year

	2004 £'000	2003 £'000
Fixed rate unsecured loan @ 7.82% per annum	-	10,000
Fixed rate unsecured loan @ 6.42% per annum	-	10,000
Fixed rate unsecured loan @ 4.91% per annum	5,000	5,000
Fixed rate unsecured loan @ 5.655% per annum	8,000	-
	13,000	25,000

The first fixed rate loan from JPMorgan Chase Bank of £10,000,000 was drawn down on 28 January 2000 with a maturity date of 26 January 2005 at an interest rate of 7.82% per annum.

The second fixed rate loan from JPMorgan Chase Bank of £10,000,000 was drawn down on 31 January 2002 with a maturity date of 26 January 2005 at an interest rate of 6.42% per annum.

The first fixed rate loan from The Royal Bank of Scotland of £5,000,000 was drawn down on 7 February 2003 with a maturity date of 7 February 2008 at an interest rate of 4.91% per annum.

The second fixed rate loan from The Royal Bank of Scotland of £8,000,000 was drawn down on 16 January 2004 with a maturity date of 16 January 2009 at an interest rate of 5.655% per annum.

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

13 Called-up share capital

	2004 £'000	2003 £'000
Authorised:		
160,000,000 (2003: 160,000,000) ordinary shares of 25 pence each	40,000	40,000
Issued, allotted and fully paid:		
Beginning of year: 45,489,689 (2002: 42,103,004) ordinary shares of 25 pence each	11,373	10,526
22 December 2003: issue of 9,351,136 (2003: nil) shares to shareholders of Govett Strategic Trust	2,338	-
5 January 2004: issue of 2,806,948 (2003: nil) shares to shareholders of The Derby Trust	702	-
1 January to 8 January 2004: exercise of 3,309,360 warrants (2003: 151,287)	827	37
1 September 2003 to 31 August 2004: issue of 2,462,790 ordinary shares (2003: 3,235,398)	615	810
End of year		
63,419,923 (2003: 45,489,689) ordinary shares of 25 pence each	15,855	11,373

At 31 August 2004 there were no warrants outstanding (2003: 3,309,360).

The Company participated as a roll-over option in the schemes of reconstruction of Govett Strategic Trust and The Derby Trust; the shares issued above were allotted in pursuance to these schemes. The consideration received for these shares was allocated as follows:

	Value of gilts received £'000	Cash £'000	Total £'000
In respect of shares allotted to shareholders of Govett Strategic Trust	29,473	433	29,906
In respect of shares allotted to shareholders of The Derby Trust	8,583	498	9,081
	38,056	931	38,987

Notes to the Accounts

14 Reserves

	share premium account £'000	capital redemption reserve £'000	other non distributable reserve £'000	2004 warrant reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
Beginning of year	44,611	404	1,742	928	62,519	13,433	1,214
Exchange (losses)/gains on other net assets	-	-	-	-	(49)	6	-
Net gain on realisation of investments	-	-	-	-	18,198	-	-
Net appreciation/(depreciation) therein already recognised in prior periods	-	-	-	-	1,501	(1,501)	-
Increase in unrealised appreciation	-	-	-	-	-	12,206	-
Issue of ordinary shares	7,819	-	-	-	-	-	-
Issue of shares to shareholders of Govett Strategic Trust and The Derby Trust							
- gross proceeds	35,947	-	-	-	-	-	-
- issue costs	(454)	-	-	-	-	-	-
Revenue loss for the year	-	-	-	-	-	-	(4)
Exercise of warrants	-	-	3,410	(928)	-	-	-
End of year	87,923	404	5,152	-	82,169	24,144	1,210

15 Net asset value per share

The basic net asset value per ordinary share is based on net assets of £216,857,000 (2003: £136,224,000) and on 63,419,923 (2003: 45,489,689) ordinary shares, being the number of ordinary shares in issue at the year end.

16 Reconciliation of movement in shareholders' funds

	2004 £'000	2003 £'000
Opening shareholders' funds	136,224	105,375
Exercise of warrants	3,309	151
Issue of shares to shareholders of Govett Strategic Trust and The Derby Trust - net of issue costs	38,533	-
Other issue of ordinary shares	8,434	7,690
Total recognised gains before dividends	31,247	23,474
Dividend payable	(890)	(466)
Closing shareholders' funds	216,857	136,224

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

	2004 £'000	2003 £'000
Net return before finance costs and taxation	2,919	1,990
Scrip dividends	(1,999)	(1,305)
Increase in other creditors	1,962	167
Increase in other debtors	(2,368)	(80)
Tax on investment income	(72)	(18)
Net cash inflow from operating activities	442	754

18 Reconciliation of net cash movements to movement in net debt

	2004 £'000		2003 £'000
Beginning of year	(23,323)		(18,083)
Net cash outflow	(675)		(240)
Fixed rate unsecured loan drawn down	(8,000)		(5,000)
Unrealised foreign exchange	5		-
Change in net debt	(8,670)		(5,240)
End of year	(31,993)		(23,323)
	2004 £'000	Change in the year £'000	2003 £'000
Analysis of balances			
Cash at bank	1,007	(670)	1,677
Fixed rate unsecured loans	(33,000)	(8,000)	(25,000)
End of year	(31,993)	(8,670)	(23,323)

19 Analysis of changes in financing during the year

	2004			2003		
	share capital and reserves £'000	loans £'000	total £'000	share capital and reserves £'000	loans £'000	total £'000
Beginning of year	59,058	25,000	84,058	51,217	20,000	71,217
Cash inflow from exercise of warrants	3,309	-	3,309	151	-	151
Issue of ordinary shares	8,434	-	8,434	7,690	-	7,690
Issue of ordinary shares to shareholders of Govett Strategic Trust and The Derby Trust	38,533	-	38,533	-	-	-
Fixed rate unsecured loan drawn down	-	8,000	8,000	-	5,000	5,000
End of year	109,334	33,000	142,334	59,058	25,000	84,058

20 FRS13 Financial Instruments

The investment objective of the Company is detailed in the Company Summary on page 2. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

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

Notes to the Accounts

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

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

Market price risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Investment Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also 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. Investments are held currently at mid market value, however post the implementation of International Financial Reporting Standards, which it is expected will be implemented for the Company in the accounting period commencing on 1 September 2005, investments will be held at bid value. In the case of cash, book value approximates to fair value due to short maturity of the instruments. The exceptions are the long term fixed rate unsecured loans, whose fair values as at 31 August 2004 given below have been calculated by discounting future cash flows at current UK sterling interest rates.

	2004		2003	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured loan @ 7.82% per annum	10,172	10,000	10,766	10,000
Fixed rate unsecured loan @ 6.42% per annum	10,109	10,000	10,492	10,000
Fixed rate unsecured loan @ 4.91% per annum	5,000	5,000	5,532	5,000
Fixed rate unsecured loan @ 5.655% per annum	8,160	8,000	-	-
	33,441	33,000	26,790	25,000

Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through UK sterling-denominated fixed rate unsecured bank loans, which fall due for repayment in January 2005, February 2008 and January 2009. The Company is therefore not exposed to a financial risk arising as a result of any increase in UK sterling interest rates on these loans. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

The Company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The Company also has substantial UK sterling cash balances of £1,006,000 (2003: £1,571,000). The rate of interest on the cash balances is variable and is currently 4.43% (2003: 3.75%), consequently the risk of a decrease in cash interest earned is low.

The interest profile of the Company's financial liabilities excluding short-term creditors, as at 31 August 2004 and 2003 was as follows:

Currency	2004 fixed rate financial liabilities £'000	2003 fixed rate financial liabilities £'000
UK sterling	<u>33,000</u>	<u>25,000</u>
	2004 weighted average interest rate	2003 weighted average interest rate
UK sterling	<u>6.43%</u>	<u>6.38%</u>
	2004 fixed rate financial liabilities: weighted average period for which rate is fixed	2003 fixed rate financial liabilities: weighted average period for which rate is fixed
UK sterling	<u>22 months</u>	<u>22 months</u>

Foreign currency risk

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

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

Notes to the Accounts

The following is an analysis of the Company's foreign currency exposure as at 31 August 2004 and 2003:

Currency	2004			2003		
	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
Hong Kong dollar	4,080	-	4,080	508	-	508
Danish kroner	3,788	(634)	3,154	1,862	(260)	1,602
Swiss francs	5,379	-	5,379	1,951	-	1,951
Euro	16,189	-	16,189	7,038	(17)	7,021
Norwegian krone	6,852	-	6,852	8,263	-	8,263
South African rand	1	-	1	1,657	(316)	1,341
US dollar	5,030	-	5,030	3,065	(119)	2,946
Canadian dollar	1,169	-	1,169	-	-	-
Chinese yuan	3,727	-	3,727	-	-	-
Swedish kroner	651	-	651	-	-	-
Total	46,866	(634)	46,232	24,344	(712)	23,632
UK sterling	208,749	(38,124)	170,625	140,071	(27,479)	112,592
Balance sheet total	255,615	(38,758)	216,857	164,415	(28,191)	136,224

Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in note 12 to the accounts. There is also a counterparty risk associated with deposit takers.

The maturity profile of the Company's financial liabilities at 31 August 2004 and 2003 is as follows:

	2004 £'000	2003 £'000
Within one year	20,000	-
After more than one year but less than two years	-	20,000
After more than two years but less than five years	13,000	5,000
	33,000	25,000

Counterparty risk

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

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

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

21 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 August 2004 (2003: nil).

22 Related party disclosures

Fidelity Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on pages 2, 19 and 20.

Investor Information

The objective of Fidelity Special Values PLC 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. This year and every three years hereafter, shareholders will have the right to approve, or otherwise, the continued existence of the Company. The Company is a member of The Association of Investment Trust Companies ("AITC") from whom general information on investment trusts can be obtained by telephoning 020 7282 5555 (email address: enquiries@aitc.co.uk).

How to Invest - The Company's shares are listed on the London Stock Exchange. The **ordinary shares** and warrants can be bought and sold directly through a stockbroker or indirectly via a lawyer, accountant or other independent financial adviser. A number of banks and building societies also offer this service. The shares can also be bought directly through the **Fidelity Investment Trust Share Plan** and the **Fidelity Individual Savings Account ("ISA")**.

The Share Plan allows an investor to make regular monthly payments (minimum £50 per month) or to invest a lump sum (initial minimum £1,000, thereafter £250) into any of the five investment trusts managed by Fidelity. The only plan charge is Government Stamp Duty of 0.5% payable on all share purchases. Any dividends can be reinvested in additional shares or taken as cash, as preferred. Statements and valuations are sent twice yearly. 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 capital gains tax. You are able to invest up to £7,000 in the tax year 2004/2005. There is an initial charge of 3.5% 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 is available through the ISA. For more information about ISAs, you can request a free guide from Fidelity on 0800 41 41 10.

The Fidelity PEP - no further PEP investments may be made, but you may transfer your existing PEP with another PEP plan manager to Fidelity without losing the tax free status.

Since 6 April 2001 the range of investments that can be held in a PEP has been expanded to correspond with those available for investment in an ISA.

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 a PEP or an ISA will depend on individual circumstances and all tax rules may change in the future.

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

For information on how to invest through the Share Plan, PEP or ISA, please contact your financial adviser or call Fidelity free on 0800 41 41 10.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. Fidelity only provides information about its products and will not give investment advice.

Should you wish to seek advice, please contact an independent financial adviser. For the purpose of Sections 21 and 25 of the Financial Services and Markets Act 2000, the content of this report has been approved by Fidelity Investments International, authorised and regulated by the Financial Services Authority.

Annual General Meeting - with this Annual Report you will find an invitation to attend the AGM at 11.30am on 9 December 2004 and it is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan, PEP or ISA, will take this opportunity to meet the Directors and hear a report from the Investment Manager on the progress of your Company. The formal AGM notice can be found on pages 50 to 52.

Price Information - the mid-market price of the ordinary shares is published daily in the Financial Times under the heading "Investment Trusts". The ordinary share price is also published in The Times, The Daily Telegraph and The Independent. You can also obtain current price information by phoning FT Cityline on 0906 843 then 4782 (share price). The Reuters code for Fidelity Special Values is FSVL.

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

Capital Gains Tax - your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of ordinary shares and warrants, acquired at the time of the Company's launch, is 94.95p. All UK individuals under present legislation are permitted to have £8,200 of capital gains in the current tax year: 2004/2005 (£7,900 2003/2004 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and 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 2004.

- 31 August - financial year end
- 27 October - announcement of results
- 9 November - publication of this Annual Report
- 9 December - Annual General Meeting
- 13 December - dividend payment date
- 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 10, 9am to 6pm, seven days a week.

Financial advisers can call free on 0800 41 41 81, 8am to 6pm on any business day.

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

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

Telephone: 0870 162 3100

Details of individual shareholdings and other information can also be obtained from the Registrars' website: www.capitaregistrars.com

Share Plan investors - Fidelity Investment Trust Share Plan, Lloyds TSB Registrars Scotland, The Causeway, Worthing, West Sussex BN99 6DA.

Telephone: 0800 41 41 10

www.fidelity.co.uk

ISA/PEP investors - Fidelity, using the freephone numbers given above, or by writing to: Financial Administration Services Limited, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge Kent TN11 9DZ
www.fidelity.co.uk

General enquiries - should be made to Fidelity Investments International, 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.

Telephone: 01732 361144

Fax: 01737 836892

www.fidelity.co.uk

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA on 9 December 2004 at 11.30am for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 August 2004.
2. To approve a final dividend.
3. To re-elect Mr Alex Hammond-Chambers as a Director.
4. To re-elect Sir Richard Brooke as a Director.
5. To re-elect Mr Douglas Kinloch Anderson as a Director.
6. To re-elect Mr James Laurenson as a Director.
7. To approve the Directors' Remuneration Report for the year ended 31 August 2004.
8. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

Resolutions 9 and 10 will, if approved, authorise the Directors to allot a limited number of the 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 10% of the number of ordinary shares of the Company in issue on 27 October 2004. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

To consider and, if thought fit, to pass the following resolutions which will be proposed, resolution 9 as an ordinary resolution and resolution 10 as a special resolution:

9. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,598,750 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 27 October 2004) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.
10. THAT, subject to the passing of resolution 9 set out above, the Directors be and they are hereby authorised, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority given by the said resolution 9 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
 - a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

- b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £1,598,750 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 27 October 2004); and
- c) to the allotment of equity securities at a price of not less than the 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 11 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.99% of the number of ordinary shares in issue on 27 October 2004. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board and in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increase in net asset value per share.

11. 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 9,590,000;
 - 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 five business days immediate preceding the day on which the share is purchased;
 - d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
 - e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

Resolution 12 is an ordinary resolution, which relates to the continuation of the Company as an investment trust.

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

Resolution 13 is an ordinary resolution which, if approved, will increase the maximum aggregate fees payable to Directors from £75,000 to £150,000 per annum.

13. THAT the aggregate of all fees paid to the Directors (excluding amounts payable under any other provision of the Company's Articles of Association) shall not exceed £150,000 per annum.

By Order of the Board
Fidelity Investments International
Secretary
9 November 2004

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 Registrars, PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
- 4 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 7 December 2004 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 5.30pm on 7 December 2004 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 Shareholders and any proxies or representatives they appoint agree by attending the meeting that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
- 7 No Director has a service contract with the Company.

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

Fidelity is the world's largest fund manager. Source: 2004 FTfm/Mercer league table, based on world wide assets under management as at December 2002. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. The value of investments and the income from them can go down as well as up. Past performance is not a guide to the future. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. The Fidelity ISA is offered and managed by Financial Administration Services Limited. Fidelity Investment Trusts are managed by Fidelity Investments International. Issued by Fidelity Investments International, authorised and regulated by the Financial Services Authority.

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Directory

Board of Directors

Alex Hammond-Chambers (Chairman of the Board)
Sir Richard Brooke, Bt
Simon Haslam
Douglas Kinloch Anderson
James Laurenson (Audit Committee Chairman)

Manager, Secretary and Registered Office

Fidelity Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

Financial Advisers and Stockbrokers

UBS Limited
1 Finsbury Avenue
London
EC2M 2PA

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge
London
SE1 9SY

Bankers and Custodian

JP Morgan Chase Bank (London Branch)
125 London Wall
London
EC2Y 5AJ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Lawyers

Slaughter and May
One Bunhill Row
London
EC1Y 8YY