

Fidelity Investment Services Limited

(Registered no: 2016555)

Annual Report and Accounts For The Year Ended 30 June 2006

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FIDELITY INVESTMENT SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

The directors submit their annual report and financial statements for the year ended 30 June 2006.

Principal activities

The principal activity of the company is the management and distribution of Authorised and Unauthorised Unit Trusts and Open Ended Investment Companies (OEIC).

The company is regulated by the Financial Services Authority (FSA).

Review of business and future developments

Funds under management have grown during the year due to the improving of market conditions worldwide and an increase in investor confidence. This has caused a 28 percent increase in turnover. Turnover is dependant on the value of funds under management.

The gross profit margins have increased due to the sub-license fee reducing from 12 basis points to 8 basis points.

Administrative expenses have increased by 16 percent during the year mainly as a result of the higher level of business activity identified above.

The future stability and growth of funds under management will be dependent on market strength and investor confidence.

The investment in Fidelity Investment Securities Investment Trust Company Limited was disposed of to Fidelity International Limited, the ultimate controlling company. A profit of £17,483 was realised on this sale.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effect of changes in equity market prices, credit risk, and liquidity risk. The company does not use derivative financial instruments and does not apply hedge accounting.

The company is committed to a business strategy which supports the proactive identification and assessment of risk, and uses risk information to enhance informed decision making and develop appropriate mitigation strategies. The board of directors monitor risks associated with the company and work closely with the Risk Management department to identify potential risks and deal with them.

The company has various oversight functions which provide a global and independent perspective to assist senior management with establishing policies, processes and procedures for risk. The primary components of this grouping include a central risk management department, a global compliance group, a global internal audit group and a security network.

Market risk

The company is exposed to various types of market risk. Interest rate risk applies to interest bearing assets in the form of deposits and cash held with Barclays Bank plc. Term deposit balances earn fixed rates of interest, and overnight deposits are subject to the interest rate available on the day. Foreign currency exchange rate risk exists on revenues derived off foreign denominated assets. Equity risk exists as significant components of revenue are driven by the prices of equities and hence asset values of funds under management. This risk is managed by the funds through diversification of holdings in underlying investments and various other mechanisms implemented at a fund level.

Credit risk

The company makes use of credit rating services of all the major credit rating agencies and has access to the research of brokerage firms and independent research companies.

The company holds a £30 million term deposit with HBOS plc. The company holds all other bank and cash deposits with Barclays Bank plc. Barclays Bank plc are AA rated by S&P. The board has approved the use of both HBOS and Lloyds as additional counterparties to reduce risk. Accounts receivable balances are held predominantly with Unit Trust and OEIC funds managed by the company. These are considered low credit risk.

FIDELITY INVESTMENT SERVICES LIMITED

DIRECTORS' REPORT - Continued FOR THE YEAR ENDED 30 JUNE 2006

Liquidity risk

Liquidity of any funds from which management fees are earned is monitored, at an underlying holdings level, on a regular basis.

Working capital balances are monitored closely on an ongoing basis. Further, the company has a letter of support in place from its ultimate parent, Fidelity International Limited, whereby the ultimate parent company may make available funds to an aggregate maximum of £100million, as may be required by the regulated entities of Fidelity Investment Management Limited to enable them to satisfy their financial resource requirements.

Results and dividends

The company's after tax profit before distributions for the financial year is £24,124,000 (2005: £19,205,000).

No interim dividends were paid in the current year (2005: £60,000,000). The directors do not recommend the payment of a final dividend (2005: £nil)

Directors and their interests

The directors of the company during the year ended 30 June 2006, all of whom have been directors for the whole year (unless otherwise stated) are listed below:

T E J Balk - Resigned 15/12/2005
E Boyle
C Coombe - Appointed 29/09/2005
S J Fraser - Resigned 01/09/2005
M Gordon - Appointed 01/09/2005
R Heberden - Resigned 29/09/2005
B Reilly - Appointed 18/01/2006
A J K Steward
B A Stock
R Wane
R C Wastcoat

No director had a beneficial interest in any of the contracts of the group during the year.

No director had any disclosable interest in the shares of the company or any other UK group company during the year.

FIDELITY INVESTMENT SERVICES LIMITED

DIRECTORS' REPORT - Continued FOR THE YEAR ENDED 30 JUNE 2006

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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.

Statement as to disclosure of information to auditors

So far as the directors are aware there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Registered auditors

The directors appointed PricewaterhouseCoopers LLP as auditors to the company on 6 March 2003. The company has passed elective resolutions to dispense with the appointment of auditors annually and the holding of an annual general meeting.

By order of the board



C Coombe
Director
26th October 2006

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

FIDELITY INVESTMENT SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIDELITY INVESTMENT SERVICES LIMITED

We have audited the financial statements of Fidelity Investment Services Limited for the year ended 30 June 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30th June 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26th October 2006

FIDELITY INVESTMENT SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 £'000	2005 £'000
Turnover	2	370,601	289,035
Cost of sales		(262,234)	(197,565)
Gross profit		108,367	91,470
Administrative expenses		(79,055)	(68,354)
Operating profit		29,312	23,116
Profit on disposal of investment in subsidiary undertaking	8	17	-
Net interest receivable and similar charges	4	1,576	1,691
Profit on ordinary activities before taxation	5	30,905	24,807
Taxation on profit on ordinary activities	6	(6,781)	(5,602)
Profit on ordinary activities after taxation		24,124	19,205
Dividends paid	7	-	(60,000)
Retained profit/(loss) for the financial year		24,124	(40,795)
Retained profit brought forward		46,579	87,374
Retained profit carried forward		70,703	46,579

All operations are regarded as continuing.

The company has no recognised gains and losses other than those included in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

FIDELITY INVESTMENT SERVICES LIMITED

BALANCE SHEET

AT 30 JUNE 2006

	<u>Notes</u>	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Fixed assets			
Investments in subsidiary undertakings	8	-	6,221
		-	6,221
Current assets			
Stock of holdings		4,209	1,355
Debtors - amounts falling due:			
- within one year	9	166,509	268,721
Current asset investments	10	30,000	39,680
Cash at bank and in hand		56,535	58,059
		257,253	367,815
Creditors			
- amounts falling due within one year	11	(168,736)	(309,643)
Net current assets		88,517	58,172
Net assets		88,517	64,393
Capital and reserves			
Called up share capital	12	10,100	10,100
Capital contribution	14	7,714	7,714
Profit and loss account	14	70,703	46,579
Total shareholders' funds	13	88,517	64,393
Analysis of shareholders' funds			
Equity		78,517	54,393
Non-equity		10,000	10,000
		88,517	64,393

The financial statements on pages 5 to 12 were approved by the board of directors and were signed on its behalf by

C. T. Coombe

C Coombe
Director
26th October 2006

FIDELITY INVESTMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom.

A summary of significant accounting policies, which have been applied consistently, is set out below:

1.1 Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention.

1.2 Turnover

Turnover, which arises primarily in the United Kingdom and excludes Value Added Tax, comprises:

- i) Net revenues receivable from the sale of units including net distributions received arising from stocks of holdings held in the manager's box.
- ii) Unit trust and OEIC management and administration fees and commissions receivable.

1.3 Cost of sales

Cost of sales comprise:

- i) ongoing commission payable to brokers and rebates payable to clients.
- ii) investment management costs and fees due to other group companies that are directly incurred in the distribution of OEIC's and Unit Trusts.

1.4 Stocks of holdings

Stocks of holdings of units held in Fidelity and other fund providers are restated to market value. Market value is the price at which holdings can be sold, or cancelled, in the normal course of business after allowing for fiscal and sales charges.

1.5 Foreign currencies

Assets and liabilities of the company expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currency are translated into sterling at the rate of exchange ruling on the date of the transaction. Translation differences are included in the profit before taxation.

1.6 Investments

Fixed asset investments are stated at cost less any permanent diminution in value.

Current asset investments are stated at the lower of cost and net realisable value.

1.7 Deferred taxation

Deferred taxation is recognised in respect of all timing differences which 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.

FIDELITY INVESTMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

2 Turnover

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Investment management fees	359,942	280,836
Income from realisation of units held in Fidelity and other fund providers	7,386	5,839
Other income	3,273	2,360
	<u>370,601</u>	<u>289,035</u>

The company accounts for the sale of units in its authorised unit trusts and OEICs in accordance with Application note G of FRS 5. The gross sales of units during the year were £9,001million (2005 : £6,637million).

3 Directors' emoluments

<i>All directors</i>	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Aggregate emoluments	592	615
Company pension contributions to defined contribution schemes	43	43

Retirement benefits are accruing to 8 (2005:9) directors under a defined contribution scheme.

<i>Highest paid director</i>	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Aggregate emoluments	131	175
Company pension contributions to defined contribution schemes	9	6

4 Net interest receivable and similar charges

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Interest receivable on bank deposits	1,584	1,698
Interest payable on corporation taxation	(8)	(7)
	<u>1,576</u>	<u>1,691</u>

FIDELITY INVESTMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

5 Profit on ordinary activities before taxation

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Profit on ordinary activities before taxation is stated after charging:		
Foreign exchange gains	-	33
Sub-licence fee	15,781	17,691
Intra-group expense allocations	130,892	91,770

A number of operating expenses, including staff costs, were initially paid by another UK group company and allocated to Fidelity Investment Services Limited. Auditors' remuneration for audit and non-audit services has been borne by the parent company.

The company does not have any employees (2005: Nil).

6 Taxation

a) The charge for taxation on the profit on ordinary activities is made up as follows:

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Current taxation		
UK corporation tax on profits	7,866	5,055
Adjustment to tax charge in respect of prior periods	(1,085)	547
Taxation on profit on ordinary activities	<u>6,781</u>	<u>5,602</u>

b) The taxation assessed for the period is less than the standard rate of corporation taxation in the UK and the difference is made up as follows:

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Profit on ordinary activities after taxation	<u>30,905</u>	<u>24,807</u>
UK corporation tax on profits at 30% (2005 : 30%)	9,272	7,442
Adjustments:		
Expenses not deductible for tax purposes	(6)	0
Impairment loss on fixed asset investment	0	270
Adjustments to tax charge in prior periods	(1,085)	547
Utilisation of tax losses from other Group Companies	(1,038)	(2,630)
Compensating adjustments	(362)	(27)
Taxation on profit on ordinary activities	<u>6,781</u>	<u>5,602</u>

7 Dividends

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
2005: Interim paid £600 per £1 share to the registered shareholders, Fidelity Investment Management Limited and Financial Administration Services Limited	-	(60,000)

FIDELITY INVESTMENT SERVICES LIMITED NOTES TO THE FINANCIAL STATEMENTS - Continued

8 Investments in subsidiary undertakings

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Investment in subsidiary undertakings at cost brought forward	17,578	17,578
Disposal of investment in subsidiary undertaking	(17,578)	-
Investment in subsidiary undertakings at cost at 30 June	<u>-</u>	<u>17,578</u>
Write down due to impairment of asset brought forward	(11,357)	(10,456)
Write down during the year	-	(901)
Reversal of previous impairment of asset	11,357	-
Write down due to impairment of asset at 30 June	<u>-</u>	<u>(11,357)</u>
Net book value of investments in subsidiary undertakings at 30 June	<u>-</u>	<u>6,221</u>

The investment in Fidelity Investment Securities Investment Trust Company Limited has been disposed of. A profit of £17,483 was realised in the current year. An impairment loss of £900,872 was recognised in the profit and loss account for the prior year.

Investment	Country of incorporation	Proportion of Voting rights	Nature of business
Fidelity Investments Europe Limited	England	50%	Dormant

The subsidiary undertakings are not consolidated in this set of accounts as consolidation takes place in the financial statements of Fidelity Investment Management Limited, an immediate parent undertaking established within the European Economic Area.

The investment in Fidelity Investment Securities Investment Trust Company Limited was disposed of on 30th September 2005.

9 Debtors: amounts falling due within one year

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Accounts receivable	125,860	241,415
Amounts due from Group undertakings	11,747	3,071
Trade debtors	28,902	24,235
	<u>166,509</u>	<u>268,721</u>

Amounts receivable from group undertakings are unsecured, interest free and have no fixed date of repayment.

10 Current asset investments

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Investment in the Fidelity Institutional Cash Fund PLC	-	39,680
Deposit held in HBOS	30,000	-

FIDELITY INVESTMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

11 Creditors: amounts falling due within one year

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Accounts payable	126,234	255,505
Amounts owed to Group undertakings	9,075	30,424
Corporation Tax	6,374	4,844
Amount payable to a fellow subsidiary in respect of tax saved by group relief	1,227	-
VAT payable	1,952	1,392
Trade creditors	23,874	17,478
	<u>168,736</u>	<u>309,643</u>

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

12 Called up share capital

Authorised	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
100,000 Ordinary shares of £1 each	100	100
200,000 Redeemable Preference shares of £100 each	20,000	20,000
	<u>20,100</u>	<u>20,100</u>
Issued, called up and fully paid	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
100,000 Ordinary shares of £1 each	100	100
100,000 Redeemable Preference shares of £100 each	10,000	10,000
	<u>10,100</u>	<u>10,100</u>

The redeemable preference shares have no dividend or voting rights. On winding up, the holders have priority before all other classes of shares to receive repayment of capital. Both the company and the redeemable preference shareholders may, on the giving of not less than 12 months notice in writing, redeem the preference shares.

13 Reconciliation of movements in shareholders' funds

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Profit for the year	24,124	19,205
Dividend paid	-	(60,000)
Opening shareholders' funds	64,393	105,188
Closing shareholders' funds	<u>88,517</u>	<u>64,393</u>

FIDELITY INVESTMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

14 Other reserves

	<u>Capital contribution</u>	<u>Profit and loss account</u>	<u>Capital contribution</u>	<u>Profit and loss account</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 1 July	7,714	46,579	7,714	87,374
Retained profit for the financial year	-	24,124	-	(40,795)
At 30 June	7,714	70,703	7,714	46,579

15 Capital commitments

There were no capital commitments at 30 June 2006 (2005: Nil).

16 Contingent amounts

- The company is a member of a group registration for Value Added Tax and is, with certain members of the Fidelity Investment Management Limited group, jointly and severally liable for the tax payable under this group registration.
- The company, along with certain other Fidelity International Limited group companies, has entered into an arrangement whereby the balance on its bank account is subject to a legal set off agreement, and the Company is jointly and severally liable for any liabilities which may arise under this agreement. As at 30 June 2006 the net bank balance on accounts held within the arrangement was £3,502,170 (2005 net bank balance: £8,036,131).
- The company's ultimate holding company, Fidelity International Limited, has agreed to provide each subsidiary of Fidelity Investment Management Limited which is regulated by the FSA, without recourse to any such subsidiary, such funds, to an aggregate maximum of £100,000,000 as may be required from time to time to enable each such subsidiary to continue to satisfy the financial resources requirements under the FSA regulations.

17 Cash flow statement and related party transactions

The company has taken advantage of the exemption under the terms of FRS 8 from disclosing transactions with entities that are part of the group or investees of the group qualifying as related parties, and of preparing a cash flow statement under the terms of FRS 1 (revised 1996).

Fidelity Investment Services Limited is a wholly owned subsidiary of Fidelity Investment Management Limited.

The immediate controlling party for which consolidated accounts are prepared is Fidelity Investment Management Limited, a company registered in England and Wales. Copies of the immediate controlling party's consolidated financial statements can be obtained from the Secretary, Fidelity Administration Limited, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent, TN11 9DZ.

The ultimate controlling company is Fidelity International Limited, a Bermuda company, which owns 100% of Fidelity Investment Management Limited's issued share capital.