



The McHattie Warrants Alert Fund

Manager's annual report
as at 30th September 2001

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Fund Profile and Investment Objective of the Scheme

Investment Objective

The McHattie Warrants Alert Fund is an authorised UK unit trust. Its objective is to achieve capital growth in the medium to long-term through an internationally diversified portfolio of investment trust warrants, company warrants, covered warrants, and offshore closed end fund warrants, together with investment trust capital shares. The scheme may also invest in the equities of listed companies as and when it is considered to be in the best interests of the Fund. It is anticipated that there may be periods of significant turnover of investments within the Fund. There are no specific restrictions on the investments of the Fund (as to economic sectors or geographical areas) except as provided in the Regulations.

Authorised Status

The McHattie Warrants Alert Fund is an Authorised Unit Trust Scheme established on 24th August 1999 and launched on 22nd October 1999. The Fund is a 'warrants fund' authorised under Section 78 of the Financial Services Act 1986. The currency of the Fund is pounds sterling.

Risk Factors

Unit trusts should be regarded as medium to long term investments and investors should be aware that the value of their units and any income from them can go down as well as up. Warrants may involve a high degree of 'gearing' or 'leverage'. This means that a small movement in the price of the underlying asset may have a disproportionately dramatic effect on the investment, both unfavourable as well as favourable. Moreover, because of the limited life of warrants, they may expire worthless. Changes in rates of exchange may also have an adverse effect on the value or price of an investment in sterling terms.

Net Asset Value/Fund Size

Date	Net Asset Value	Units in Issue	Net Asset Value per Unit
30th September 2000	£3,740,865	3,606,177	103.73p
30th September 2001	£1,659,043	3,994,425	41.53p

Price and Income History

The Fund was launched on 22nd October 1999 at a unit price of 100p. Warrants do not pay dividends, therefore no income is available for distribution at the period end.

Calendar Year	Highest Buying Price	Lowest Selling Price
1999	129.27p	94.28p
2000	130.58p	77.04p
2001 (to 30th September)	97.72p	37.14p

Prices per unit (on last dealing day of period)

Date	Buying	Selling
28th September 2001	45.55p	42.36p

Fund Performance

From 1st October 2000 to 30th September 2001 the buying price of units fell by 59.33%.

Manager's Investment Report

This past year has been a dreadful period for global stockmarkets, worsened by the tragic events in the US on 11th September 2001. The Fund has not been exempt from the severe losses which have resulted.

A year ago the majority of companies operating within the technology, media and telecoms (TMT) sectors were trading on ratings which discounted very high levels of growth and which could not be sustained. These are the sectors which have been hardest hit during the rapid decline in economic activity, with the Nasdaq Composite Index in the US down 70.8% from its high and 59.2% during the past year. The weakness has spread across the board with sectors normally described as defensive also experiencing substantial declines. Broader indices such as the S&P 500 Index in the US and the FTSE All-Share Index in the UK reflect this and are down 29.1% and 24.3% respectively. The geared nature of the Fund's investments has meant the buying price of the units has fallen by 59.3% to 45.55p over the year.

The continued weakness in stockmarkets has caused liquidity problems in UK warrants which have made dealing more difficult. On occasions we have been unable to close positions in certain holdings with market-makers unwilling to deal outside their normal size. This limited our strategy to some degree. During the period we maintained our heavy weightings in investment trust warrants with low premiums and modest levels of gearing. The cash level in the Fund also rose markedly over the year, from 2.24% to 10.22%. This was partly the result of a conscious effort to initiate a more defensive posture during this period of weakness. Our exposure to covered warrants remained limited as high volatility continued to render premium levels unattractive.

At the end of the year to 30th September 2001 the average technical figures for the warrants within the Fund, weighed by the size of the holding within the portfolio, were gearing of 3.41 times, premium of 25.81% and a capital fulcrum point of 7.14%. Falling markets mean that an increasing number of warrants are now trading out-of-the-money, making careful technical evaluation even more essential. The technical characteristics of the portfolio remain attractive, and we are confident that a rally in markets should trigger a sharp recovery in the value of the Fund's units.

UK Investment Trust Warrants (15.70%)

During the year, one of the best performing warrants within the Fund's portfolio has been Fidelity Special Values. The trust's concentration on value investing has stood it in good stead in these weak market conditions. We have continued to add to our holding during the second half of the year, and will continue to look for further opportunities to increase its weighting within the portfolio.

UK smaller companies trust warrants have come under pressure as the values of small capitalisation stocks have been hit by fears of an economic slowdown. Much of the selling appears indiscriminate, which could prove to be an opportunity for the managers of these trusts to snap up undervalued companies. The rapid reduction in interest rates, plus signs that the slowdown in the UK may not be as severe as was first feared, could help trigger a rally in the sector. Our largest holding in this sector is Eaglet Investment Trust warrants. This is by far the most consistent trust in the sector, and manager Peter Webb's approach to investment has proven very successful. Another holding is in Aberforth Smaller Companies Trust warrants. This trust has a value approach to management and has performed relatively well during the year. The same cannot be said for Edinburgh Small Companies Trust warrants, where the trust's growth bias has meant that its holdings have been among some of the worst fallers in the market.

Asia (excluding Japan) Investment Trust Warrants (12.43%)

The Fund's exposure to Asia has risen over the year, from 9.81% to 12.43%. This reflects the relative strength of the sector during this period of global market weakness. We continue to favour the long-dated warrants of Aberdeen Asian Smaller Companies Trust. Its stock-picking approach, and its concentration on businesses with strong domestic sales has meant that it has been able to outperform its benchmark by a considerable margin. Our exposure to the sector remains divided between Aberdeen Asian Smaller Companies, Fleming Asian, and Schroder AsiaPacific.

European Investment Trust Warrants (9.13%)

The proportion of assets in European trust warrants has fallen markedly during the year, from 17.66% to 9.13%. The holding in Merrill Lynch European Trust warrants was sold, and the Fund suffered from a sharp fall in the value of TR European Growth Trust warrants. The European mid-cap sector has been particularly weak during the past six months, and manager Stephen Peak's performance has been uncharacteristically poor when compared to his peers. We expect the trust to recover in a more benign investment environment, which should in turn propel the warrants above current levels.

The weakness in European markets has been exacerbated by the inaction by the European Central Bank (ECB), relative to the rapid monetary easing in the UK and US. The problems of juggling different economies with one monetary tool have meant that interest rates may not have been cut as much as required to stimulate a rapid economic recovery in the drivers of the Euro Zone, such as Germany and France. This could hinder recovery in the EU.

US Investment Trust Warrants (8.63%)

Our only holding related directly to the US stockmarket remains Foreign & Colonial US Smaller Companies Trust warrants. Despite the sale of one-tenth of our holding during the second half of the year, the warrants still represent 8.63% of the Fund's assets, and are the largest holding (excluding cash) within the Fund. This trust has consistently outperformed its benchmark, the Russell 2000 Index, and its conservative approach to investment has lent it some defensive qualities. US small-capitalisation stocks remain attractively valued compared to their large-capitalisation brethren and have historically outperformed during periods of interest rate reductions. We expect to retain this holding on its current attractive valuation.

Emerging Markets Investment Trust Warrants (8.51%)

The improvement in the relative performance of Templeton Emerging Markets Investment Trust we identified in the first half has continued into the second. The trust's manager Dr Mark Mobius raised the cash weighting to a comparatively high level, which has proved a well-timed move. The underlying shares appear excellent value at present, although we are keeping a close eye on the valuation of the warrants which have a high risk profile.

Technology Investment Trust Warrants and Ordinary Shares (7.68%)

The sell-off in TMT stocks has been widely documented over the past year, and as a holder of technology investment trust warrants the Fund has suffered in line with the sector. Our principal holding is in Polar Capital Technology Trust warrants, which account for 4.75% of the Fund's assets. Throughout the past year we have taken advantage of lower prices to add to our holding in these warrants and we are confident that they will perform well once market conditions improve. During the year we have also added the warrants of Herald Investment Trust to the portfolio. Unfortunately the shares and warrants of LeggMason Investors Enterprise have fallen to a mere fraction of their worth at this time last year, and the Fund has

experienced a sharp reduction in the value of its holding. The warrants have less than four months until expiry and so it appears unlikely we will be able to recover the original investment in the short-term. We may decide to exercise the warrants and maintain a small holding in the shares in an attempt to recover our losses in this highly volatile trust.

The problems within the split-capital trust sector have been widely reported in recent weeks, and one of the trusts forced to reconstruct was Framlington NetNet Trust. The Fund holds a small number of the new ordinary shares and will continue to hold them in the portfolio in the hope that a technology rally will enable us to exit at a more attractive level.

Latin American Investment Trust Warrants (6.40%)

The financial crisis in Argentina has simply added to the problems in Latin America, which is closely linked with the US. This has had a negative effect on the performance of Latin American investment trusts over the year. The high level of foreign direct investment (FDI) has continued unabated, however, and this bodes well for the future prosperity of the region. We intend to maintain a reasonable level of exposure to the sector for the long-term through our holdings in F&C Latin American Investment Trust and Deutsche Latin American Trust warrants.

Special Situations (5.41%)

Our holding in the shares of the internet incubator NewMedia SPARK has remained weak during the second half as concerns at the valuations of investments made during the height of the technology boom weigh. We continue to hold the shares, however, as we believe the current price fails to reflect the cash level within the company, which in July was as high as £60m, before even adding the value of its investment portfolio. NewMedia SPARK's management team is regarded within the sector as one of the best and we are happy at present to maintain our holding in the shares, acquired in 2000 through our holding in the warrants of Softtechnet.com.

Japanese Investment Trust Warrants (5.37%)

The arrival of the charismatic new Prime Minister Junichiro Koizumi lifted hopes that the long and painful road to cultural and economic change in Japan may be shortened. The stockmarket has been unable to sustain its early enthusiasm, however, and the global slowdown has forced the Nikkei 225 Index down to levels last seen in December 1983. Economic data has failed to provide any encouragement as the Japanese economy enters its fourth recession in the past decade. We have sold our entire holding in Fidelity Japanese Values warrants, and a large portion of our stake in INVESCO Tokyo Trust warrants. We will monitor developments, but at present many of the warrants in the sector are overvalued.

Venture Capital Investment Trust Warrants (4.55%)

Our best performing investment to date has been the warrants of Pantheon International Participations. Unfortunately these reach their final maturity at the end of October, and it has proven difficult to reduce our substantial holding, except for a number of minor sales. This means that we may elect to exercise the subscription rights and convert the warrants into shares. Should this situation arise, we will reduce our shareholding as conditions allow.

UK Equity Warrants (4.10%)

We took a calculated risk with an investment in the warrants of the biotechnology company Xenova Group. A small amount was invested in the belief the company would do all it could to ensure its share price was sufficiently strong ensure the injection of much-needed capital

at the end of October. Unfortunately, despite some positive releases from the company about a number of its drug projects, weakness in the sector has pushed the shares well below the warrants' exercise price. Unless the shares experience a substantial rally before the end of October, the warrants are likely to expire worthless.

After increasing our holding in Sanctuary Group warrants in the early part of the year, their strong performance in a fragile market environment triggered us to take some profits in June. The remaining warrants are an important part of the Fund's portfolio and they remain technically attractive.

The nightclub operator Luminar has presented us with some useful trading opportunities. In the first half of the year we had disposed of our holding in Luminar shares – acquired following its takeover of Northern Leisure – at a favourable level, but we were keen to build up a stake in the warrants of this highly successful business. During the second half of the year we took advantage of a sell-off to purchase a small holding in the warrants. An opportunity arose to take some profits when the warrants became relatively expensive on a historical basis, and we are now awaiting an opportunity to increase our stake once again.

Covered Warrants (1.73%)

The Fund's exposure to covered warrants was reduced over the year as the high levels of volatility in the market increased premium levels markedly. This meant that both call and put warrants became increasingly unattractive on a technical basis. Our ability to partially hedge the Fund with the use of put warrants was not used during the period as we underestimated the eventual fall in equity markets. With hindsight we may have been able to protect some assets, but using our valuation techniques we found it difficult to justify covered warrant investments of any variety.

Over the past year we have become aware of some new developments which could expand the universe of warrants available to the Fund. A new-style UK covered warrants market has been proposed, and the London Stock Exchange plans to list covered warrants on its extraMARK trading system. Across continental Europe and in other countries such as Australia, covered warrants are extremely popular both with institutions and particularly with retail investors. The new market will allow for the listing of both call and put warrants, and may attract very considerable support from both issuers and investors. The structure will allow for the listing of both physically settled warrants – in which the Fund is allowed to invest – and cash settled issues. The proposed launch date for the new market is around the end of the first quarter of 2002. We view this as an extremely positive development.

Cash (10.22%)

The cash level within the Fund has risen very substantially over the year as we have adopted a more defensive attitude. It has also been a matter of prudence to retain a higher cash reserve in case liquidity constraints required us to exercise some warrant holdings into their underlying shares.

The past year has been a difficult one for investors, and holders in the McHattie Warrants Alert Fund have suffered more than some due to the geared nature of the Fund's holdings. With analysts forecasting at least the beginnings of a recovery in the global economy in 2002, we can expect equities to begin discounting future earnings growth. Other things being equal, this should help lift markets over the coming year, and could build the base for a sustained recovery in equity prices. We are confident that the Fund should outperform in more positive market conditions.

Total Return and Movements in Unitholders' Funds For the Year Ended 30th September 2001

	30th September 2001	30th September 2000
	£	£
Total Return		
Net (losses)/gains on investments (note 2)	(2,370,981)	142,945
Exchange losses	-	(1,890)
Gross income (note 3)	10,484	30,329
Expenses (note 4)	<u>(58,089)</u>	<u>(66,745)</u>
Net deficit	<u>(47,605)</u>	<u>(36,416)</u>
Total return for the year	(2,418,586)	104,639
Distributions (note 5)	-	1,077
Net (decrease)/increase in unitholders' funds from investment activities	<u>(2,418,586)</u>	<u>105,716</u>
Movements in Unitholders' Funds		
Net assets at the start of the year	3,740,865	-
Amounts receivable on creation of units	379,385	4,186,545
Amounts payable on cancellation of units	<u>(41,812)</u>	<u>(549,280)</u>
	337,573	3,637,265
Stamp duty reserve tax (note 1(h))	(809)	(2,116)
Net (decrease)/increase in unitholders' funds from investment activities	(2,418,586)	105,716
Net assets at the end of the year	<u>1,659,043</u>	<u>3,740,865</u>

Portfolio of Investments and Net Current Assets As at 30th September 2001

Holding	Portfolio of Investments	Value £	Total Net Assets	
			30.09.01 %	30.09.00 %
	Equity Warrants			
4,500	Luminar	17,550	1.06	
137,500	Sanctuary Group	49,500	2.99	
50,000	Xenova Group	875	0.05	
		<u>67,925</u>	<u>4.10</u>	1.55
	Investment Trust Warrants and Capital Shares			
352,500	Aberdeen Asian Smaller Companies	102,225	6.16	
20,000	Aberforth Smaller Companies	34,500	2.08	
165,000	Baillie Gifford Shin Nippon 2005	41,663	2.51	
140,000	Baring Emerging Europe	66,056	3.98	
175,000	Deutsche Latin American	18,375	1.11	
25,000	Discovery	5,000	0.30	
28,000	Eaglet	67,340	4.06	
60,000	Edinburgh Small Companies	18,000	1.08	
281,000	F & C Latin American	87,754	5.29	
39,400	Fidelity Special Values	55,357	3.34	
525,000	Fleming Asian	65,625	3.96	
179,000	Foreign & Colonial US Smaller Companies	143,200	8.63	
118,000	Gartmore European 2000/04	96,170	5.80	
34,700	Herald	43,375	2.61	
270,000	Invesco Tokyo	11,138	0.67	
290,000	Jupiter Global Green	59,450	3.58	
49,000	LeggMason Investors Enterprise	5,390	0.32	
10,000	Martin Currie Japan 2005	2,375	0.14	
250,000	Murray Japan Growth & Income	7,500	0.45	
35,000	Pantheon International Participations	77,350	4.66	
225,000	Perpetual Income & Growth	60,750	3.66	
107,200	Polar Capital Technology	78,792	4.75	
450,000	Schroder AsiaPacific	38,350	2.31	
175,000	Schroder Emerging Countries	8,969	0.54	
200,000	Schroder Japan Growth	26,500	1.60	
715,000	Templeton Emerging Markets	66,138	3.99	
175,500	TR European Growth	55,282	3.33	
252,500	TR Property	19,568	1.18	
		<u>1,362,192</u>	<u>82.09</u>	85.09
	Covered Warrants			
6,300	Commerzbank Lafarge 08/02 100.225 Call	26,499	1.60	
15,690	Commerzbank Philips 04/02 47.69 Call	1,406	0.09	
157,000	Exane Vodafone 3/02 278.25 Call	738	0.04	
		<u>28,643</u>	<u>1.73</u>	4.16
	Ordinary Shares			
270,000	NewMedia SPARK	30,375	1.83	
8,000	Framlington NetNet	420	0.03	
		<u>30,795</u>	<u>1.86</u>	6.96
	Total value of investments	1,489,455	89.78	97.76
	Net current assets	169,588	10.22	2.24
	Total value of the Fund as at 30th September 2001	<u>1,659,043</u>	<u>100.00</u>	100.00

The investments have been valued in accordance with note 1(e) and are warrants to subscribe for ordinary shares unless otherwise stated.

Balance Sheet as at 30th September 2001

	30th September 2001 £	30th September 2000 £
Portfolio of investments	1,489,455	3,657,143
Net current assets		
Debtors (note 6)	-	2,589
Bank balances	<u>176,340</u>	<u>223,475</u>
	176,340	226,064
Less:		
Creditors (note 7)	<u>6,752</u>	<u>142,342</u>
Net current assets	169,588	83,722
Net assets	<u>1,659,043</u>	<u>3,740,865</u>
Unitholders' funds	<u>1,659,043</u>	<u>3,740,865</u>

Portfolio Changes for the Year Ended 30th September 2001

	Cost £
Purchases (warrants unless otherwise stated)	
Aberforth Smaller Companies	45,724
Commerzbank Lafarge 08/02 100.225 Call	90,000
Commerzbank Philips 04/02 47.69 Call	100,000
Eaglet	95,221
Fidelity Special Values	57,784
Fleming Asian	25,427
Gartmore European 2000/2004	29,280
Gartmore Irish Growth	61,428
Herald	115,661
Jupiter Global Green	79,843
LeggMason Investors Enterprise	52,880
Luminar	27,609
Martin Currie Japan 2005	4,554
Pantheon International Participations	10,132
Polar Capital Technology	122,354
Sanctuary Group	22,173
Schroder Japan Growth	4,406
Templeton Emerging Markets	7,267
TR European Growth	88,811
Xenova Group	19,643

Total purchases for the period	<u>1,060,197</u>
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	£
Sales (warrants unless otherwise stated)	
Aberforth Smaller Companies	88,367
Baillie Gifford Shin Nippon 2005	13,966
Exane Dresdner Telefonica 06/01 21.18 Call	850
Fidelity Japanese Values	45,356
Fidelity Special Values	14,594
Foreign & Colonial US Smaller Companies	25,143
Gartmore Irish Growth	69,355
Hill Samuel UK Emerging Companies	37,827
Invesco Tokyo	49,450
Investors Capital	38,916
Luminar (ordinary shares)	111,977
Luminar	10,594
Merrill Lynch European	91,739
NewMedia SPARK	10,369
Pantheon International Participations	67,732
Perpetual Income & Growth	10,344
Sanctuary Group	6,656
Scudder Latin America	129,294
TR European Growth	12,344
TR Property	22,533

Total sales for the period	<u>857,406</u>
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Notes to the Financial Statements as at 30th September 2001

1. Accounting Policies

a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice (SORP) for Authorised Unit Trust Schemes issued by the Investment Management Regulatory Organisation Limited (IMRO) in January 1997.

b) Recognition of Income

The Fund mainly invests in warrants and capital shares which do not pay dividends, but where applicable dividends on investments marked ex-dividend up to the accounting date are included in income net of attributable tax credits. Bank and other interest receivable is accrued up to the accounting date.

c) Treatment of management expenses

The Manager's periodic charge is deducted from the Income of the Fund.

d) Distribution policy

The Fund invests in warrants and capital shares which do not pay dividends, and it is therefore unlikely that a surplus of income will arise. In the event of there being a surplus of income this will be allocated in accordance with the Regulations.

e) Basis of valuation of investments

The investments of the Fund have been valued at the closing mid-market prices ruling on the principal markets on which the stocks are quoted on the last business day of the accounting period.

f) Exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the closing middle exchange rates ruling on that date.

g) Taxation/deferred tax

(i) Corporation Tax is provided for at 20% on income, other than UK dividends, after deduction of expenses.

(ii) Deferred tax is accounted for and provided in full on all timing differences.

h) Stamp duty reserve tax

Stamp duty reserve tax suffered on surrender of units has been charged against the capital assets of the Fund.

i) Financial instruments

The Fund's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for liquidations, and debtors for accrued income.

The Fund has little exposure to credit or cash flow risk. There are no net borrowings or unlisted securities and so little exposure to liquidity risk. The main risks arising from financial instruments are (i) foreign currency risk, being the risk that the value of investments will fluctuate as a result of exchange rate movements; (ii) interest rate risk, being the risk that the value of investments will fluctuate as a result of interest rate changes; (iii) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than currency or interest rate movement; and (iv) counterparty risk, being the risk that the counterparty will not deliver the investments for a purchase, or the cash for a sale after the Fund has fulfilled its responsibilities.

	30th September 2001	30th September 2000
	£	£

7. Creditors

Amounts payable on cancellation of units	-	22,285
Purchases awaiting settlement	-	113,609
Accrued expenses	<u>6,752</u>	<u>6,448</u>
	<u>6,752</u>	<u>142,342</u>

8. Related Party Transactions

Amounts payable to the Manager or associates of the Manager are shown in note 4, and details of units created and cancelled by the Manager are shown in the Statement of Movements in Unitholders' Funds.

Amounts payable to the Trustee or associates of the Trustee are shown in note 4.

Any amounts due to or from the Manager or associates of the Manager, and the Trustee or associates of the Trustee are included in either prepaid expenses or accrued expenses (notes 6 and 7 respectively).

9. Contingent Liabilities and Outstanding Commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date.

10. Financial Instruments

The analysis and tables below refer to the narrative disclosure in note 1(i)

	30th September 2001	30th September 2000
	£	£
(i) Currency exposures		
Currency:		
Euros	27,905	71,888
US dollars	<u>153,810</u>	<u>346,919</u>
	181,715	418,807
Pounds sterling	1,477,328	3,322,058
Net assets	<u>1,659,043</u>	<u>3,740,865</u>
(ii) Interest rate risk profile of financial assets and liabilities		
Floating rate assets:		
Pounds sterling	176,340	223,475
Assets on which interest is not paid:		
Euros	27,905	71,888
US dollars	153,810	346,919
Pounds sterling	<u>1,307,740</u>	<u>3,240,925</u>
	1,489,455	3,659,732
Liabilities on which interest is not paid:		
Pounds sterling	(6,752)	(142,342)
Net assets	<u>1,659,043</u>	<u>3,740,865</u>

The floating rate assets and liabilities comprise sterling denominated bank balances that bear interest at rates based on the base rate.

Directors' Statement

This report is signed in accordance with the requirements of the Financial Services (Regulated Schemes) Regulations 1991.

Signed:

A handwritten signature in black ink, consisting of a stylized 'A' followed by 'R' and a long horizontal stroke with a wavy underline.

A R McHattie - Director

A handwritten signature in black ink, featuring a large, circular loop at the beginning, followed by 'B' and 'D', and ending with a long horizontal stroke.

B D Cooper - Director

McHattie Investment Management Limited
Manager of McHattie Warrants Alert Fund
23rd November 2001

Responsibilities of the Manager and the Trustee

The Manager

The Financial Services (Regulated Schemes) Regulations 1991 (as amended) (the “Regulations”) require the Manager to prepare annual financial statements which give a true and fair view of the financial position of the Scheme at the end of each accounting period. In preparing these financial statements, the Manager is required to:

- i) Select suitable accounting policies and apply them consistently;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) prepare the financial statements in accordance with generally accepted accounting principles, the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by the Investment Management Regulatory Organisation (IMRO) in January 1997, the Regulations and the Trust Deed, subject to any material departures disclosed and explained in the financial statements;
- iv) prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Scheme will continue in operation.

The Manager is responsible for keeping such accounting and other records as are necessary to enable the Manager to comply with the Regulations and to demonstrate at any time that such compliance has been achieved.

The Trustee

The Trustee is under a duty to take into custody and to hold the property of the Scheme in trust for the holders of units. Under the Regulations relating to Reports it is the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each annual accounting period and report thereon to unitholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Trustee’s report is included in this Report.

Report of the Trustee to the Unitholders For the period from 1st October 2000 to 30th September 2001

In our opinion, the Manager has managed the Scheme in all material respects during the period covered by this Report in accordance with the limitations imposed on the investment and borrowing powers of the Manager and the Trustee by the Trust Deed, by Scheme Particulars and by all regulations for the time being in force under Section 81 of the Act, and otherwise in accordance with the provisions of the Trust Deed and those regulations.

**The Bank of New York Trust and Depositary Company Limited
Trustee of McHattie Warrants Alert Fund
23rd November 2001**

Independent Auditors' Report to the Unitholders

We have audited the financial statements of the McHattie Warrants Alert Fund for the year ended 30th September 2001, which comprise Total Return, Statement of Movements in Unitholders' Funds, Portfolio Statement, Balance Sheet, Portfolio Changes and the related notes. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and the accounting policies set out herein.

Respective Responsibilities of the Manager and the Auditors

The Manager's responsibilities for preparing the Annual Report and the Financial Statements in accordance with the applicable law and United Kingdom Accounting Standards are set out in the Statement of Manager's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Statement of Recommended Practice for Authorised Unit Trust Schemes issued by IMRO in January, 1997, the Financial Services (Regulated Schemes) Regulations 1991 (as amended) and the Trust Deed. We also report to you if, in our opinion, the Manager's Report is not consistent with the financial statements, if the Manager of the Scheme has not kept proper accounting records or if we have not received all the information and explanations we have for our audit.

We read the other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Manager's Report and the Fund History. We consider the implications for our report if we become aware of any apparent misstatements or any material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we consider 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 irregularities 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 financial position of the Scheme as at 30th September 2001 and of its net deficit of income and net losses on the property of the Scheme for the period then ended, and have been properly prepared in accordance with generally accepted accounting principles, the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997, the Financial Services (Regulated Schemes) Regulations 1991 and the Trust Deed.

AGN Shipleys
Chartered Accountants and Registered Auditors
23rd November 2001

General Information

Valuation of the Fund

The Fund is valued at 11:00am on each business day for the purpose of determining prices at which units in the Fund may be bought or sold. Valuations may be made at other times with the Trustee's approval. No maximum buying/selling price spread is stipulated in the Trust Deed and the Manager's discretion to set buying and selling prices is subject to relevant Regulations under the Financial Services Act 1986.

Buying and Selling of Units

The Manager will accept orders to buy or sell units on normal business days between 9.30am and 5.00pm and transactions will be effected at prices determined by the next valuation. Instructions to buy or sell units may be either in writing to: City Financial Centre, 88 Borough High Street, London SE1 1ST or by telephone on 0845 922 0044. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

Prices

The most recent buying and selling prices of units are published in the *Financial Times* in the FT Managed Funds Service Authorised Investment Funds section, under the heading McHattie Investment Management Limited. The associated cancellation price is available on request from the Manager.

Other Information

The Trust Deed, Scheme Particulars, Financial Statements, Key Features Document and the latest annual and interim reports may be inspected at the offices of the Manager, the Administrator and of the Trustee and copies may be obtained on application to the Manager. The Register of Unitholders can be inspected during normal business hours at the office of the Registrar, City Financial Administrators Limited, City Financial Centre, 88 Borough High Street, London SE1 1ST. Holders who have any complaints about the operation of the Fund, should contact the Manager or the Trustee, or may make their complaint direct to the Investment Ombudsman at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

McHattie Warrants Alert Fund

Top-Up Application Form - with a 2% discount for lump sums

Please note that this form is for use by existing unitholders in the McHattie Warrants Alert Fund only, and is for the purpose of making additional investments. Prospective new investors must not use this form, but instead apply to the address below or telephone 0117 925 8882 for a Prospectus containing the Key Features and an application form.

Step 1 - Investor Details

Name:
Address:
	Postcode:.....
Account Number:

Step 2 - Top-Up Details

Additional Lump Sum Investment	Increased Monthly Investment
Amount £ (min £500)	Revised Direct Debit Amount £

Step 3 - Signature(s) and Date

I/We wish to increase my/our investment in the McHattie Warrants Alert Fund subject to the information and Key Features contained in the current Prospectus.

Signature **Date**

(Joint Holder - in the case of joint holders all participants are required to sign)

Signature **Date**

Step 4 - Send This Form

In the case of a lump sum, please make cheques payable to 'McHattie Investment Management Limited'. Please return this form to McHattie Investment Management Limited, City Financial Centre, 88 Borough High Street, London, SE1 1ST.

Please note. The 2% discount applies only to lump sum investments, using this original form (photocopies will not be accepted), by current unit holders. No other discounts or commissions apply when using this form. Offer valid until 31st March 2002.

MANAGER

McHattie Investment Management Limited
Clifton Heights
Triangle West
Clifton
Bristol BS8 1EJ
(Regulated by IMRO)

Telephone: 0117 925 8882
Fax: 0117 925 4441
e-mail: enquiries@mchattie.co.uk

Directors

Chairman: Andrew Robert McHattie
Chief Executive: Benjamin Douglas Cooper
Director & Company Secretary: John Harvey McHattie

ADMINISTRATION OFFICE, REGISTRARS, AND ORDER DESK

City Financial Administrators Limited
City Financial Centre
88 Borough High Street
London SE1 1ST
(Regulated by IMRO, Affiliated to AUTIF)

Telephone: 020 7556 8800
Dealing: 0845 922 0044
e-mail: enquiries@cityfinancial.co.uk

TRUSTEE

The Bank of New York Trust and Depository Company Limited
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London E14 5AL
(Regulated by IMRO)

AUDITORS

AGN Shipleys
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London WC2H 7DQ

