



# The McHattie Warrants Alert Fund

Manager's annual report  
as at 30th September 2002

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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 243 of the Financial Services and Markets Act 2000. 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
30th September 2002	£1,249,368	4,420,863	28.26p

## 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	97.72p	37.14p
2002 (to 30th September)	64.10p	29.57p

## Prices per unit (on last dealing day of period)

Date	Buying	Selling
30th September 2002	31.80p	29.57p

## Fund Performance

From 1st October 2001 to 30th September 2002 the buying price of units fell by 31%.

## Manager's Investment Report

The sharp rebound in markets on which we reported at the interim stage six months ago was unfortunately not sustained. Instead, equity prices across the globe retreated to levels below those prevailing shortly after the terrorist attacks on the US on September 11<sup>th</sup> 2001. Major blue-chip indices such as the FTSE 100 Index, the Dow Jones Industrial Average, the S&P 500 Index, and the Nasdaq Composite Index, have tumbled to six year lows. Investors are disenchanted with the market and suspicious of any signs of recovery. The geared nature of the McHattie Warrants Alert Fund has meant the value of the Fund's assets have fallen sharply over the second half of the year, leaving them 31% below the level of one year ago.

At present the Fund remains largely invested in warrants on investment trusts. Through these holdings we have maintained exposure to global markets. During the past two years of market weakness we have tried to position the Fund's portfolio to benefit from any change in the downward trend. A combination of this approach to managing the Fund, and a deterioration in liquidity in the corporate warrant market, has meant our activity levels have dropped over the year. We feel the Fund is already very well positioned within its investment remit, to provide it with a good balance of risk and potential reward. All that is now required is a change in the market's direction.

At the end of the year to 30<sup>th</sup> September 2002 the average technical figures for the warrants within the Fund, weighted by the size of the holding within the portfolio, were gearing of 3.13 times, premium of 18.76% and a capital fulcrum point of 7.61%. The technical position of warrants generally has deteriorated over the second half as an increasing number of underlying shares have fallen below some exercise prices, causing the premium levels to rise. However, our process of selecting low premium warrants with modest gearing, combined with a higher cash level, means the overall technical position of the Fund remains attractive. We would expect the assets to benefit markedly from any significant recovery in the market.

### UK Investment Trust Warrants (17.37%)

Our exposure to UK investment trust warrants has risen slightly over the year, and more prominently over the second half. This is despite the expiry and consequent exercise of two UK trust warrants, LeggMason Investors Enterprise and Discovery Trust. The illiquid nature of the market made it difficult for us to sell the warrants prior to expiry and so exercising them was the best way to retain some value. We have retained the underlying shares to add some liquidity to the Fund's portfolio – the shares are easier to sell in the market – and to help control the technical position of the portfolio as a whole.

Our remaining holdings in the sector include the warrants of the highly regarded trusts Perpetual Income & Growth, Fidelity Special Values, Schroder Income & Growth and Aberforth Smaller Companies. All these holdings have performed relatively well, with two actually appreciating in value over the year. Despite the weak market conditions our holding in Aberforth Smaller Companies warrants led the way, rising by 27.2%.

### Cash (16.77%)

Following the dip in the cash level at the mid-way point, the weight of cash within the Fund has risen sharply, to beyond the levels at the same time last year. Whilst the percentage cash level is unusually high, there are several reasons for this. The first is the sharp fall in the value of assets within the Fund. The actual amount of cash held in the Fund is almost exactly the same as at the mid-point of the year, but as the value of the warrants held in the Fund has fallen, so the percentage held in cash has risen. The second reason is that as markets have

dropped, liquidity in the warrants market has dried up. Market makers are increasingly reluctant to deal outside their normal market sizes when volatility is high, meaning we have found it difficult to invest the cash when rare opportunities have arisen. This leads us to the third reason. The sharp falls in equity markets has meant valuations on some warrants which had previously been attractive are no longer so. The portfolio has become increasingly concentrated into the dwindling number of warrants which are good value. The change in the investment rules regarding covered warrants and other derivatives (*see Market Developments below*) has come at an opportune time.

### **Asia (excluding Japan) Investment Trust Warrants (16.56%)**

The Fund's exposure to Asia has risen sharply over the year, from 12.43% to 16.56%. The reason for this is the excellent performance of the Aberdeen Asian Smaller Companies Investment Trust. Over the period the assets of this trust have performed well, which must be pleasing for a management house under so much scrutiny at present. The trust's strong performance increased the value of our holding in the warrants by 39.6% from £102,225 to £142,763 over the year, and its weighting within the Fund rose from 6.16% to 11.43%. It is not our intention to maintain such a high weighting in one trust's warrants, but in current market conditions we believe it is in the best interests of unitholders to run with those warrants which are performing well. Our two other holdings in the sector, JP Morgan Fleming Asian Investment Trust warrants and Schroder AsiaPacific Fund warrants did not perform as well, and the value of these holdings fell during the period.

### **Emerging Markets Investment Trust Warrants (9.79%)**

Our weighting in emerging markets investment trust warrants has increased during the year, due to one holding alone, Baring Emerging Europe Trust. Despite selling 35% of our holding in the trust's warrants during the year, for a sizeable gain, the value of our remaining holding is still 37% higher than our holding in the warrants at the same time last year. The performance of this excellent trust has been first-rate, and it is a source of regret for us that the trust's board has been forced by Laxey Partners to instigate wind-up procedures, with a cash exit for warrant holders. The trust has traded on a modest discount, but we believe there are far more deserving cases for reconstruction in the investment trust sector than Baring Emerging Europe.

### **UK Equity Warrants (7.55%)**

During the year we took the opportunity to increase our holding in the warrants of Luminar. The bars to nightclubs business has continued to perform extremely well, and we believe the shares and the warrants remain undervalued at current levels. During the period the company successfully met a requirement of the warrant terms to grow pre-tax earnings per share by over 20% per annum for three successive financial years commencing on 1<sup>st</sup> March 1999. Had the company failed to meet this target, the warrants would have expired worthless. Our purchase of Sanctuary Group warrants has not been so impressive. Despite the underlying business performing very well, the shares of Sanctuary Group have been overwhelmed by the problems which other businesses in the music industry, such as EMI, are experiencing. The fall in the shares, to a level at which we feel they offer excellent value, has led to a marked decline in the value of the warrants. We are currently assessing our holding in Sanctuary as the warrants expire at the end of January 2003.

### **US Investment Trust Warrants (7.03%)**

Despite the weakness in US markets over the year, our only exposure to the region has performed relatively well. During the period we sold 16% of the Fund's Foreign & Colonial

US Smaller Companies Trust warrants to remain within investment rules, but the remainder still accounts for 7.03% of the portfolio. Unfortunately, these warrants expire at the end of November and will deprive us of our only access to the US via the investment trust warrants market.

### **Technology Investment Trust Warrants (6.71%)**

The sector which has experienced the worst of the market downturn is technology. With the Nasdaq Composite Index down 77% since its peak in March 2000, and at levels last seen in April 1997, it is not surprising to see the sector weighting in the Fund down. On a number of occasions during the year we took the opportunity to increase our holding in Polar Capital Technology Trust warrants, but the timing was misjudged. Both these and our holding in Herald Investment Trust warrants remain good technical value and so once a bounce in the sector occurs, they should appreciate relatively quickly.

### **Latin American Investment Trust Warrants (6.23%)**

Latin America has been relatively sickly, with the problems in Argentina compounded by election uncertainty in Brazil and the general economic turmoil in the US. The weakness in the region has impacted on our holdings in the warrants of Deutsche Latin America Trust and Foreign & Colonial Latin American Trust, and our exposure to the region has fallen. Since the year end the election uncertainty in Brazil has been resolved, with the election of the left-wing candidate, and this, combined with signs of a global economic recovery, could signal a return to investment in the region.

### **European Investment Trust Warrants (6.06%)**

Amongst the hardest hit warrant sectors over the year has been European investment trust warrants. The sharp decline in continental bourses has meant the assets of both TR European Growth Trust and Gartmore European Trust have declined sharply. The slump in European smaller companies has impacted particularly on TR European Growth Trust to such an extent, it would now appear its warrants may expire worthless. We managed to sell a small portion of our holding, but liquidity restraints prevented a larger sale. We must now hope for an improvement in European markets over the coming year to give us any chance of recovering value in this holding. Gartmore European is poised for any recovery in the sector, and any signs of such a movement should propel these volatile warrants higher.

### **Ordinary Shares (5.78%)**

Our holdings of ordinary shares have risen due to one main factor - illiquidity. The sharp fall in equity markets during the period made it difficult for us to dispose of large quantities of warrants. This meant that exercising the warrants of Discovery Trust and LeggMason Investors Enterprise proved to be the only option for us as the warrants approached their final expiry date. The shares of these two investment trusts join NewMedia Spark in our holdings of ordinary shares. The NewMedia Spark shares were acquired in June 2000 as part of the takeover deal of Softtechnet.com, in which the Fund had a holding of warrants. We expect to receive full details of a potential cash bid for NewMedia Spark in the near future.

### **Japanese Investment Trust Warrants (0.15%)**

Our exposure to Japan has been cut almost to zero. In our opinion the region offers little value in the medium-term. During the year we sold our entire holding in Schroder Japan Growth Fund warrants and a large portion of our remaining holding in INVESCO Tokyo Trust warrants. The government continues in its attempts to stimulate the fragile economy with

draft economic stimulus packages which promise much, but opposing interests continually water them down to render them ineffectual. The Japanese economy requires substantial restructuring before it can make headway, and we cannot see this occurring any time soon.

### **Covered Warrants (0.00%)**

The Fund's exposure to physically-settled covered warrants was reduced to zero during the year as volatility levels remained very high. This meant that the levels of premium demanded by the issuing banks for covered warrants made both calls and puts unattractive on a technical basis. We had also hoped for more progress on the introduction of covered warrants to the London market during the year, and for the acceptance of cash-settled covered warrants by the Financial Services Authority (FSA) for use within warrant funds. There were a number of frustrating delays which have only now been overcome.

### **Market Developments – Post Year End**

As unit holders may realise, the Fund has been hampered by the FSA's interpretation that cash-settled covered warrants have been technically known as 'contracts for difference' rather than warrants. This has meant the Fund has been unable to fulfil its full potential by investing in the thousands of covered warrants currently trading on European stockmarkets, despite the fact that individual investors can do so. Following the launch of the listed covered warrants market in the UK at the end of October, the FSA has now adopted new European collective investment rules introducing a new breed of funds – mixed funds – which can invest in a wide range of instruments, including derivatives such as covered warrants.

This development means the new type of fund will be able to invest in both call and put cash-settled covered warrants without restrictions beyond those relating to investing in normal shares and physically settled corporate warrants. At present your Fund is designated as a warrant fund, which means it must adhere to certain investment restrictions, but it is our intention to alter the Fund's category to that of a 'mixed fund' at the earliest opportunity. This will enable us to fulfil our investment objective of investing in the London listed covered warrants market in addition to the company and investment trust warrants in which we already invest.

Most collective investment funds are required to alter their category to a mixed fund within the next five years, but it is possible we will also need to change the objective of the Fund to enable us to invest in covered warrants, which are defined as a class of securitised derivative by the FSA. This requires your permission. In due course we will be writing to all unit holders with a more detailed explanation of our proposal to alter the objectives of the Fund. You may then be asked to vote on the change, either by proxy or at a unitholder meeting to be held at a date in the near future.

It is our opinion that a change in the Fund's objective to enable it to invest in the new London covered warrants market will provide the necessary flexibility to maximise the returns on the portfolio, in both rising and falling markets.

**McHattie Investment Management Limited**  
**Manager**  
**12th November 2002**

## Total Return and Movements in Unitholders' Funds for the Year Ended 30th September 2002

	30th September 2002 £	30th September 2001 £
<b>Total Return</b>		
Net losses on investments (note 2)	(572,472)	(2,370,981)
Gross income (note 3)	7,487	10,484
Expenses (note 4)	<u>(46,836)</u>	<u>(58,089)</u>
Net deficit	<u>(39,349)</u>	<u>(47,605)</u>
<b>Total return for the year</b>	(611,821)	(2,418,586)
Distributions	-	-
<b>Net decrease in unitholders' funds from investment activities</b>	<u>(611,821)</u>	<u>(2,418,586)</u>
<b>Movements in Unitholders' Funds</b>		
<b>Net assets at the start of the year</b>	1,659,043	3,740,865
Amounts receivable on creation of units	211,024	379,385
Amounts payable on cancellation of units	<u>(8,612)</u>	<u>(41,812)</u>
	202,412	337,573
Stamp duty reserve tax (note 1(h))	(266)	(809)
Net decrease in unitholders' funds from investment activities	(611,821)	(2,418,586)
<b>Net assets at the end of the year</b>	<u>1,249,368</u>	<u>1,659,043</u>

## Portfolio of Investments and Net Current Assets as at 30th September 2002

Holding	Portfolio of Investments	Value £	Total Net Assets	
			30.09.02 %	30.09.01 %
	<b>Equity Warrants</b>			
24,500	Luminar	72,275	5.79	
187,500	Sanctuary Group	22,031	1.76	
		<u>94,306</u>	<u>7.55</u>	4.10
	<b>Investment Trust Warrants and Capital Shares</b>			
352,500	Aberdeen Asian Smaller Companies	142,763	11.43	
20,000	Aberforth Smaller Companies	43,900	3.51	
90,000	Baring Emerging Europe	90,966	7.28	
175,000	Deutsche Latin American	15,750	1.26	
28,000	Eaglet	23,800	1.91	
281,000	F&C Latin American	62,089	4.97	
39,400	Fidelity Special Values	46,492	3.72	
605,000	JP Morgan Fleming Asian	39,325	3.15	
150,000	Foreign & Colonial US Smaller Companies	87,750	7.03	
118,000	Gartmore European	40,710	3.26	
34,700	Herald	15,615	1.25	
20,000	Invesco Tokyo	125	0.01	
290,000	Jupiter Global Green	31,900	2.55	
40,000	Legal & General UK Select	8,400	0.67	
10,000	Martin Currie Japan 2005	1,200	0.10	
200,000	Merrill Lynch European	32,000	2.56	
250,000	Murray Japan Growth & Income	513	0.04	
225,000	Perpetual Income & Growth	72,000	5.76	
202,200	Polar Capital Technology	36,396	2.91	
450,000	Schroder AsiaPacific	24,750	1.98	
175,000	Schroder Emerging Countries	6,344	0.51	
65,000	Schroder Income Growth	22,425	1.80	
715,000	Templeton Emerging Markets	25,025	2.00	
150,500	TR European Growth	3,009	0.24	
		<u>873,247</u>	<u>69.90</u>	82.09
	<b>Covered Warrants</b>	-	-	1.73
	<b>Ordinary Shares</b>			
25,000	Discovery Trust	18,125	1.45	
49,000	LeggMason Investors Enterprise	29,890	2.39	
270,000	NewMedia SPARK	24,300	1.94	
		<u>72,315</u>	<u>5.78</u>	1.86
	Total value of investments	1,039,868	83.23	89.78
	Net current assets	209,500	16.77	10.22
	Total value of the Fund as at 30th September 2002	<u>1,249,368</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 2002

	30th September 2002 £	30th September 2001 £
<b>Portfolio of investments</b>	1,039,868	1,489,455
<b>Net current assets</b>		
Bank balances	216,091	176,340
Less: Creditors (note 5)	<u>6,591</u>	<u>6,752</u>
<b>Net current assets</b>	209,500	169,588
<b>Net assets</b>	<u>1,249,368</u>	<u>1,659,043</u>
<b>Unitholders' funds</b>	<u>1,249,368</u>	<u>1,659,043</u>

## Portfolio Changes for the Year Ended 30th September 2002

	<b>Cost £</b>
<b>Purchases (warrants unless otherwise stated)</b>	
Discovery Trust (ordinary shares - exercise of warrants)	25,000
JP Morgan Fleming Asian	13,695
Legal & General UK Select	20,952
LeggMason Investors Enterprise (ordinary shares - exercise of warrants)	66,150
Luminar	77,250
Merrill Lynch European	92,905
Polar Capital Technology	45,846
Sanctuary Group	19,974
Schroder Income Growth	29,522
Schroder UK Growth	11,338
	<hr/>
Total purchases for the period	402,632
	<hr/>
<b>Sales (warrants unless otherwise stated)</b>	
	<b>£</b>
Baillie Gifford Shin Nippon 2005	32,104
Baring Emerging Europe	50,250
Commerzbank Lafarge 08/02 100.225 Call	480
Edinburgh Small Companies	12,338
Exane Vodafone 03/02 278.25 Call	1,283
Foreign & Colonial US Smaller Companies	36,325
Framlington NetNet (ordinary shares)	640
Invesco Tokyo	5,594
Pantheon International Participations	77,888
Schroder Japan Growth	24,685
TR European Growth	1,594
TR Property	37,163
	<hr/>
Total sales for the period	280,344
	<hr/>

# Notes to the Financial Statements as at 30th September 2002

## 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 in January 1997 and the Financial Services Authority's Collective Investment Schemes Sourcebook published in November 2001.

### 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 Income.

### d) Distribution policy

The Fund mainly 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 (SDRT) 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 movements; 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.



## 7. Contingent Liabilities and Outstanding Commitments

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

## 8. Financial Instruments

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

	30th September 2002	30th September 2001
	£	£
(i) Currency exposures		
Currency:		
Euros	-	27,905
US dollars	<u>153,055</u>	<u>153,810</u>
	153,055	181,715
Pounds sterling	1,096,313	1,477,328
Net assets	<u>1,249,368</u>	<u>1,659,043</u>
(ii) Interest rate risk profile of financial assets and liabilities		
Floating rate assets:		
Pounds sterling	216,091	176,340
Assets on which interest is not paid:		
Euros	-	27,905
US dollars	153,055	153,810
Pounds sterling	<u>886,813</u>	<u>1,307,740</u>
	1,039,868	1,489,455
Liabilities on which interest is not paid:		
Pounds sterling	(6,591)	(6,752)
Net assets	<u>1,249,368</u>	<u>1,659,043</u>

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

There are no material amounts of non-interest bearing financial assets and liabilities other than equities, which do not have maturity dates.

## Directors' Statement

This report is signed in accordance with the requirements of the Financial Services Authority's Collective Investment Schemes Sourcebook.

Signed:

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

A R McHattie - Director

A handwritten signature in black ink, featuring a large, circular initial 'B' followed by 'D' and a long horizontal stroke.

B D Cooper - Director

**McHattie Investment Management Limited**  
**Manager of McHattie Warrants Alert Fund**  
**18th November 2002**

## Responsibilities of the Manager and the Trustee

### The Manager

The Financial Services Authority's Collective Investment Schemes Sourcebook ("the CIS Sourcebook") requires the Manager to ensure that the financial statements for each accounting period give a true and fair view of the financial affairs of the Scheme and of its income/ expenditure for the period.

In preparing these financial statements, the Manager is required to:

- i) comply with the Prospectus, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- ii) select suitable accounting policies and apply them consistently;
- iii) make judgements and estimates that are reasonable and prudent;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is required to keep proper accounting records and to manage the Scheme in accordance with the CIS sourcebook and the Prospectus. The Manager is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### The Trustee

The Trustee is under a duty to take into its custody or under its control all of the property of the Scheme and to hold it in trust for the holders of units. Under the rules in the CIS Sourcebook relating to Reports it is also the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each accounting period and to report thereon to unitholders in a report which shall contain the matters prescribed by the rules. A copy of the Trustee's report is set out below.

## **Report of the Trustee to the Unitholders for the period from 1st October 2001 to 30th September 2002**

In our opinion, the Manager has managed the Scheme in all material respects during the period covered by this Report in accordance with the investment and borrowing powers and the restrictions applicable to the scheme and otherwise in accordance with the provisions of the Trust Deed and the rules in the CIS Sourcebook, save for one investment in excess of the 10% limit thereby breaching the CIS rule 5.4.3. The breach was inadvertent due to market conditions and is presently being addressed by the Manager.

**The Bank of New York Trust and Depository Company Limited  
Trustee of McHattie Warrants Alert Fund  
18th November 2002**

# Independent Auditors' Report to the Unitholders

We have audited the financial statements of the McHattie Warrants Alert Fund for the year ended 30th September 2002, 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 the FSA in January 1997, the Collective Investment Schemes Sourcebook 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 require 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 net asset value per unit and comparable tables. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of Audit 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 2002 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 the FSA in January 1997, the Collective Investment Schemes Sourcebook and the Trust Deed.

**AGN Shipleys  
Chartered Accountants and Registered Auditors  
18th November 2002**

## 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 and Markets Act 2000.

### 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: McHattie Investment Management Limited, 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 by unitholders during normal business hours at the office of the Registrar, Capita Financial Administrators Limited, 88 Borough High Street, London SE1 1ST. Unitholders who have any complaints about the operation of the Fund, should contact the Manager or the Trustee in the first instance. In the event that a unitholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service 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, 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 2003.

## MANAGER

McHattie Investment Management Limited  
Clifton Heights  
Triangle West  
Clifton  
Bristol BS8 1EJ  
(Authorised by the FSA)

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

Capita Financial Administrators Limited  
88 Borough High Street  
London SE1 1ST  
(Authorised by the FSA)

Telephone: 020 7556 8800  
Dealing: 0845 922 0044  
e-mail: [enquiries@capitafinancial.co.uk](mailto:enquiries@capitafinancial.co.uk)

## TRUSTEE

The Bank of New York Trust and Depository Company Limited  
One Canada Square  
London E14 5AL  
(Authorised by the FSA)

## AUDITORS

AGN Shipleys  
Chartered Accountants  
10 Orange Street  
Haymarket  
London WC2H 7DQ

