



# The McHattie Warrants Alert Fund

**Manager's annual report  
as at 30th September 2003**

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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
30th September 2003	£2,186,272	5,458,263	40.05p

## 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	64.10p	27.56p
2003 (to 30th September)	47.77p	24.97p

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

Date	Buying	Selling
30th September 2003	43.88p	40.81p

## Fund Performance

From 1st October 2002 to 30th September 2003 the buying price of units increased by 40.42%.

## Manager's Investment Report

We are pleased to have some better news to report. The financial year ending 30<sup>th</sup> September 2003 was one of two distinct halves for most investors in equities, the Fund included. During the first half the FTSE 100 Index, the Dow Jones Index and the Nasdaq Composite Index all recorded their lowest values for over six years, and the Fund recorded its lowest price since its launch in October 1999. The second half has produced a strong rebound in the Fund's fortunes, although we have a long way to go before we recapture the issue price. Over the full year the offer price of the units has risen by 40.42%, and is up over 60% from its mid-March low.

Our positioning of the Fund has enabled us to take advantage of the recovery in equity markets, while maintaining a relatively modest level of risk within the portfolio through a mix of good value warrants, cash management, and increased exposure to the ordinary shares of investment trusts. The core of the portfolio remains investment trust warrants, and this should provide us with the ability to outperform equity markets during the current uptrend. Recent regulatory developments should also enable us to take advantage of London-listed covered warrants in the near future.

At the end of the period to 30<sup>th</sup> September the average technical figures for the warrants within the Fund, weighted by the size of the holding within the portfolio, were gearing of 2.27 times, premium of 5.42% and a capital fulcrum point of 2.72%. Our focus on high quality warrants with modest premiums has helped manage the level of risk while maintaining the average weighted gearing at an attractive level.

### Ordinary Shares (22.03%)

The proportion of the Fund invested in ordinary shares has risen significantly during the year. During the first six months of the Fund's financial year several warrants in the portfolio reached their final maturity dates. On three occasions it was preferable to exercise the warrants rather than sell them prior to expiry. The ordinary shares of Aberforth Smaller Companies Trust, Eaglet Investment Trust, and Sanctuary Group joined our holdings in Discovery Trust, Schroder UK Mid and Small Cap Investment Trust (formerly LeggMason Investors Enterprise), and NewMedia Spark.

During the second half we were frustrated in our attempts to invest cash into the corporate warrants market, and took the decision to buy ordinary shares of investment trusts with modest gearing (borrowings) as an interim measure. These shares should have the capability to outperform. During the period the Fund gained exposure to markets such as Japan and North America, which are poorly served by the corporate warrants market, with the addition of ordinary shares in Fleming Japanese Investment Trust, JPMorgan Fleming American Investment Trust, and Law Debenture Trust.

### Cash (19.49%)

After reaching a level of 25.61% at the interim stage, we reduced the cash level within the Fund during the second half, to just below 14% in mid-September, before a sizeable new investment in the Fund just days before the Fund's year-end pushed the cash level back up to 19.49%.

The proportion of cash in the Fund had risen to unusually high levels during the first half for three main reasons. First, the amount of cash held increased by almost 50% in absolute terms, and was accentuated in percentage terms by a fall in the value of the Fund's investments. Second, the sharp fall in equity markets caused a general deterioration in the value of the corporate warrants sector, making it temporarily less attractive. And third, a reduction in liquidity made it difficult to invest in investment trust warrants when opportunities did arise.

The improvement in equity markets during the second half helped relieve some of the squeeze on liquidity, but during the first half a number of good quality warrants had reached their maturity dates, leaving us with a smaller field from which to choose. The continued delay in the Inland Revenue's adoption of the new type of mixed fund (*see Market Developments below*) for its ISA rules also thwarted our wish to invest the Fund's excess capital in the highly liquid covered warrants market, which was launched in October last year. Our decision to broaden our view to encompass the ordinary shares of geared investment trusts helped to reduce the cash level, and improved the overall performance of the Fund during the interim period.

### **Asia (excluding Japan) Investment Trust Warrants (18.22%)**

The strong performance of Asian stock markets and the addition of Scottish Oriental Smaller Companies Trust warrants to the Fund's portfolio have lifted the Fund's exposure to the region. Aberdeen Asian Smaller Companies Investment Trust remains the Fund's single largest holding within the portfolio, despite the sale of a portion of the investment to avoid an extended period beyond the Financial Services Authority's 10% limit for individual holdings. Asia remains one of our favoured geographic regions and we intend to maintain a sizeable exposure to the area.

### **UK Investment Trust Warrants (13.20%)**

Our exposure to UK investment trust warrants has diminished over the year. The warrants of Aberforth Smaller Companies Trust and Eaglet Investment Trust both expired during the first half, removing two of the best known and best performing holdings within the portfolio. The size of our holdings and the lack of liquidity in the warrants market meant we exercised the warrants of both these trusts and continue to hold the resulting ordinary shares (*see Ordinary Shares above*) as testament to their quality.

During the second half we took advantage of the rising markets and increased our holding in Perpetual Income & Growth Investment Trust warrants. These warrants epitomise our approach to warrant selection. The warrants have little or no premium, and offer modest gearing on the shares of an investment trust expected to do well in a rising UK market. The same can be said for the Fund's other UK investment trust warrant holdings, Fidelity Special Values warrants and Schroder Income Growth Fund warrants.

### **Latin American Investment Trust Warrants (8.86%)**

Following political and economic upheaval in Brazil and Argentina, Latin American markets have bounced back strongly. We took advantage of the low valuations in the first half of the year and added to the Fund's holding of F&C Latin American Investment Trust warrants.

They have subsequently performed well over the second half of the year, lifting the Fund's overall exposure to the sector. The F&C Latin American Investment Trust warrants remain excellent technical value, and we remain confident about the future prospects for the region. Deutsche Latin American Companies Trust warrants have also risen by 75% over the same period.

### **Technology Investment Trust Warrants (7.31%)**

The technology sector was one of the hardest hit during the bear market, and one of the best performing sectors since markets bounced in March. With prices so low during the first half we took the opportunity to snap up 80,000 Herald Investment Trust warrants at just 38p when they were offered to us. The trust was trading at an uncharacteristically high discount to its net assets and we were confident the sector would experience a bounce in the near future. Their strong performance helped lift the value of the Fund, and it was with a touch of regret that we took profits on the holding at 70p as the warrants approached their final expiry date.

We subsequently used some of the proceeds to increase the Fund's holding in its other major technology holding, Polar Capital Technology Trust warrants. These warrants are up 137.5% since the interim stage and 216.7% since the end of the Fund's last financial year. They now account for over 6.5% of the Fund's portfolio, compared to 4.01% at the interim stage and 2.9% at the end of last year. The warrants remain excellent technical value, albeit the gearing has become a little more modest as they have appreciated in value. We intend to maintain the holding during the current strong market conditions.

### **European Investment Trust Warrants (5.68%)**

The Fund has a lower weighting in Europe due to the poor relative performance of European bourses, and the effect on the warrants of Gartmore European Investment Trust and Merrill Lynch European Investment Trust. During the second half we took advantage of an opportunity to sell our holding in TR European Growth Trust warrants which were closing in on their final maturity date and in danger of expiring worthless.

### **Emerging Markets Investment Trust Warrants (4.05%)**

Our exposure to the emerging markets trust sector has fallen over the year as some of our holdings have been realised. Baring Emerging Europe Trust was reorganised, and Schroder Emerging Countries Fund wound up to extract some extra value. Baring Emerging warrants accounted for over 9% of the portfolio at the end of September 2002, but we were forced out of the warrants and into cash as the trust was wound up. Our remaining holding, Templeton Emerging Markets Investment Trust warrants, are highly geared and have performed extremely well, rising by more than 300% since the interim results six months ago. They now account for the Fund's entire exposure to the sector, rising from just 1.77% of the portfolio at the interim stage.

### **UK Equity Warrants (1.09%)**

Following the expiry of Sanctuary Group warrants in January, our one holding in UK equity warrants is in the pubs and clubs operator Luminar. It has been a difficult time for the company, and this has been reflected in the value of the warrants. Luminar's management

has a good track record, though, and we remain hopeful that the factors which held the business back during this year should be overcome and a return to earnings growth should ensue.

### **Japanese Investment Trust Warrants (0.07%)**

The Fund's exposure to Japanese investment trust warrants remains insignificant, despite improving prospects in the region. The warrants available in the sector offer little value. We have instead chosen to invest in the ordinary shares of Fleming Japanese Investment Trust until we are able to gain exposure via the covered warrants market.

### **Market Developments**

We are pleased to reveal that after months of frustrating silence the Inland Revenue has acted to add the new class of collective investment fund, the 'mixed' fund, to its list of eligible investments for inclusion in an ISA. The announcement from the Treasury, after the close of the financial period for the Fund, is due to come into force while this report is on the printing press.

Unitholders may recall that the FSA adopted the new European collective investment scheme rules late last year. We then applied to the FSA in the first quarter of this year to allow us to seek unitholders' permission to convert the McHattie Warrants Alert Fund to a 'mixed fund' and to alter its investment policy to include securitised derivatives – the FSA's term for a range of retail derivative products which include covered warrants. Permission from the FSA was subsequently granted.

Unfortunately, the failure by the Inland Revenue to add mixed funds to its list of ISA eligible investments, which are specific about the types of fund eligible for inclusion, placed us, and the entire investment management industry, into a state of limbo for several months.

Most collective investment funds are required to alter their category to a mixed fund in due course, and can do so without the permission of unitholders. However, as we also intend to change the investment policy of the Fund to enable us to invest in covered warrants, we will require the permission of unitholders to do so. Now the Inland Revenue has amended its ISA rules we are able to proceed, and we will be writing to all unitholders in the near future with a more detailed explanation of our proposal to amend the investment policy of the Fund. You may then be asked to vote on the change, either by proxy or at a unitholder meeting.

It is our opinion that a change in the Fund's objective to enable it to invest in London-listed covered warrants will provide the necessary flexibility to maximise the returns on the portfolio, in both rising and falling markets. This prospect allows us to look forward with renewed confidence.

**McHattie Investment Management Limited**  
**Manager**  
**21<sup>st</sup> November 2003**

## Total Return and Movements in Unitholders' Funds for the Year Ended 30th September 2003

	30th September 2003 £	30th September 2002 £
<b>Total Return</b>		
Net gains/(losses) on investments (note 2)	581,311	(572,472)
Gross income (note 3)	15,216	7,487
Expenses (note 4)	<u>(39,468)</u>	<u>(46,836)</u>
Net deficit before taxation	(24,252)	(39,349)
Taxation (note 5)	<u>-</u>	<u>-</u>
Net deficit after taxation	<u>(24,252)</u>	<u>(39,349)</u>
<b>Total return for the year</b>	557,059	(611,821)
Distributions	-	-
<b>Net increase/(decrease) in unitholders' funds from investment activities</b>	<u>557,059</u>	<u>(611,821)</u>
<b>Movements in Unitholders' Funds</b>		
<b>Net assets at the start of the year</b>	1,249,368	1,659,043
Amounts receivable on creation of units	380,177	211,024
Amounts payable on cancellation of units	<u>-</u>	<u>(8,612)</u>
	380,177	202,412
Stamp duty reserve tax (note 1(h))	(332)	(266)
Net increase/(decrease) in unitholders' funds from investment activities	557,059	(611,821)
<b>Net assets at the end of the year</b>	<u>2,186,272</u>	<u>1,249,368</u>

## Portfolio of Investments and Net Current Assets as at 30th September 2003

Holding	Portfolio of Investments	Value £	Total Net Assets	
			30.09.03 %	30.09.02 %
	<b>Equity Warrants</b>			
24,500	Luminar	23,888	1.09	7.55
	<b>Investment Trust Warrants and Capital Shares</b>			
270,000	Aberdeen Asian Smaller Companies	199,125	9.10	
175,000	Deutsche Latin American Companies	21,438	0.98	
331,000	F&C Latin American	172,249	7.88	
39,400	Fidelity Special Values	75,254	3.44	
148,000	Gartmore European	62,900	2.88	
605,000	JPMorgan Fleming Asian	55,964	2.56	
290,000	Jupiter Global Green	15,950	0.73	
10,000	Martin Currie Japan	1,425	0.07	
250,000	Merrill Lynch European	61,250	2.80	
360,000	Perpetual Income & Growth	144,000	6.59	
13,513	Perpetual Japanese	26	0.00	
252,200	Polar Capital Technology	143,754	6.58	
450,000	Schroder Asia Pacific	41,624	1.90	
130,000	Schroder Income Growth	69,225	3.17	
150,000	Scottish Oriental Smaller Companies	102,000	4.66	
715,000	Templeton Emerging Markets	88,481	4.05	
		<u>1,254,665</u>	<u>57.39</u>	69.90
	<b>Ordinary Shares</b>			
20,000	Aberforth Smaller Companies	78,000	3.57	
25,000	Discovery Trust	29,125	1.33	
28,000	Eaglet	73,220	3.34	
33,000	Fleming Japanese	62,040	2.84	
7,000	JPMorgan Fleming American	36,399	1.66	
17,000	Law Debenture	36,210	1.66	
270,000	NewMedia SPARK	24,300	1.11	
187,500	Sanctuary Group	90,469	4.14	
49,000	Schroder UK Mid and Small Cap	51,940	2.38	
		<u>481,703</u>	<u>22.03</u>	5.78
	Total value of investments	1,760,256	80.51	83.23
	Net current assets	426,016	19.49	16.77
	Total value of the Fund as at 30th September 2003	<u>2,186,272</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 2003

	30th September 2003 £	30th September 2002 £
<b>Portfolio of investments</b>	1,760,256	1,039,868
<b>Net current assets</b>		
Debtors (note 6)	2,055	-
Bank balances	<u>492,751</u>	<u>216,091</u>
	494,806	216,091
Less:		
Creditors (note 7)	<u>68,790</u>	<u>6,591</u>
<b>Net current assets</b>	426,016	209,500
<b>Net assets</b>	<u>2,186,272</u>	<u>1,249,368</u>
<b>Unitholders' funds</b>	<u>2,186,272</u>	<u>1,249,368</u>

## Portfolio Changes for the Year Ended 30th September 2003

	<b>Cost £</b>
<b>Purchases (warrants unless otherwise stated)</b>	
Aberforth Smaller Companies (ordinary shares, exercise of warrants)	20,000
Eaglet (ordinary shares, exercise of warrants)	28,000
F&C Latin American	10,081
Fleming Japanese (ordinary shares)	63,146
Gartmore European 2000/04	14,206
Herald Investment Trust	30,614
JPMorgan Fleming American (ordinary shares)	36,022
Law Debenture (ordinary shares)	36,550
Merrill Lynch European	12,594
Perpetual Income & Growth	61,176
Polar Capital Technology	17,210
Sanctuary Group (ordinary shares, exercise of warrants)	46,875
Schroder Income Growth	20,953
Scottish Oriental Smaller Companies	85,616
	<hr/>
Total purchases for the year	483,043

	<b>£</b>
<b>Sales (warrants unless otherwise stated)</b>	
Aberdeen Asian Smaller Companies	48,571
Baring Emerging Europe	116,405
F&C US Smaller Companies	84,816
Framlington NetNet (ordinary shares)	59
Herald	80,128
Legal & General UK Select	8,939
Schroder Emerging Countries	5,688
TR European Growth	600
	<hr/>
Total sales for the year	345,206

# Notes to the Financial Statements as at 30th September 2003

## 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.



## 5. Taxation (continued)

### b) Factors affecting tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an authorised unit trust scheme (20% (2002: 20%))

The differences are explained below:

	30th September 2003	30th September 2002
	£	£
Net gains/(losses) on investments	581,311	(572,472)
Net deficit before taxation	<u>(24,252)</u>	<u>(39,349)</u>
	557,059	(611,821)
Corporation tax at 20%	(111,412)	(12,236)
Effects of:		
Capital return not subject to corporation tax	(116,262)	4,366
Non taxable UK dividends	(757)	(85)
Movement in income accruals on receipt	(6)	(5)
Movement in excess management expenses	<u>5,613</u>	<u>7,960</u>
	111,412	12,236
Current tax charge (note 5a)	<u>-</u>	<u>-</u>

At 30th September 2003 the Fund had surplus management expenses of £152,252 (30.09.02: £124,169). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and, therefore, no deferred tax asset has been recognised.

## 6. Debtors

Amounts receivable for creation of units	580	-
Accrued income	<u>1,475</u>	<u>-</u>
	2,055	-

## 7. Creditors

Purchases awaiting settlement	63,146	-
Accrued expenses	5,521	6,591
Stamp duty reserve tax payable	<u>123</u>	<u>-</u>
	68,790	6,591

## 8. Related Party Transactions

Amounts payable to McHattie Investment Management Limited (the Manager) are detailed in note 4. The amount outstanding at the period end in respect of those fees was £2,524 (2002: £1,834).

Trustee and other fees payable to The Bank of New York Trust and Depository Company Limited are also detailed in note 4. The amount outstanding at the period end in respect of those fees was £233 (2002: £225).

## 9. Financial Instruments

In pursuing the investment objective a number of financial instruments are held. The financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for liquidations and debtors for accrued income.

There is 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.

The table below details the foreign currency risk profile at the balance sheet date.

	30th September 2003 £	30th September 2002 £
(i) Currency exposures		
Currency:		
US dollars	172,249	153,055
Pounds sterling	2,014,023	1,096,313
Net assets	<u>2,186,272</u>	<u>1,249,368</u>

(ii) Interest rate risk, being the risk that the value of investments will fluctuate as a result of interest rate changes.

The table below details the interest rate risk profile at the balance sheet date.

Floating rate assets:		
Pounds sterling	492,751	216,091
Assets on which interest is not paid:		
US dollars	172,249	153,055
Pounds sterling	<u>1,590,062</u>	<u>886,813</u>
	1,762,311	1,039,868
Liabilities on which interest is not paid:		
Pounds sterling	(68,790)	(6,591)
Net assets	<u>2,186,272</u>	<u>1,249,368</u>

The floating rate financial assets comprise bank balances which earn interest at rates linked to the UK base rate.

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

(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.

The investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the investment objective and policy set out in the prospectus.

Adherence to investment guidelines and to investment and borrowing powers set out in the Trust Deed and the Prospectus and the rules of the Financial Services Authority's Collective Investment Schemes Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

(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.

### **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 large, stylized 'A' followed by a horizontal line and a wavy flourish.

A R McHattie - Director

A handwritten signature in black ink, featuring a large, circular loop at the beginning, followed by a horizontal line and a wavy flourish.

B D Cooper - Director

**McHattie Investment Management Limited**  
**Manager of McHattie Warrants Alert Fund**  
**21st November 2003**

## 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 2002 to 30th September 2003

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.

**The Bank of New York Trust and Depositary Company Limited**  
**Trustee of McHattie Warrants Alert Fund**  
**21st November 2003**

# Independent Auditors' Report to the Unitholders of the McHattie Warrants Alert Fund

We have audited the financial statements of McHattie Warrants Alert Fund for the year ended 30 September 2003, which comprise the Statement of Total Return, the Statement of Movements in Unitholders' Funds, the Portfolio Statement, the Balance Sheet, the Portfolio Changes the Distribution Table 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 therein.

This report is made solely to the Fund's unitholders as a body. Our audit work has been undertaken so that we might state to the Fund's unitholders those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF THE MANAGER AND THE AUDITOR

The Manager's responsibilities for preparing the Annual Report and the financial statements in accordance with 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 Financial Services Authority in January 1997, the Collective Investment Schemes Sourcebook and the Trust Deed. We also report to you if, in our opinion, the Annual Report is not consistent with the financial statements, if the Fund has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Manager's Report, Investment Adviser's Report and the Fund History. 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 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 Fund's circumstances, consistently applied and adequately disclosed.

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

## OPINION

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as 30 September 2003 and of its net deficit and the net gains on the property of the Fund for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Unit Trust Schemes issued by the Financial Services Authority in January 1997, the Collective Investment Schemes Sourcebook and the Trust Deed.

**AGN Shipleys**  
**Chartered Accountants and Registered Auditors**  
**21st November 2003**

## 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 9.00am and 5.30pm 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, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA, 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, Prospectus, Financial Statements, Key Features Document and the latest annual and interim reports may be inspected by unitholders 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, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA. Holders 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

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, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA**

## MANAGER

McHattie Investment Management Limited  
Clifton Heights  
Triangle West  
Clifton  
Bristol BS8 1EJ  
(Authorised and Regulated by the Financial Services Authority)

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  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0GA  
(Authorised and Regulated by the Financial Services Authority)

Telephone: 0845 922 0044  
Fax: 01484 601 500

## TRUSTEE

The Bank of New York Trust and Depositary Company Limited  
One Canada Square  
London E14 5AL  
(Authorised and Regulated by the Financial Services Authority)

## AUDITORS

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



**McHattie Investment Management Limited**  
Authorised and Regulated by the Financial Services Authority