COMPANY No. 00736898

RIGHTS AND ISSUES INVESTMENT TRUST P.L.C.

FINAL REPORT AND ACCOUNTS 2001

39

CAPITAL STRUCTURE

CAPITAL

ISSUE
1,640,000 shares of 25p each.

INCOME ENTITLEMENT
A supplementary dividend payment of 2·75% net on the capital reserves in complete units of £160,000 in excess of £382,536 and 1/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.

CAPITAL ENTITLEMENT
42·2278p per share and 75% of the surplus assets on liquidation.

VOTING
One and a half votes per share on ordinary business and ten votes on a motion to liquidate.

PRICE
(at 31st December, 2001):
1620p.

GROSS YIELD
2·8%.

DISCOUNT
12·8%.

DESCRIPTION
Capital shares are of interest to capital orientated investors wishing some income.

INCOME

ISSUE
2,460,000 shares of 25p each.

INCOME ENTITLEMENT
30/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.

CAPITAL ENTITLEMENT
29·0650p per share and 25% of the surplus assets on liquidation.

VOTING
One vote per share.

PRICE
(at 31st December, 2001):
540p.

GROSS YIELD
6·3%.

PREMIUM
15·9%.

DESCRIPTION
Income shares are of interest to income orientated investors wishing some participation in capital growth.

PREFERENCE

ISSUE
200,000 shares of £1 each.

INCOME ENTITLEMENT
A dividend payment of 5·5p net per share on 2nd January.

CAPITAL ENTITLEMENT
Repayment at par on liquidation.

VOTING
No vote normally for ordinary business and one vote per share on a motion to liquidate.

DESCRIPTION
Preference shares provide an element of gearing to the other classes.

THE TRUST MAY BE LIQUIDATED AT ANY TIME, BUT THE BOARD OF DIRECTORS HAVE INDICATED THAT IT IS NOT THEIR PRESENT INTENTION TO DO SO PRIOR TO 25TH JULY, 2006.

Note: The above is a summary of rights. For full information shareholders should refer to the Articles of Association.

RECENT RECORD

Year to 31st December	Net asset value per Capital Share	Net asset value per Capital Share (Index 1984 = 100)	Net dividend per Capital Share	Net asset value per Income share	Net dividend per Income Share	FT All Share Index	FT All Share Index (Rebased 1984 = 100)
1984	116·2p	100	2·0275p	48·5p	3·8p	592·94	100
1985	138·5p	119	2·0375p	53·0p	4·0p	681·88	115
1986	191·3p	165	2·3125p	64·0p	4·25p	835·48	141
1987	266·3p	229	2·8550p	80·6p	4·6p	870·22	147
1988	333·7p	287	3·9450p	96·3p	5·4p	926·59	156
1989	392·7p	338	5·5750p	109·9p	6·5p	1204·70	203
1990	301·7p	260	6·9375p	90·3p	7·5p	1032·60	174
1991	357·8p	308	8·1805p	102·2p	8·0p	1187·70	200
1992	392·5p	338	8·4638p	109·4p	8·3p	1363·79	230
1993	545·7p	470	9·0204p	144·9p	8·7p	1682·17	284
1994	583·2p	502	10·6651p	154·1p	9·4p	1521·44	257
1995	699·8p	602	12·0616p	182·7p	10·5p	1802·56	304
1996	780·1p	671	13·2598p	204·8p	13·0p	2013·66	340
1997	1074·6p	925	15·4378p†	274·9p	19·0p†	2411·00	407
1998	1199·9p	1033	23·4990p	304·3p	19·25p	2673·92	451
1999	1590·9p	1369	28·7591p	396·3p	22·5p	3242·06	547
2000	1895·4p	1631	31·3238p	467·9p	25·5p	2983·81	503
2001	**1858·4p**	**1599**	**41·2323p**	**465·8p**	**30·5p**	**2523·88**	**426**

† = includes special dividend

DIRECTORS AND ADVISERS

DIRECTORS	S. H. J. A. KNOTT *Chairman* P. M. ALLEN B. A. BEVERLEY S. J. B. KNOTT J. D. ROBERTSHAW F.C.A J. V. WOOLLAM
REGISTERED OFFICE	No. 1 Poultry London EC2R 8JR Company registration number 736898. Registered in England
MANAGERS AND SECRETARIES	DISCRETIONARY UNIT FUND MANAGERS LTD No. 1 Poultry London EC2R 8JR
SOLICITORS	EVERSHEDS Senator House 85 Queen Victoria Street London EC4V 4JL
AUDITORS	HOPE AGAR Epworth House 25 City Road London EC1Y 1AR
REGISTRARS	NORTHERN REGISTRARS LTD Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
BROKERS	GERRARD LTD 30 Lombard Street London EC3V 9EN
BANKERS	CLYDESDALE BANK PLC 30 St. Vincent Place Glasgow G1 2HL

An investment Company under Section 266 of the Companies Act 1985

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the THIRTY NINTH ANNUAL GENERAL MEETING of the members of RIGHTS AND ISSUES INVESTMENT TRUST PUBLIC LIMITED COMPANY will be held at No. 1 Poultry, London EC2R 8JR, on 12th March, 2002, at 12 noon, for the following purposes:

1. To adopt the Directors' report and accounts for the year ended 31st December, 2001 and declare dividends.

2. To re-elect S. H. J. A. Knott as a Director.

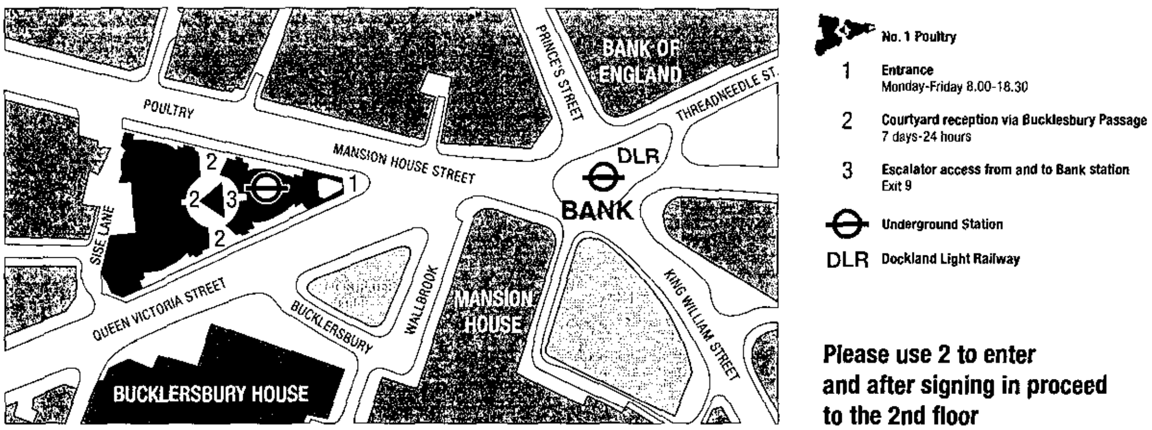
3. To re-elect B. A. Beverley as a Director.

4. To reappoint Auditors and authorise the Directors to fix their remuneration.

5. To transact any other business at the Annual General Meeting.

By Order of the Board,
DISCRETIONARY UNIT FUND MANAGERS LIMITED
Secretaries.

12th February, 2002



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A member of the Company who is entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

A register showing the transactions of each Director and so far as he is aware the transactions of his family in the Company's Income, Capital and Preference Shares will be available for inspection at the offices of the Secretaries, No. 1 Poultry, London EC2R 8JR, during normal business hours every weekday except Saturdays, from the above date to the day preceding that of the Annual General Meeting. It will also be available for inspection at the place of the meeting for 15 minutes prior to the Annual General Meeting and during the meeting. There are no contracts of service existing between the Company and any of the Directors.

CHAIRMAN'S STATEMENT

As the events of 11th September slowly fade into memory, the scars though remain. 2001 will mainly be remembered for the destruction wrought on New York but it also represents the first year in recent decades to sustain a second successive fall in the UK equity market. The FTSE All-Share index fell by 15.4%. Smaller companies suffered as well with declines of 19.0% for the FTSE Small Cap index and 9.3% for the FTSE Fledgling index.

The investment themes of 2000 continued during the last year with investors shunning technology and telecommunication stocks and preferring safe yielding situations. The Trust's value-based strategy again provided protection against falling equities prices. The net asset value of the capital shares fell slightly to 1858.4p from 1895.4p and that of the income shares to 465.8p from 467.9p. These declines of 2.0% and 0.4% respectively exceed the performance of the FTSE All-Share index by over 13%.

Your Directors have decided to increase the dividend to 30.5p per income share and 1.525p per capital share for 2001. The 19% rise is a reflection of the sustained capital performance of the last five years and easily exceeds the prevailing rate of inflation. Additionally, the supplementary capital dividend of 39.7073p per capital share was paid on 2nd January 2002 and, barring unforeseen circumstances, the supplementary capital dividend for the current year will be 46.9512p per capital share payable on 2nd January 2003. This 18% increase means that the supplementary capital dividend will have tripled over the last five years.

There is now less certainty in the world. The equity markets remain in the doldrums. All investment backgrounds however throw up opportunities and your Trust will selectively seek these out.

S. H. J. A. KNOTT
Chairman

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their thirty ninth Annual Report, together with audited accounts in respect of the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES AND INVESTMENT TRUST STATUS

The Company is an investment trust and has two subsidiary undertakings, as referred to in note 12.

The Company has been approved by the Inland Revenue as an investment trust for all accounting periods up to 31st December, 1999. Since that date, the Company has directed its affairs so as to be able to continue to qualify for approval as an investment trust, although, with the introduction of corporation tax self-assessment for companies, formal approval from the Inland Revenue may not in future be received within the same timescale as previously.

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

REVIEW OF THE BUSINESS

It is the policy of the Directors that the funds of the Company shall be managed in a manner which balances the interests of the income and capital shareholders.

Group assets have decreased from £42,794,599 to £42,136,349 during the year and at 31st December, 2001 the net asset values of the capital and income shares were 1858.4p (2000:1895.4p) and 465.8p (2000: 467·9p) respectively.

The movement in the dividend equalisation reserve is shown in note 17 to the accounts.

The Capital Shareholders' supplementary dividend, subject to unforeseen circumstances, for the current year payable on 2nd January, 2003, will be 46.9512p net per Capital Share.

RESULTS AND DIVIDENDS

	£	£
The Net Revenue of the Company and its Subsidiary undertakings after deducting all expenses and taxation amounted to		1,594,964
The dividends paid and proposed were:		
paid on 2nd January, 2002 to Preference Shareholders 5·5p	11,000	
paid on 2nd January, 2002 to Capital Shareholders 39.7073p	651,200	
paid on 30th September, 2001 to Income Shareholders 8·00p	196,800	
To be despatched on 28th March, 2002 to Shareholders registered on 1st March, 2002 are:		
22.5p on Income Shares	553,500	
1.5250p on Capital Shares	25,010	
		(1,437,510)
Dividend Equalisation Reserve brought forward		694,318
Dividend Equalisation Reserve carried forward		851,772

DIRECTORS

The Directors who served during the year and their interests in the shares of the Company were as follows:

	Capital		Income	
	31st December, 2001	31st December, 2000	**31st December, 2001**	31st December 2000
S. H. J. A. Knott	**225,670**	225,670	**51,005**	51,005
P. M. Allen	**2,500**	2,500	**–**	–
J. V. Woollam	**18,500**	19,500	**8,000**	8,000
J. D. Robertshaw	**15,000**	15,000	**–**	–
S. J. B. Knott	**25,000**	25,000	**5,000**	5,000
B. A. Beverley	**17,500**	17,500	**12,500**	12,500

No changes in the Directors' interests shown above have occurred since 31st December, 2001

Included above is a non-beneficial interest in 4,000 Capital shares in respect of J. V. Woollam.

S. H. J. A. Knott and B. A. Beverley retire by rotation in accordance with Article 107. Both being eligible, offer themselves for re-election.

Mr J. V. Woollam is not seeking re-election as a Director and therefore is retiring from the Board.

No Director offering himself for re-election has a service contract.

Company No. 00736898

REPORT OF THE DIRECTORS continued

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of the undermentioned shareholdings which are in excess of 3% of the respective classes of the issued share capital of the Company at 12th February, 2002.

	Capital Shares	Income Shares	Preference Shares
J. Barr Esq	70,040	–	–
Bank of Scotland Branch Nominees	57,500	–	–
Barclays Capital Nominees	–	–	22,255
Commercial Union Plc	–	–	65,376
Dartmoor Investment Trust PLC	–	350,000	–
Discretionary Unit Fund	125,000	–	–
Exeter Preferred Capital Investment Trust	65,000	570,000	–
Exeter Capital Growth Fund	132,500	–	–
Hill & Smith Pension Scheme Trustees	75,000	–	–
Morris & Co. Trust Fund Ltd	100,000	–	–
L. W. & D. J. Potter	–	121,000	–
Provincial Insurance Company Ltd	–	–	64,805

Additionally, Old Mutual PLC and its clients are interested in 25.52% of the Capital shares and 11.94% of the Income shares. This information may include holdings listed above.

The Directors are not aware of any other holdings amounting to 3% or more of any class of the issued share capital of the Company.

GENERAL

The Company and its affairs are administered on an agreed cost sharing basis by Discretionary Unit Fund Managers Ltd.

No charitable or political contributions have been made during the year.

It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the stated terms.

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the reappointment of Hope Agar as auditors of the Company will be put to the Annual General Meeting.

By Order of the Board,
DISCRETIONARY UNIT FUND MANAGERS LIMITED
Secretaries

12th February, 2002

M. D. [signature]
(For the Co. Secretaries).

CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION

Significant matters relating to the governance of the Trust, including those in relation to the recommendations of the Combined Code are noted below.

THE BOARD OF DIRECTORS

The Board of Directors, which includes five non-executive directors, meets about six times a year to review the affairs of the Trust.

Directors may take independent legal, accounting or other professional advice at the expense of the Trust in the furtherance of their duties. The Company Secretary's advice and services are available to all Board members.

PRINCIPLES OF GOOD GOVERNANCE

Full consideration has been given by the Board to the Principles of Good Governance as set out in the Combined Code annexed to the Listing Rules. In so far as they are applicable to a smaller self-managed investment trust, the Directors believe that they comply with the principles.

REPORTING AND CONTROLS

The Board is fully aware of its duty to present a balanced and understandable assessment of the Trust's position. It acknowledges its responsibility for the Trust's system of internal financial controls and their effectiveness. Your board meets regularly and reviews performance against approved plans and forecasts. In addition the day to day administration and accounting functions are carried out by the Company Secretary who reports regularly to the Board.

As part of the system of internal control, there is a process to identify, evaluate and manage the significant risks faced by the Trust. This has been reviewed by the Board and is in accordance with the guidelines issued. The system of risk analysis adopted by the Board is designed to manage rather than eliminate the risk of failure to achieve the investment objectives of the Trust. It must be stressed that undertaking an acceptable degree of controlled risk is always necessary in the conduct of any investment trust if above average performance is to be achieved. For this reason, the process can only provide reasonable and not absolute assurance against material misstatement or loss.

After reviewing the Trust's budget for 2002 and its medium-term plans, the Directors have reasonable expectation that the Trust has adequate resources to continue its operations for the foreseeable future. Therefore, they adopt the going concern basis in preparing the accounts.

THE CODE OF BEST PRACTICE

The Trust complies with the appropriate recommendations of the above code but does not comply with the following paragraphs:

A.5.1.

The Board believes that for a company of this sort the establishment of a nomination committee is not necessary and the Board can adequately carry out any duties required in this area.

B.1.1 to B.2.6 (DIRECTORS' REMUNERATION)

The Board considers that shareholders suffer no disadvantage by it not complying with these aspects of the Code. Directors' salaries are only infrequently reviewed, reflecting its Investment Trust status. There are no bonus, share option, pension or profit related payment arrangements with any of the Directors, other than those disclosed below. In the light of this and the modest nature of Directors' remuneration, the Board sees no need for either a Remuneration Committee or further consideration in respect of Executive Directors' remuneration.

D.3.1 & D.3.2.

The Board believes that for a company of this sort the establishment of an audit committee is not necessary as its duties required can be adequately carried out by the Board.

DIRECTORS' DETAILS

	Fees and Salaries	
	2001	2000
	£	£
S. H. J. A. KNOTT *Chairman*, aged 70 years		
He was a Director of a number of PLCs	**11,313**	10,280
P. M. ALLEN *Non-executive*, aged 61 years		
He was a Director of Mercury Grosvenor Trust PLC	**4,000**	3,000
B. A. BEVERLEY *Non-executive*, aged 66 years		
He was a Director of Greig Middleton & Co. Limited	**4,000**	3,000
S. J. B. KNOTT *Executive*, aged 43 years		
He is investment manager.	**80,000**	74,200
J. D. ROBERTSHAW *Non-executive*, aged 73 years		
He was Deputy Chairman of Alvis Plc	**9,000**	8,000
J. V. WOOLLAM *Senior Independent*, aged 74 years		
He has had a long career in the City and previously was Chairman of The Tor Investment Trust Plc	**4,000**	3,000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those Accounts the Directors are required to:

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

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

COMPANY No. 00736898

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rights and Issues Investment Trust PLC

We have audited the financial statements of Rights and Issues Investment Trust plc for the year ended 31st December, 2001 on pages 10 to 21. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' 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 Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance Statement. 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 Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31st December, 2001 and of the Group's net revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hope Agar

HOPE AGAR
Registered auditors
12th February, 2002

25 City Road
London
EC1Y 1AR

CONSOLIDATED STATEMENT OF TOTAL RETURN

(incorporating the revenue account*)

	Notes	Year ended 31st December, 2001			Year ended 31st December, 2000		
		Revenue	**Capital**	**Total**	Revenue	Capital	Total
		£	**£**	**£**	£	£	£
Gains/(losses) on investments	10	**5,793**	**(815,704)**	**(809,911)**	37,772	6,654,608	6,692,380
Income	2	**1,956,282**	**–**	**1,956,282**	1,549,583	–	1,549,583
Investment management fee		**–**	**–**	**–**	–	–	–
Other expenses	3	**340,386**	**–**	**340,386**	310,467	–	310,467
Net return before finance costs and taxation		**1,621,689**	**(815,704)**	**805,985**	1,276,888	6,654,608	7,931,496
Interest payable and similar charges		**–**	**–**	**–**	–	–	–
Return on ordinary activities before tax		**1,621,689**	**(815,704)**	**805,985**	1,276,888	6,654,608	7,931,496
Tax on ordinary activities	5	**26,725**	**–**	**26,725**	23,226	–	23,226
Return on ordinary activities after tax for the financial year		**1,594,964**	**(815,704)**	**779,260**	1,253,662	6,654,608	7,908,270
Dividends and other appropriations in respect of non-equity shares	6	**11,000**	**–**	**11,000**	11,000	–	11,000
Return attributable to equity shareholders		**1,583,964**	**(815,704)**	**768,260**	1,242,662	6,654,608	7,897,270
Dividends in respect of equity shares	6	**1,426,510**	**–**	**1,426,510**	1,141,010	–	1,141,010
Transfer to reserves after aggregate dividends paid and proposed of £1,437,510 (2000: £1,152,010)		**157,454**	**(815,704)**	**(658,250)**	101,652	6,654,608	6,756,260
Return per income share (p)	7	**36·7**	**(8·3)**	**28·4**	29·5	67·6	97·1
Return per capital share (p)	7	**41·5**	**(37·3)**	**4·2**	31·5	304·3	335·8

* The revenue columns of this statement is the profit and loss account of the Group. All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 13 to 21 form part of these accounts.

COMPANY No. 00736898

BALANCE SHEETS

as at 31st December, 2001

	Notes	Company 2001 £	Company 2000 £	Group 2001 £	Group 2000 £
Fixed assets					
Intangible assets	8	**–**	–	**83,821**	93,136
Investments	10	**37,958,087**	40,158,671	**37,526,615**	39,727,199
Current assets					
Debtors	14	**193,875**	175,298	**100,516**	79,855
Investments		**–**	–	**73,007**	259,041
Cash at bank and in hand		**4,692,029**	3,074,709	**5,027,070**	3,314,238
		4,885,904	3,250,007	**5,200,593**	3,653,134
Creditors: amounts falling due within one year	15	**605,176**	520,928	**674,680**	678,870
Net current assets		**4,280,728**	2,729,079	**4,525,913**	2,974,264
Total assets less current liabilities		**42,238,815**	42,887,750	**42,136,349**	42,794,599
Capital and reserves					
Called up share capital	16	**1,225,000**	1,225,000	**1,225,000**	1,225,000
Share premium account	17	**225,326**	225,326	**225,326**	225,326
Capital reserve	17	**28,158,252**	23,842,673	**28,158,252**	23,842,673
Other reserves:					
Revaluation reserve	17	**11,675,999**	16,807,282	**11,675,999**	16,807,282
Dividend equalisation reserve	17	**954,238**	787,469	**851,772**	694,318
Total shareholders' funds	19	**42,238,815**	42,887,750	**42,136,349**	42,794,599
Net asset value per share	18				
Income shares				**465·8p**	467·9p
Capital shares				**1858·4p**	1895·4p

These accounts were approved by the Board of Directors on 12th February, 2002.

S. H. J. A Knott, Director S. H. J. A. Knott

S. J. B. Knott, Director S J B Knott

The notes on pages 13 to 21 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December, 2001

	Notes	Group 2001 £	2000 £
Operating activities			
Investment income (net)		**1,475,142**	1,184,099
Interest received		**247,298**	185,474
Subsidiary Fee income		**213,061**	187,903
Underwriting commission		**–**	–
Cash payments		**(441,366)**	(250,547)
Investment dealing		**5,793**	37,772
Net cash inflow from operating activities	21	**1,499,928**	1,344,701
Servicing of finance			
Interest paid		**–**	–
Dividends paid on cumulative preference shares		**11,000**	11,000
Dividends paid on income shares		**651,900**	571,950
Dividends paid on capital shares		**672,110**	511,250
Net cash outflow from servicing of finance		**1,335,010**	1,094,200
Taxation			
Tax paid		**(23,000)**	(6,851)
Investing activities			
Purchase of investments		**(6,153,354)**	(9,779,326)
Disposal of investments		**7,538,234**	10,926,266
Disposal of current investments		**186,034**	(194,916)
Net cash inflow from investing activities		**1,570,914**	952,024
Increase in cash and cash equivalents	20	**1,712,832**	1,195,674

The notes on pages 13 to 21 form part of these accounts.

NOTES TO THE ACCOUNTS

for the year ended 31st December, 2001

1. ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared in accordance with the historical cost convention as modified by the revaluation of certain investments. The accounts are prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies".

Basis of Consolidation

The Group accounts include the accounts of the Company and all its subsidiary undertakings drawn up to 31st December each year, from the effective date of acquisition. No revenue account is presented for Rights and Issues Investment Trust PLC, as provided by S230 of the Companies Act 1985.

Investments

Listed investments are stated at middle market value.

Unlisted investments are valued by the Directors applying the principles recommended by the British Venture Capital Association.

Current asset investments are valued at market value at the Balance Sheet date.

Net profits less losses on realisation of investments and provisions for any permanent diminution in value are transferred to the Capital Reserve and are not reflected in the Revenue Account.

Unrealised surpluses or deficits arising from changes in market value of investments are taken to the Revaluation Reserve.

Where any listed investment is acquired by another listed company, any resulting new listed investment is treated as substituting for the previous listed investment. Therefore any surplus or deficit arising in this situation is taken to the revaluation reserve.

Income

Dividend income is included in the accounts on the ex-dividend date. All other income is included on an accruals basis.

Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired.

Goodwill is amortised in equal annual instalments through the revenue account over the Directors' estimate of its useful life of 20 years.

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

Taxation

The charge for taxation is based on the net revenue for the year. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

NOTES TO THE ACCOUNTS continued

For the year ended 31st December, 2001

2. INCOME

	Group 2001 £	Group 2000 £
Income from investments		
Franked investment income	**1,495,923**	1,176,206
UK unfranked investment income	**-**	-
Foreign income dividends	**-**	-
Scrip dividends	**-**	-
Income from group undertakings	**-**	-
Other	**-**	-
	1,495,923	1,176,206
Other income		
Deposit interest	**247,298**	185,474
Underwriting commission	**-**	-
Stock lending fees	**-**	-
Other	**213,061**	187,903
	460,359	373,377
Total income	**1,956,282**	1,549,583
Total income comprises:		
Dividends	**1,495,923**	1,176,206
Interest	**247,298**	185,474
Other income	**213,061**	187,903
	1,956,282	1,549,583
Income from investments		
Listed UK	**1,469,520**	1,156,125
Unlisted	**26,403**	20,081
	1,495,923	1,176,206

3. OTHER EXPENSES

	2001 £	2000 £
Staff costs (note 4)	**209,276**	193,075
Auditors remuneration		
– Audit	**11,320**	11,100
– Other services to the company and its subsidiaries	**2,580**	2,550
Goodwill amortisation	**9,315**	9,315
Operating leases – other	**15,600**	10,323
Other	**92,295**	84,104
	340,386	310,467

4. STAFF COSTS

	2001 £	2000 £
Wages and salaries	**183,305**	171,965
Social security costs	**18,055**	15,696
Pensions	**7,916**	5,414
	209,276	193,075
	Number	Number
The average number of staff employed by the group was	**3**	3
Directors' emoluments (see page 7):	**£**	£
Fees and salaries	**112,313**	101,480
Ex Gratia payments	**-**	-
	112,313	101,480

5. TAX ON ORDINARY ACTIVITIES

	2001 £	2000 £
UK Corporation Tax at 20% (2000: 20%)	**26,725**	23,226

6. DIVIDENDS AND OTHER APPROPRIATIONS

	2001 p	2000 p	2001 £	2000 £
Dividends on equity shares:				
Income				
Interim paid	**8·00**	7·00	**196,800**	172,200
Final proposed	**22·50**	18·50	**553,500**	455,100
	30·50	25·50		
Capital				
Supplementary paid	**39·7073**	30·0488	**651,200**	492,800
Final proposed	**1·5250**	1·2750	**25,010**	20,910
	41·2323	31·3238	**1,426,510**	1,141,010
Dividends on non-equity shares:				
Cumulative preference	**5·5%**	5·5%	**11,000**	11,000

The Articles provide for a Supplementary Dividend to Capital Shareholders to be paid not only in respect of future potential Preference Share issues which are not made, but also the 14,000,000 Preference Shares which could have been issued following the increases in the Capital Reserve revealed by the accounts since 1981.

7. RETURN PER SHARE

	2001			2000		
	Income £	Capital £	Total £	Income £	Capital £	Total £
Return attributable to equity shareholders:						
Revenue return	**902,675**	**681,289**	**1,583,964**	725,673	516,989	1,242,662
Capital return	**(203,926)**	**(611,778)**	**(815,704)**	1,663,652	4,990,956	6,654,608
	698,749	**69,511**	**768,260**	2,389,325	5,507,945	7,897,270
	p	**p**		p	p	
Revenue return	**36·7**	**41·5**		29·5	31·5	
Capital return	**(8·3)**	**(37·3)**		67·6	304·3	
	28·4	**4·2**		97·1	335·8	

8. INTANGIBLE ASSETS

	2001 £	2000 £
Group		
Goodwill:		
Cost:		
At beginning and end of the year	**186,286**	186,286
Amortisation:		
At 1st January, 2001	**93,150**	83,835
Provided during the year	**9,315**	9,315
At 31st December, 2001	**102,465**	93,150
Net Book Value		
At 31st December, 2001	**83,821**	93,136
At 31st December, 2000	**93,136**	102,451

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2001

9. INVESTMENTS

Analysis of the investments

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 45 (2000: 46).

	2001		2000	
EQUITY GROUPS	£	%	£	%
Basic Industries				
Chemicals	2,399,750	6·39	2,216,000	5·58
Construction and Building Materials	1,665,000	4·44	5,801,362	14·60
Forestry and Paper	152,500	0·41	50,000	0·13
General Industrials				
Electronic and Electrical Equipment	2,407,500	6·42	2,002,500	5·04
Engineering and Machinery	9,203,901	24·53	10,056,994	25·32
Cyclical Consumer Goods				
Household Goods and Textiles	1,470,000	3·92	1,486,500	3·74
Non-Cyclical Consumer Goods				
Beverages	756,000	2·01	522,000	1·31
Food Producers and Processors	0	0·00	0	0·00
Health	116,250	0·30	144,375	0·36
Packaging	0	0·00	0	0·00
Personal Care and House Products	91,875	0·24	66,875	0·17
Pharmaceuticals	0	0·00	0	0·00
Cyclical Services				
Distributors	365,500	0·97	310,250	0·78
General Retailers	0	0·00	0	0·00
Restaurants, Pubs and Breweries	2,302,812	6·14	2,251,028	5·67
Support Services	6,652,845	17·73	7,278,109	18·32
Transport	67,222	0·18	52,778	0·13
Non-Cyclical Services				
Food and Drug Retailers	495,000	1·32	0	0·00
Information Technology				
Information Technology Hardware	593,750	1·58	0	0·00
Software and Computer Services	37,500	0·10	9,255	0·02
Financials				
Banks	6,311,460	16·82	5,672,173	14·28
Real Estate	1,864,750	4·97	1,280,000	3·22
FIXED INTEREST				
Preference	573,000	1·53	527,000	1·33
Total UK	37,526,615	100·00	39,727,199	100·00

10. INVESTMENTS

	Company		Group	
	2001	2000	**2001**	2000
	£	£	**£**	£
Investments listed on a recognised investment exchange				
Total listed investments	**37,097,054**	38,948,667	**37,097,054**	38,948,667
Unlisted investments	**429,561**	778,532	**429,561**	778,532
Subsidiary undertakings (note 12)	**431,472**	431,472	**-**	–
Other investments	**-**	–	**-**	–
	37,958,087	40,158,671	**37,526,615**	39,727,199

	Listed	Unlisted	Total
Group:			
Opening book cost	22,470,833	820,431	23,291,264
Opening unrealised appreciation	16,477,834	329,448	16,807,282
Opening provision against impairments in value	–	371,347	371,347
Opening valuation	38,948,667	778,532	39,727,199
Movements in the year			
Purchases at cost	6,122,985	30,369	6,153,354
Sales – proceeds	7,538,234	–	7,538,234
– realised gains on sales	4,287,334	–	4,287,334
Permanent impairment in value of investments	–	28,245	28,245
Increase/(decrease) in unrealised appreciation	(4,723,698)	(407,585)	(5,131,283)
Closing valuation	37,097,054	429,561	37,526,615
Closing book cost	25,342,918	850,800	26,193,718
Closing unrealised appreciation	11,754,136	(78,137)	11,675,999
Closing provision against impairments in value	–	343,102	343,102
	37,097,054	429,561	37,526,615
Realised gains/(losses) on sales	4,287,334	28,245	4,315,579
Increase/(decrease) in unrealised appreciation	(4,723,698)	(407,585)	(5,131,283)
Gains/(losses) on investments	(436,364)	(379,340)	(815,704)

11. UNQUOTED INVESTMENTS

During the year, material purchases of the following unquoted investments were made:

Investment	Cost £	Carrying value at 31/12/01 £	Disposal proceeds £	Gain £
Honeycombe Leisure PLC – ordinary shares				
Purchases	30,369	392,062	–	–

During the year, the Company revalued the following investments to a material extent:

Investment	Cost £	Carrying value at 31/12/01 £	Carrying value at 31/12/00 £	Amount of revaluation £
Safe Computing Plc	60,600	37,499	9,254	28,245
The Holding Company Plc	170,000	–	–	–
Honeycombe Leisure Plc	439,830	392,062	769,278	(407,585)

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2001

12. SUBSIDIARY UNDERTAKINGS

The Company had investments in the following subsidiary undertakings:

Name	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Rights Securities Ltd.	Investment dealing	England	Ordinary	100%
Discretionary Unit Fund Managers Ltd.	Fund management and secretarial services	England	Ordinary	100%

13. SIGNIFICANT INTERESTS

The Company had investments in the following undertakings exceeding 10% of the nominal value of the allotted shares:

Name	Principal activity	Country of incorporation and operation	Description of shares held	Percentage held by Company and Group	Aggregate capital and reserves £	Profit/(loss) after tax for year £
Chamberlin & Hill Plc	Manufacture of iron castings, electrical conduit fittings, electrical switch gear and door, gate and window furniture	England	Ordinary	13·8%	13,619,000	1,812,000

In addition to the above, the Company or Group has a holding of 3% or more that is material in the context of the financial statements in the following investments:

Name	
Colefax Group Plc	8·6%
Dataflex plc	3·6%
Eleco Holdings Plc	8·0%
Howle Holdings	4·9%
LPA Industries Plc	4·2%
Merrydown Plc	6·8%
Syltone Plc	6·5%
Thorpe F.W.	4·2%
Titon Holdings Plc	9·1%
UCM Group Plc	7·7%
Wellington Holdings	6·3%

14. DEBTORS

	Company		Group	
	2001	2000	**2001**	2000
	£	£	**£**	£
Amounts due from brokers	**–**	–	**–**	–
Trade debtors	**–**	–	**–**	–
Due from subsidiary undertakings	**–**	–	**–**	–
Corporation tax	**–**	5,450	**–**	5,450
Prepayments and accrued income	**193,875**	169,848	**100,516**	74,405
Other debtors	**–**	–	**–**	–
	193,875	175,298	**100,516**	79,855

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Company		Group	
	2001	2000	**2001**	2000
	£	£	**£**	£
Bank overdraft	**–**	–	**–**	–
Amounts due to brokers	**–**	–	**–**	–
Trade creditors	**–**	–	**–**	–
Due to subsidiary undertakings	**3,475**	3,361	**–**	–
UK corporation tax payable	**2,140**	–	**28,036**	29,760
Accruals	**21,051**	41,557	**68,134**	173,100
Proposed dividends	**578,510**	476,010	**578,510**	476,010
	605,176	520,928	**674,680**	678,870

16. SHARE CAPITAL

	2001	2000
	£	£
Authorised		
200,000 5·5% (Net) Cumulative Preference Shares of £1 each	**200,000**	200,000
2,400,000 Capital Shares of 25p each	**600,000**	600,000
3,600,000 Income Shares of 25p each	**900,000**	900,000
	1,700,000	1,700,000
Allotted, Called Up and Fully Paid		
200,000 5·5% (Net) Cumulative Preference Shares of £1 each	**200,000**	200,000
1,640,000 Capital Shares of 25p each	**410,000**	410,000
2,460,000 Income Shares of 25p each	**615,000**	615,000
	1,225,000	1,225,000

17. RESERVES

	Share premium account	Capital reserve-realised	Revaluation reserve-unrealised	Dividend equalisation reserve
	£	£	£	£
Company				
Beginning of year	225,326	23,842,673	16,807,282	787,469
Net gain/(loss) on realisation of investments	–	4,287,334	–	–
Permanent impairments in value of investments	–	28,245	–	–
Increase/(decrease) in unrealised appreciation	–	–	(5,131,283)	–
Retained net revenue for the year	–	–	–	166,769
End of year	225,326	28,158,252	11,675,999	954,238
Group				
Beginning of year	225,326	23,842,673	16,807,282	694,318
Net gain/(loss) on realisation of investments	–	4,287,334	–	–
Permanent impairments in value of investments	–	28,245	–	–
Increase/(decrease) in unrealised appreciation	–	–	(5,131,283)	–
Retained net revenue for the year	–	–	–	157,454
End of year	225,326	28,158,252	11,675,999	851,772

The revenue return attributable to shareholders includes £1,604,279 (2000: £1,262,977) which has been dealt with in the Accounts of the Company.

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2001

18. NET ASSET VALUE PER SHARE

The net asset value per share and the net asset values attributable to each class of share calculated in accordance with the Articles of Association were as follows:

	Net asset value per share attributable		Net asset value attributable	
	2001	2000	**2001**	2000
	p	p	**£**	£
Preference shares	**100**	100	**200,000**	200,000
Income shares	**465·8**	467·9	**11,458,556**	11,510,107
Capital shares	**1858·4**	1895·4	**30,477,793**	31,084,492
			42,136,349	42,794,599

The movements during the year attributable to each class of share were as follows:

	Preference shares	Income shares	Capital shares	Total
	£	£	£	£
Total net assets attributable at beginning of year	200,000	11,510,107	31,084,492	42,794,599
Total recognised gains/(losses) for the year	–	(203,926)	(611,778)	(815,704)
Transfer to reserves	–	152,375	5,079	157,454
Total net assets attributable at end of year	200,000	11,458,556	30,477,793	42,136,349

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
Opening shareholders' funds	**42,794,599**	36,038,339
Total recognised gains and losses before dividends	**779,260**	7,908,270
Dividends	**(1,437,510)**	(1,152,010)
Closing shareholders' funds	**42,136,349**	42,794,599

20. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	2001	2000
	£	£
Balance at 1st January, 2001	**3,314,238**	2,118,564
Net Cash Inflow/(Outflow)	**1,712,832**	1,195,674
Balance at 31st December, 2001	**5,027,070**	3,314,238

Analysis of balances:

	2001	2000
	£	£
Balance at Bankers and Deposits on Call	**5,027,070**	3,314,238
Bank Overdrafts	**–**	–
	5,027,070	3,314,238

21. RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	£	£
Net revenue before finance costs and taxation	**1,621,689**	1,276,888
Amortisation of goodwill	**9,315**	9,315
Accrued income	**(20,781)**	7,893
Other creditors	**(104,965)**	55,938
Other debtors	**(5,330)**	(5,333)
Net cash inflow	**1,499,928**	1,344,701

22. FINANCIAL INSTRUMENTS

The Company's financial instruments comprise:

- Equity shares. These are held in accordance with the Company's investment objectives and policies.
- Bank loans for which the main purpose is to raise finance for the Company's operations.
- Short-term debtors, creditors and cash amounts arising directly from its operations.

As an investment trust, the Company invests in securities for the long-term. Accordingly it is, and has been, throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments is market price risk. The Board's policy for managing these risks is summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate.

Market price risk

Market risk arises from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Board meets at least quarterly to consider the asset allocation of the portfolio in order to minimise the risk associated with industry sectors. The fund manager has responsibility for monitoring the existing portfolio selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk-reward profile

Interest rate risk profile of financial assets and financial liabilities

The majority of the Company's financial assets are equity shares or other investments which neither pay interest nor have a maturity date.

Liabilities

There were no long-term liabilities at the year end.

Fair value of financial instruments

Financial assets and liabilities are included in the balance sheet at values which represent fair values without exception.

APPENDIX

Details of the principal investments are given below by market value

	Holdings		Market Value	
	2001	2000	**2001** £	2000 £
UK Investments				
HBOS PLC	**550,000**	550,000	**4,378,000**	3,852,750
RPS Group PLC	**2,700,000**	2,700,000	**3,888,000**	5,454,000
Lloyds TSB Group PLC	**259,177**	259,177	**1,933,460**	1,819,423
Enterprise Inns PLC	**300,000**	300,000	**1,872,000**	1,402,500
UCM Group PLC	**1,850,000**	1,850,000	**1,803,750**	2,127,500
Chamberlin & Hill PLC	**1,000,000**	1,000,000	**1,675,000**	1,815,000
Syltone PLC	**1,650,000**	1,650,000	**1,584,000**	1,295,250
Colefax Group PLC	**2,100,000**	1,000,000	**1,470,000**	755,000
Wellington Holdings PLC	**1,485,000**	1,200,000	**1,410,750**	1,050,000
Titon Holdings PLC	**1,000,000**	1,000,000	**1,020,000**	800,000
Roxboro Group PLC	**450,000**	–	**985,500**	–
Unite Group PLC	**275,000**	400,000	**959,750**	1,280,000
VP PLC	**1,000,000**	1,000,000	**930,000**	515,000
White Young Green PLC	**475,000**	400,000	**919,125**	886,000
Saville Gordon Estates PLC	**1,000,000**	–	**905,000**	–
Hill & Smith Holdings PLC	**1,327,200**	1,327,200	**882,588**	856,044
Vitec Group PLC	**200,000**	200,000	**850,000**	995,000
Merrydown PLC	**1,800,000**	1,800,000	**756,000**	522,000
Castings PLC	**500,000**	500,000	**750,000**	665,000
Thorpe F.W. PLC	**500,000**	500,000	**695,000**	567,500

Unless otherwise specified, the actual holdings are, in each case, of ordinary shares or stock units and of the nominal value for which listing has been granted.

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FORM OF PROXY

ANNUAL GENERAL MEETING

We____
(USE BLOCK CAPITALS)

of ____

being the holder(s) of Capital/Income/Both Classes (delete as applicable) shares in the above-named Company, hereby appoint the Chairman of the Meeting, or the undermentioned person, who need not be a member of the Company,

* ____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 12th March, 2002.

	FOR	AGAINST
RESOLUTION No. 1		
RESOLUTION No. 2		
RESOLUTION No. 3		
RESOLUTION No. 4		
RESOLUTION No. 5		

If you wish to indicate how you desire your proxy to vote please insert "X" in the appropriate spaces. In the absence of directions the proxy will vote or abstain at his discretion.

SIGNED this ____________________ day of____________________ 2002

Signature(s)____

Notes:

(1) To be effective this form of proxy and the power of attorney or other authority (if any) under which it is signed must be deposited with the registrars of the Company, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ, not later than 48 hours before the time appointed for the meeting.

(2) In the case of joint holders, the votes of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

(3) In the case of a corporation, the form should be executed either under its common seal or, if none, under the hand of an officer or attorney duly authorised in writing.

* If you wish to appoint a proxy other than the above named, please delete the words "the Chairman of the Meeting" and insert the name of your proxy.

Third Fold and Tuck In

BUSINESS REPLY SERVICE
Licence No. HF 106

2

NORTHERN REGISTRARS LIMITED
NORTHERN HOUSE
WOODSOME PARK
FENAY BRIDGE
HUDDERSFIELD HD8 0JQ

First Fold

Second Fold