Witan Investment Trust plc

Report & Accounts 2001

Witan investment trust

Witanwisdom

"The farther backward you can look, the farther forward you are likely to see"

Sir Winston Churchill

Contents

Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments. Income, net of expenses and tax, is distributed substantially to shareholders. Shareholders elect the directors, a majority of whom are independent of the management company.

Witan Investment Trust plc is a global growth investment trust which is invested in a prudently diversified range of well managed large multi-national companies, with some smaller companies selected for their excellent long-term growth prospects.

Our track record

Long history

Formed in 1909, and becoming publicly quoted in 1924, the Company has always responded to the rapid changes seen worldwide in the political, economic and social climate.

Good performance record

Share price total return over 20 years is 1,687.4%.

Progressive dividend record

The last ten years' average annual dividend growth rate has been 4.1%, compared with an average annual inflation rate of around 2.5% during the decade.

Clear performance marker

Our portfolio benchmark against which performance is measured is 60% FTSE All-Share Index and 40% FTSE World (ex UK) Index (capital change only).

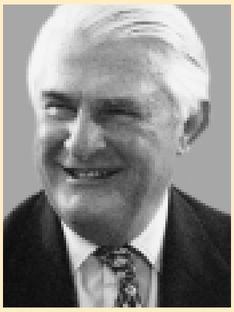
Low management charge

A total expense ratio of 0.40% of average total net assets for 2001.

Independent board

Five out of the eight directors, all of whom are non-executive, are wholly independent of the management company.

Directors



The Lord Faringdon
(Age 64) Chairman. Former partner of Cazenove & Co.. Lord Faringdon joined the Board in 1976 and was appointed Chairman in 1980. He is Chairman of The Institute of Cancer Research.

The Lord Inchyra*
(Age 66) Chairman of LeggMason Investors European Utilities Trust plc and former Director General of the British Bankers' Association. Lord Inchyra was appointed a director in 1979 and will retire at the end of the annual general meeting on 12 March 2002.

H M Henderson
(Age 49) A senior executive of Cazenove and a director of Updown Investment Company plc (in members' voluntary liquidation). Mr Henderson was appointed a director in 1988.

C G Clarke
(Age 57) Mr Clarke joined the Board in 1992 and was Managing Director from 1 January 1993 to 30 June 2000. He is also a director of BWD Securities plc.

R W C Colvill*
(Age 61) Formerly Finance Director of Marks and Spencer p.l.c., he is non-executive chairman of the financial services companies within the Marks and Spencer Group. He joins the board of Eldridge, Pope & Co., p.l.c. in April 2002. Mr Colvill was appointed a director in 1994.

A W Jones*
(Age 62) Formerly Chief Executive of BICC plc. Chairman of Britax International Limited, British International Limited and Alert Communications Limited and a former member of The Financial Reporting Council. Mr Jones was appointed a director in 1996.

R H McGrath*
(Age 55) Formerly Chief Executive of H. Young Holdings plc. Mr McGrath was appointed a director in 1996.

C S McVeigh III*
(Age 59) Co-Chairman of Schroder Salomon Smith Barney and a director of Savills plc. Mr McVeigh was appointed a director in 1998.

*Independent non-executive directors and members of the audit and management engagement committees which are chaired by Lord Inchyra.

All the directors are members of the nominations committee which is chaired by Lord Faringdon.

Highlights

Financial Highlights

Per ordinary share	31 December 2001 in pence	31 December 2000 in pence	% change
Net asset value	**429.3**	521.5	(17.68)
Dividend – interim and final	**7.95**	7.75	2.58
Earnings	**8.40**	8.95†	
Capital Return	**(92.71)**	(43.92)†	
Total Return	**(84.31)**	(34.97)	

Dividend

A final dividend of 4.35p per share has been recommended, payable on 2 April 2002. The record date for the dividend will be 8 March 2002 and the ex-dividend date for the dividend will be 6 March 2002.

Performance

Per ordinary share	1 Year base 100	3 Years base 100	5 Years base 100
Net asset value	82.32	101.27	136.50
Share price	81.80	106.54	146.72
Benchmark*	84.62	98.20	133.90

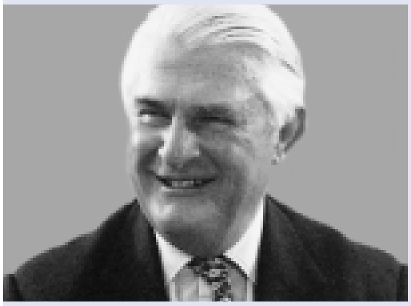
*The benchmark comprises the FTSE All-Share Index and the FTSE World (ex UK) Index in the proportion 60:40 (capital change only).

Historical Record

Year End	Net asset value per ordinary share in pence	Share price discount %	Market price per ordinary share in pence	Net revenue after taxation in £'000	Earnings per ordinary share in pence	Dividends per ordinary share in pence
31 December 1991	178.8	13.9	154.0	19,461	5.67	5.30
31 December 1992	212.8	13.1	185.0	19,616	5.71	5.60
31 December 1993	271.7	9.8	245.0	22,530	6.11	5.80
31 December 1994	251.7	8.6	230.0	25,031	6.65	6.10
31 December 1995	290.8	8.9	265.0	25,438	6.76	6.45
31 December 1996	314.5	15.3	266.5	26,764	7.11	6.65
31 December 1997	374.0	14.6	319.5	30,458	8.09	7.00
31 December 1998	423.9	13.4	367.0	30,317	8.06	7.40
31 December 1999	560.7	14.8	477.5	28,272	7.54	7.60
31 December 2000	521.5	8.3	478.0	32,541†	8.95†	7.75
31 December 2001	**429.3**	**8.9**	**391.0**	**29,634**	**8.40**	**7.95**

†With effect from 1 January 2001, 75% of finance costs and management fees have been charged to capital. The 2000 figures have been restated to reflect this change of accounting policy.

Chairman's Statement



Lord Faringdon

General

With few exceptions shareholders in public quoted companies had a universally unrewarding experience in 2001. Shareholders in Witan lost 17.7% of their underlying asset value, which mercifully was accompanied by a constant market discount and by a small rise in dividend. At first sight neither of these consolations gives cause for celebration as the former was not specific to Witan but applied to all generalist investment trusts and the latter has become the norm for those who have changed their accounting policy, as we did at the end of last year. On closer inspection the picture is rather more encouraging as historically discounts tend to rise in falling markets but our successful marketing campaign contained ours more than most. Furthermore, by applying charges in a more equitable way between capital and income we were able to meet our commitment, in an unfriendly income environment, to deliver to shareholders when possible an increase in dividend in line with inflation.

Performance Analysis

It is important for directors, managers and shareholders to know and be able to identify the reasons for underperforming our benchmark. Attribution is not always straightforward but it is a worthwhile exercise, particularly over a longer period than our accounting year. The following table gives total return figures, on a relative basis, over periods of one and three years.

	One year	Three years
Witan Total Return*	-16.4	6.0
Benchmark Total Return	-13.6	4.1
Relative Performance	-2.8	1.9
Attribution:		
Stock Selection		
UK Mainstream	3.5	5.9
UK Specialist Growth	-2.5	-2.2
North America	-1.0	-1.9
Europe excluding UK	–	3.1
Japan	0.1	2.0
Pacific excluding Japan	-0.4	–
Emerging Markets	-0.1	-0.3
	-0.4	6.6
Geographical Asset Allocation (including gearing)	-2.4	-4.7

*Source: AITC

The key to good performance is stock selection: it transcends everything else. Gearing on the other hand is detrimental to performance in falling markets and the Board's decision to increase long-term borrowings last year has exacerbated our short-term underperformance this year, which should not strictly be held against our managers' results. We remain confident that our modest level of borrowings will be beneficial to shareholders over the 25 year life of the new secured bonds, which have been attributed an AA+ rating again by Standard & Poor's. The action taken by our managers to improve our performance is set out in the Manager's Review.

Marketing

As you are aware, we have committed up to £1.5 million in each of the last two years to a combination of the AITC's 'its' generic campaign and our own Witan specific marketing. By any standard our efforts have been very successful and individual shareholders, as opposed to institutional, have increased from 46% to 62% of our shareholder base. We would like to keep the momentum going in order to achieve our target of 75% as we believe it will help to reduce 'discount volatility' and it will help keep us in the forefront of the industry as new products appear and competition for savings grows.

Conflicts of Interest

There is some misconception about how potential conflicts of interest are dealt with by the Board and how we try to resolve them, particularly where members of the Board or the managers may be wearing two hats. Our rule is very simple – any investment decision which may give rise to claims of partiality is scrutinised only by those members who have no personal or corporate interest in the outcome. Moreover, there is some curious belief that owning shares in another quoted closed-end investment trust managed by Henderson Global Investors confers some extra reward on our Manager which is palpably untrue. Nonetheless we subject any such purchase to independent scrutiny and, if we were to invest in an open-ended vehicle managed by them, we would expect no front-end load and no duplication of annual management charge. Likewise during the year the independent directors had a separate meeting to consider the early redemption terms of the Cazenove loan stock and whether or not to participate in the placing offer of its unquoted equity. A fully documented response was given to and accepted by the Board as not only are Cazenove the Company's stockbrokers but two Witan directors were either a partner or a retired partner.

Directors

At the AGM Robin Inchyra will not be seeking re-election and will be retiring from the Board after 23 years of indefatigable service to shareholders. His longevity on the Board may appear 'politically' incorrect to some. To us, as Chairman of the Audit Committee and as valuation arbiter of our unquoted portfolio, he has been scrupulous and conscientious; in our deliberations we benefited from his manner, judgement and recollection. He will be seriously missed at our Board meetings.

Prospects

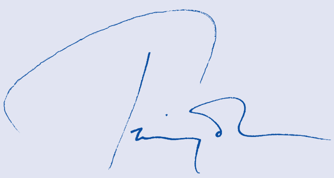
Over the last eighteen months, and more particularly since 11 September, people's perception of risk has changed and their attitude to it is different. Slower economic growth and even the possibility of deflation, combined with the uncertainty engendered by terrorism, have made people much more risk averse. To some extent the smokescreen induced by central banks aggressively cutting interest rates has disguised the true picture. The splurge in consumer spending and cheap borrowing has prompted a partial recovery in stock markets which is a natural knee-jerk reaction to events but carries a rather hollow ring to it.

The supposition that interest rates going down automatically makes equity prices rise looks a little too simplistic at this juncture of the economic cycle – ask the Japanese for their view. The crux of the matter for markets is not whether interest rates can decline still further; it is how good corporate profits and consumer confidence are likely to be. The fly in the ointment, as far as a speedy and painless recovery is concerned, is the serious overcapacity in a great number of industries from motor cars to insurance to investment banking to travel, as well as the underfunded infrastructure of railways, roads, health, schools and even corporate pension schemes. The full cost of this has yet to fall on shareholders, employees and taxpayers. We believe it will be sensible to keep pretty close to shore until a sustainable recovery of earnings becomes more visible.

Annual General Meeting

Our Annual General Meeting will be held at 7.00 pm on Tuesday 12 March 2002 at The Royal Horticultural Society Halls & Conference Centre and I hope that as many of you as possible will be able to attend. Details of the venue, to which we are returning this year in response to shareholder requests, are given on page 47.

As in past years the RHS has offered us a number of entry tickets to Wisley which allow shareholders a free visit during 2002; details of this arrangement can be found on your AGM acceptance card.



Lord Faringdon
29 January 2002

Management Team

Henderson Global Investors Limited, an AMP Company

The directors have appointed Henderson Global Investors Limited, a wholly owned subsidiary of Henderson Global Investors (Holdings) plc, to manage the investment portfolio and the following senior managers are involved with Witan.

Henderson Global Investors (Holdings) plc was acquired by AMP Limited, the leading Australian financial services company, in March 1998. The terms of appointment of Henderson Global Investors Limited are given on page 24.

James Robinson
Manager

Job Curtis
UK Mainstream and
Deputy Manager

Richard Smith
UK Specialist Growth

Ann Hall
North America
(from 14 January 2002)

John Botham
Continental Europe

Michael Wood-Martin
Japan

William Pitman
Far East

Richard Hopkins
Emerging Markets

James Budden
Witan Marketing
Manager

Geoffrey Rice, ACIS
is the appointed
representative of the
corporate company
secretary, Henderson
Secretarial Services
Limited.

Manager's Review

2001 was the second successive year in which share prices ended lower. The fall in our benchmark of 15.4% well upheld the reputation of the Year of the Snake as the worst in the 12-year Chinese cycle. The decline in our own Net Asset Value of 17.7% came in below target (for detailed reasons see the activity and performance section below). Despite this, our discount increased only slightly from 8.3% to 8.9%, remaining close to the lower end of the long-term range. As a result we have not bought back any more shares this year.

James Robinson

Market Review

Markets declined virtually from the start of 2001 as the US economy slipped into recession and corporate earnings were progressively downgraded. This was in spite of a series of reductions in US interest rates which took them to their lowest level in more than 40 years. The world index had lost 22% by 11 September when the world was shaken by the terrorist attacks in New York and Washington. From there losses accelerated, with the index plunging 10% in as many days before staging a powerful recovery. At the close of 2001, the world index was 18% above its 21 September low but was still well adrift from the level at the start of the year.

Geographically the best performing area was the Pacific ex-Japan which fell only 3.0% over the year in sterling terms, followed (somewhat surprisingly) by the US (-10.8%) with Japan the worst performing of the major markets (-28.1%), largely due to the performance of the yen. The UK fell 15.4% but this was better than the rest of Europe which in aggregate was down 21.7%.

Despite being another poor year for the major equity markets, on a thematic basis it has been another good year for value stocks, especially in the UK. This reflects the fact that technology stocks recorded further sharp falls over the year, with the decline being particularly marked in the UK and Scandinavia. Within the technology sector there was a clear divergence between software, which ended the year up in both the US and Europe, and hardware, which ended the year down.

Activity and Performance

We have made a number of changes to the portfolio this year. We have restructured the Pacific and Emerging Markets portfolios to eliminate smaller holdings. This has resulted in a significant reduction in the total number of Witan's holdings, from almost 300 to around 250 stocks overall. We are optimistic about a US economic recovery and it was felt that an effective way to play this might be via an increase in our Pacific ex-Japan weighting, which we duly undertook from mid year onwards. This move was very helpful to us in the final quarter as the Pacific markets bounced strongly. In future we will continue to apply a policy of investing only in individual emerging markets at specific times rather than carrying a general emerging markets allocation.

In July we became very concerned about the short-term outlook for the Japanese economy and for the yen. We therefore decided to reduce the size of the Japanese portfolio by about a third and to hedge around a third of our remaining exposure to the yen. This turned out to be a beneficial decision, although we had to wait until December before we saw a significant weakening in the yen. At the present time Japan's economy remains in deep recession with total activity (including construction and services) falling at an annual rate of 6.5%.

So, what did we get right and what did we get wrong in 2001? On a capital return basis, geographical asset allocation was a small positive but the fact that we were geared in falling markets had an adverse impact, accounting for 1.6% of our total underperformance relative to benchmark. In rising markets gearing is a big advantage but in falling markets the opposite is the case. The good news here is that, at the low point for markets on 21 September, our gearing reached the maximum level permitted by the Board, that is 10%. This enabled us to benefit from the powerful recovery in the final quarter of the year.

Manager's Review
continued

Stock selection was the other negative contributor to our performance. UK Mainstream added value through the year but this was offset by poor performance in North America and in UK Specialist Growth.

Management

Since we last reported to you a year ago, there have been two changes to our Management Team. Richard Hopkins has taken over the Emerging Markets slot from John Crawford, while the management of Witan's North American portfolio has been transferred recently from Chris Galleymore to Ann Hall, a senior member of the International Equities team. Chris was responsible for this portfolio all last year and has therefore written the North American portfolio review. I would like to thank him for his efforts on our behalf over the years.

Outlook

The world economy is in recession, with output growth weaker than at any time since 1982. There has been a speedy and aggressive move to reduce interest rates globally and this should ensure that growth recovers during 2002. However, the recovery will be a 'soggy' one reflecting a continued drag from weaker capital spending. The US is expected to be the first major economy to show an improvement and the signs there are encouraging, with recent economic releases strongly indicating that industry is back on a recovery track after a three month diversion caused by the terrorist attacks. The Eurozone and the UK will likely follow the US lead but the biggest problems are in Japan where the downturn is most severe and the scope for policy easing is most constrained. The good news is that last year's weaker growth, together with lower oil prices, should combine to depress inflation globally, allowing central banks to keep interest rates lower than usual, so helping to nurture the recovery.

Though there are risks, it looks probable that September was the end of the 2000/01 bear market and that we are enjoying the first liquidity-driven leg of a cyclical bull market. With the exception of the US which is now close to fair value, most regions' valuations are still on the cheap side. Liquidity conditions are also generally positive. Earnings trends for the US appear to be moving upwards whilst those for the UK and Europe appear to be stabilising. Japan remains weak. Overall earnings should improve as the global economy turns up in 2002. However, deflationary trends will continue to act as a dampener with the result that earnings recovery could be more muted than usual.

Equity markets should nevertheless produce returns above cash and bonds as they normally do in economic recovery phases. Given the long run of value performance and the resulting lack of value opportunities in the market, we believe 'growth' will be the best strategy for 2002. Assured earnings growth is a rare commodity and those companies that can produce it will increasingly attract a premium rating. Technology is also entering an upturn but it is important to realise that this is essentially cyclical rather than secular and that much of this has now been discounted by the markets. On balance a neutral to small overweight position in technology seems appropriate.

Attractions of Witan

After a year such as the last one, it seems appropriate to remind investors of the major reasons for investing in a long term fund such as Witan:

- Access to a broadly diversified portfolio of the best global companies
- The benefits of a flexible investment policy which allows us to take advantage of changes in market conditions
- As one of the giants of the investment trust sector, Witan's shares are more liquid than most
- Management charges which are highly competitive
- A straight forward solution to most investor needs
- Active management by a team of professionals with the aim of producing long-term outperformance

Conclusion

During the past twelve months I have met many of our shareholders and I would like to conclude by thanking you for your support during what has been a testing time. 2002 is shaping up to be a better year for the global economy and we expect it to prove sufficient to sustain a reasonable level of optimism in equity markets while interest rates and inflation remain so low.

J P Robinson
29 January 2002

Performance Attribution Analysis

Performance Attribution: 12 months to 31 December 2001 – Computed on a capital return basis relative to the customised benchmark (60% FTSE All-Share Index and 40% FTSE World (ex UK) Index, excluding income). The return shown is before expenses and management fees.

Equity Markets	Average Benchmark Allocation (%)	Average Witan Allocation (%)	Performance Witan (%)	Performance Benchmark (%)	Contribution from: Asset Allocation (%)	Contribution from: Stock Selection (%)
UK Mainstream	60.0	52.5	(10.1)	(15.4)	–	3.3
UK Specialist Growth	–	8.2	(40.6)	(15.4)	–	(2.4)
North America	25.7	21.5	(15.9)	(12.0)	(0.2)	(1.0)
Europe ex UK	8.2	11.4	(21.3)	(21.7)	(0.2)	0.1
Japan	4.0	6.2	(27.1)	(28.0)	(0.3)	0.1
Pacific ex Japan	1.4	3.7	(13.4)	(3.0)	0.3	(0.4)
Emerging Markets	0.7	0.6	(23.8)	(10.9)	–	(0.1)
Unquoted – UK	–	0.9	(20.6)	–	(0.1)	–
Unquoted – Overseas	–	1.3	3.5	–	0.3	–
Cash/Other	–	2.6	3.3	–	0.6	–
Gearing	–	(8.9)	–	–	(1.6)	–
Residual	–	–	–	–	(0.1)	–
Total	**100.0**	**100.0**	**(17.1)**	**(15.4)**	**(1.3)**	**(0.4)**

The above returns are sourced from WM.

Portfolio Sector Analysis against Benchmark

at 31 December 2001

This analysis is included to show shareholders in which economic sectors investment is based for Witan and for the benchmark.

ECONOMIC SECTOR BIASES	Witan %	Benchmark %	Difference %
Resources	10.3	11.5	-1.2
Basic Industries	3.8	3.2	+0.6
General Industrials	5.0	5.3	-0.3
Cyclical Consumer Goods	1.4	1.3	+0.1
Non-Cyclical Consumer Goods	16.3	18.8	-2.5
Cyclical Services	15.7	13.1	+2.6
Non-Cyclical Services	10.0	11.1	-1.1
Utilities	4.1	3.5	+0.6
Information Technology	7.8	7.0	+0.8
Financials	25.3	25.2	+0.1
Fixed Interest	0.3	–	+0.3
TOTAL	**100.0**	**100.0**	

Twenty Largest Investments

The 20 largest investments at 31 December 2001 were as follows:

		Market value of holding £'million	% of portfolio	Country	Description
1	BP	61.41	3.78	(UK)	*oil & gas*
2	GlaxoSmithKline	59.24	3.65	(UK)	*pharmaceuticals*
3	Vodafone	57.52	3.54	(UK)	*telecommunications*
4	HSBC	40.30	2.48	(UK)	*banking*
5	Shell Transport & Trading	40.12	2.47	(UK)	*oil & gas*
6	Barclays	34.13	2.10	(UK)	*banking*
7	Royal Bank of Scotland	25.95	1.60	(UK)	*banking*
8	Henderson American Smaller Companies Fund	25.43	1.57	(USA)	*open ended investment company*
9	Lloyds TSB	22.38	1.38	(UK)	*banking*
10	Thames River First Absolute Return	21.10	1.30	(USA)	*investment company*
11	AstraZeneca	17.04	1.05	(UK)	*pharmaceuticals*
12	Henderson Strata	15.99	0.98	(UK)	*investment trust*
13	HBOS	15.92	0.98	(UK)	*banking*
14	Diageo	15.70	0.97	(UK)	*alcoholic beverages*
15	CGNU	14.13	0.87	(UK)	*life assurance*
16	Microsoft	14.11	0.87	(USA)	*software & computer services*
17	Pfizer	14.03	0.86	(USA)	*pharmaceuticals*
18	General Electric Co	13.77	0.85	(USA)	*diversified industries*
19	Rio Tinto	13.16	0.81	(UK)	*mining*
20	Prudential	13.13	0.81	(UK)	*life assurance*

Classification of Investments

at 31 December 2001

		United Kingdom %	Continental Europe %	North America %	Japan %	Far East %	Emerging Markets %	**Total 2001 %**	Total 2000 %
Resources	Mining	1.6	–	–	–	0.4	–	**2.0**	1.2
	Oil & Gas	6.4	0.7	1.2	–	–	–	**8.3**	8.1
		8.0	0.7	1.2	–	0.4	–	**10.3**	9.3
Basic Industries	Chemicals	0.8	0.4	0.3	0.2	–	–	**1.7**	1.4
	Construction & Building Materials	1.4	0.2	–	0.1	–	–	**1.7**	1.3
	Steel & Other Metals	–	–	0.4	–	–	–	**0.4**	0.3
		2.2	0.6	0.7	0.3	–	–	**3.8**	3.0
General Industrials	Aerospace & Defence	1.1	–	–	–	–	–	**1.1**	1.3
	Diversified Industries	–	–	0.9	0.1	0.3	–	**1.3**	1.3
	Electronic & Electrical Equipment	–	0.6	–	1.2	–	–	**1.8**	3.2
	Engineering & Machinery	0.3	–	0.5	–	–	–	**0.8**	0.4
		1.4	0.6	1.4	1.3	0.3	–	**5.0**	6.2
Cyclical Consumer Goods	Automobiles	0.2	0.2	0.2	0.2	–	–	**0.8**	0.5
	Household Goods & Textiles	0.4	0.2	–	–	–	–	**0.6**	0.3
		0.6	0.4	0.2	0.2	–	–	**1.4**	0.8
Non-Cyclical Consumer Goods	Beverages	1.4	–	0.8	0.2	–	–	**2.4**	2.4
	Food Producers & Processors	1.2	–	–	–	–	–	**1.2**	1.3
	Health	0.9	–	1.1	–	–	–	**2.0**	1.3
	Packaging	–	0.1	–	–	–	–	**0.1**	–
	Personal Care & Household Products	–	0.3	0.2	–	–	–	**0.5**	0.4
	Pharmaceuticals	5.2	0.8	2.4	–	–	–	**8.4**	8.9
	Tobacco	1.4	–	0.3	–	–	–	**1.7**	1.1
		10.1	1.2	4.8	0.2	–	–	**16.3**	15.4
Cyclical Services	Distributors	–	0.2	–	–	–	–	**0.2**	0.2
	General Retailers	2.5	0.1	1.4	0.2	–	–	**4.2**	3.4
	Leisure, Entertainment & Hotels	1.5	–	–	–	–	–	**1.5**	0.8
	Media & Photography	3.2	0.9	0.6	0.4	0.2	–	**5.3**	6.3
	Restaurants & Pubs	0.4	–	–	–	–	–	**0.4**	1.0
	Support Services	1.1	–	0.4	0.2	–	–	**1.7**	1.4
	Transport	1.3	–	0.3	0.3	0.5	–	**2.4**	2.6
		10.0	1.2	2.7	1.1	0.7	–	**15.7**	15.7
Non-Cyclical Services	Food & Drug Retailers	1.0	0.4	–	–	–	–	**1.4**	2.0
	Telecommunication Services	4.9	1.4	1.2	0.5	0.6	–	**8.6**	9.3
		5.9	1.8	1.2	0.5	0.6	–	**10.0**	11.3
Utilities	Electricity	1.1	0.2	0.6	–	–	–	**1.9**	2.3
	Gas Distribution	1.6	–	–	–	–	–	**1.6**	1.3
	Water	0.5	0.1	–	–	–	–	**0.6**	0.6
		3.2	0.3	0.6	–	–	–	**4.1**	4.2
Information Technology	Information Technology Hardware	–	0.6	2.3	–	0.7	–	**3.6**	2.8
	Software & Computer Services	1.8	–	2.2	0.2	–	–	**4.2**	5.1
		1.8	0.6	4.5	0.2	0.7	–	**7.8**	7.9
Financials	Banks	9.5	0.9	1.6	0.3	1.4	–	**13.7**	11.0
	Insurance	0.4	0.5	1.1	–	–	–	**2.0**	3.9
	Life Assurance	2.0	–	–	–	–	–	**2.0**	2.3
	Investment Companies	1.8	–	1.6	–	–	–	**3.4**	5.5
	Real Estate	1.0	–	–	–	0.8	–	**1.8**	1.2
	Speciality & Other Finance	0.4	1.0	0.7	0.3	–	–	**2.4**	1.7
		15.1	2.4	5.0	0.6	2.2	–	**25.3**	25.6
Fixed Interest	Fixed Interest	–	–	–	–	–	–	**–**	0.1
	Convertibles	0.3	–	–	–	–	–	**0.3**	0.3
	Preference	–	–	–	–	–	–	**–**	0.2
		0.3	–	–	–	–	–	**0.3**	0.6
Totals 2001		**58.6**	**9.8**	**22.3**	**4.4**	**4.9**	**–**	**100.0**	
Totals 2000		59.1	11.5	19.7	6.4	2.3	1.0		100.0

United Kingdom,

mainstream portfolio review

Job Curtis

UK mainstream portfolio (£831m) by sector	2001 %	2000 %
Financials	**26**	25
Non-Cyclical Consumer Goods	**18**	17
Resources	**15**	14
Cyclical Services	**15**	16
Non-Cyclical Services	**12**	13
Utilities	**6**	5
Basic Industries	**4**	4
General Industrials	**3**	4
Cyclical Consumer Goods	**1**	–
Information Technology	**–**	2
	100	100

Market Review

The UK stockmarket endured a second consecutive down year falling by some 15%. This is the first time since the bear market of 1973/1974 that it has fallen two years in a row.

By contrast, the performance of the UK economy was reasonably sound with GDP growth of some 2%. Inflation remained close to the government's target of 2.5%. Domestic service sector growth was particularly good but manufacturers suffered from the strength of sterling against the euro and from the global overcapacity in many industries.

The key reason for the disappointing stockmarket performance was the sharp share price decline in the technology, media and telecommunications sectors. Companies in these sectors failed to match optimistic forecasts for revenues and profits. The share price falls were severe as valuations had previously been so high.

The nadir for the UK stockmarket in 2001 was reached on 21 September, in the uncertain period following the World Trade Centre attack, at which point it had fallen by some 28%. The rally that followed was driven by cuts in base rates as the Bank of England responded to the deteriorating international economic climate. Base rates, which had been cut from 6% to 5% in the first nine months of 2001, were then cut further to end the year at 4%, the lowest level since 1962.

The stockmarket rally in the last three months of the year was led by the technology, media and telecommunications sectors. Investors anticipated an improvement in the difficult conditions for these sectors but their share prices still remained well down on the year.

Portfolio Activity

Throughout the year, Witan was significantly underweight relative to the FTSE All-Share Index in the telecommunications services sector where share prices declined as consensus expectations for growth were downgraded. In addition, investors became increasingly concerned about whether satisfactory returns would be made from past acquisitions, capital expenditure and the cost of acquiring new (third generation) mobile licences. In the case of **British Telecom**, debts rose to a

United Kingdom investments (mainstream)

£'000	Equity investments by value		% of UK mainstream portfolio
61,410	BP	*oil & gas*	7.39
59,237	GlaxoSmithKline	*pharmaceuticals*	7.13
57,520	Vodafone	*telecommunications*	6.92
40,300	HSBC	*banking*	4.85
40,120	Shell Transport & Trading	*oil & gas*	4.83
34,125	Barclays	*banking*	4.11
25,946	Royal Bank of Scotland	*banking*	3.12
22,380	Lloyds TSB	*banking*	2.69
17,039	AstraZeneca	*pharmaceuticals*	2.05
15,920	HBOS	*banking*	1.92
15,700	Diageo	*alcoholic beverages*	1.89
14,132	CGNU	*life assurance*	1.70
13,160	Rio Tinto	*mining*	1.58
13,134	Prudential	*life assurance*	1.58
13,106	British American Tobacco	*tobacco*	1.58
11,385	BT	*telecommunications*	1.37

£'000	Equity investments by value		% of UK mainstream portfolio
10,980	BG	*gas distribution*	1.32
9,960	Tesco	*food retailing*	1.20
9,285	BAE Systems	*aerospace*	1.12
9,060	Imperial Tobacco	*tobacco*	1.09
9,024	Unilever	*food manufacturing*	1.09
8,950	Next	*retailing*	1.08
8,923	Smith & Nephew	*healthcare*	1.07
8,820	Abbey National	*banking*	1.06
8,547	Land Securities (inc convertible)	*property*	1.03
7,800	Lattice	*gas distribution*	0.94
7,725	Compass	*leisure*	0.93
7,560	BSkyB	*media*	0.91
7,417	Great Universal Stores	*retailing*	0.89
7,287	Anglo American	*mining*	0.88
7,220	Marks & Spencer	*retailing*	0.87
7,000	Reckitt Benckiser	*household products*	0.84

level where a deeply discounted rights issue for new equity was required and the dividend was passed.

After severe share price declines, valuations in the telecommunications services sector became more realistic and so we added to two of our positions in the sector. The holding in **British Telecom** was increased as its balance sheet had improved through the rights issue and disposals of mobile telephone interests. The demerger of its remaining mobile interests into a new separate company, called **mmO2**, released some latent shareholder value. Additional investment was also made in **Vodafone**, the leading international mobile telephone company. Growth from voice telephone services appeared to be steady even if the outlook for data traffic is uncertain. The company had been successful in preserving its balance sheet by paying for its many acquisitions of recent years by issuing new shares rather than through borrowing.

In contrast, **Marconi**, the telephone component supplier, had paid for some large acquisitions in the United States by borrowing. We had failed to foresee how difficult the combination of poor trading conditions and high debt would prove to be for the company. The holding was sold after the second profits warning.

The stockmarket's largest sector, banks, outperformed over the year against a background in the UK of strong loan growth and low incidence of bad debts. **Barclays**, which is Witan's most overweight holding in the sector, was a particularly strong performer. Additional investment was made in **Royal Bank of Scotland**, which continued to benefit from its acquisition of **National Westminster**. Some profits were taken in **Lloyds TSB** with the proceeds reinvested in **HSBC** which has the attraction of a strong global franchise.

The pharmaceutical sector performed steadily over the year. The weighting in **AstraZeneca** was reduced as it faces a patent expiry of its most important medicine. The large holding in **Glaxo SmithKline** was maintained.

The performance of oil shares proved to be less volatile than the Brent Crude oil price which, having reached US$30 a barrel in early June, fell to US$18 a barrel by November. Oil company share prices never reflected the high June oil price and therefore were not too badly damaged by the fall in the oil price to a level believed by the major companies to be more sustainable. During the course of the year, we switched some **Shell** into **BP** because of the more impressive production growth achieved by BP.

Witanwisdom

"Wealth is not without its advantages and the case to the contrary, although it has often been made, has never been widely persuasive"

J.K. Galbraith

United Kingdom investments (mainstream)

£'000	Equity investments by value		% of UK mainstream portfolio
6,825	Scottish & Newcastle	*alcoholic beverages*	0.82
6,801	Cable & Wireless	*telecommunications*	0.82
6,800	Six Continents	*leisure*	0.82
6,660	Centrica	*gas distribution*	0.80
6,560	Reuters	*media*	0.79
6,405	J Sainsbury	*food retailing*	0.77
6,360	BOC	*chemicals*	0.77
6,280	Exel	*transport*	0.76
5,875	Dixons	*retailing*	0.71
5,862	Caledonia Investments	*speciality and other finance*	0.71
5,837	British Land	*property*	0.70
5,750	Wolseley	*building materials*	0.69
5,730	National Grid	*electricity*	0.69
5,700	Reed International	*media*	0.69
5,650	National Express	*transport*	0.68
5,505	BAA	*transport*	0.66

£'000	Equity investments by value		% of UK mainstream portfolio
5,416	Smiths	*aerospace*	0.65
5,260	Boots	*retailing*	0.63
5,060	Bunzl	*support services*	0.61
5,040	Associated British Foods	*food producers & processors*	0.61
4,946	Berkeley	*construction & building materials*	0.60
4,940	Scottish Power	*electricity*	0.59
4,770	Legal & General	*life assurance*	0.57
4,740	Hanson	*building materials*	0.57
4,616	United Utilities	*water*	0.56
4,600	Rank	*leisure*	0.55
4,380	Cadbury Schweppes	*food producers & processors*	0.53
4,363	BHP Billiton	*mining*	0.53
4,220	Hilton	*hotels*	0.51
4,144	Alliance Unichem	*healthcare*	0.50
4,144	Slough Estates	*property*	0.50
4,100	Standard Chartered	*banking*	0.49

United Kingdom,
mainstream portfolio review – continued

However, Shell remains our biggest overweight position in the sector because of its balance sheet strength and the underlying quality of its global interests.

In the transport sector, **Railtrack** was sold at over £9 a share as the company's problems mounted in the wake of the Hatfield crash. Also in transport, sales were made of **British Airways**, which was suffering from competition from low cost airlines in Europe, and **BBA** whose trading disappointed. On the other hand, **BAA**, which owns and operates Heathrow, Gatwick and Stansted airports, was purchased. The company had a reasonable regulatory review and received planning permission to build a fifth terminal at Heathrow.

In the food producers and processors sector, we bought **Associated British Foods**, the international food, ingredients and retail group. The company offered dependable earnings and dividend growth at an undemanding valuation. This was funded by the sale of the holding in **Gallaher**, the tobacco company, which had performed well. In the healthcare sector, we bought **Alliance Unichem**, which is one of the leading distributors of medicines to chemists across Europe. The rating of the company appeared modest given its record of earnings and dividend growth.

In the construction and building materials sector, we purchased **AMEC**, the international provider of services and engineering. The company should benefit from the strong growth trend for UK infrastructure projects. This holding replaced **RMC** where trading remained difficult.

In the leisure sector, we purchased **Rank** which as the leading UK operator of casinos and bingo halls will benefit from the likely deregulation of gaming as recommended by the Budd report. We sold **P & O Princess Cruises** on concern over the impact of falling consumer confidence on the US cruise market. The company was subsequently involved in merger talks with a competitor. A more successful sale was **EMI**, in the media sector, ahead of it issuing a profits warning due to the poor conditions in the CD music market worldwide.

In the support services sector, a holding in **Michael Page** was purchased. The company is the leading professional recruitment consultancy in the UK, France and Australia. It has considerable potential as these economies recover.

Outlook

The combination of low interest rates and rising house prices is a powerful one for the UK economy and should help maintain growth in the service sector. Witan is positioned to benefit from a continuation of this trend with overweight positions in sectors such as retailers, leisure and construction. Output in the manufacturing sector will be determined more by global factors; there is scope for recovery, especially if sterling weakens against the euro.

The valuation of the UK equity market appears attractive relative to British government bonds or cash. We would expect improving corporate profits to be the catalyst for a better year for UK equities.

United Kingdom investments (mainstream)

£'000	Equity investments by value		% of UK mainstream portfolio
3,948	Royal & Sun Alliance	*insurance*	0.48
3,872	Trinity Mirror	*media*	0.47
3,840	Innogy	*electricity*	0.46
3,660	Scottish & Southern Energy	*electricity*	0.44
3,645	Kingfisher	*retailing*	0.44
3,460	mmO2	*telecommunications*	0.42
3,395	British Vita	*chemicals*	0.41
3,358	AMEC	*construction & building materials*	0.40
3,339	Johnson Matthey	*chemicals*	0.40
3,330	Rolls-Royce	*aerospace*	0.40
3,305	Mersey Docks & Harbour	*transport*	0.40
3,000	BPB	*building materials*	0.36

£'000	Equity investments by value		% of UK mainstream portfolio
2,870	Granada	*media*	0.35
2,848	BRIT Insurance (inc CULS)	*insurance*	0.34
2,652	Michael Page International	*support services*	0.32
2,650	GKN	*automobiles*	0.32
2,590	FKI	*engineering*	0.31
2,435	Pantheon (inc loan notes)	*investment trust*	0.29
2,373	United Business Media	*media*	0.29
2,155	Bodycote	*engineering*	0.26
2,000	Aegis	*media*	0.24
1,804	Ockham	*insurance*	0.22
701	Henderson High Income	*investment trust*	0.07
830,741			100.00

United Kingdom,
specialist growth portfolio review

Richard Smith

UK specialist growth portfolio (£103m) by sector	2001 %	2000 %
Cyclical Services	**37**	29
Information Technology	**28**	26
Financials	**25**	26
Non-Cyclical Consumer Goods	**6**	4
Utilities	**3**	1
Basic Industries	**1**	–
Cyclical Consumer Goods	–	1
Non-Cyclical Services	–	13
	100	100

It was a painful year for many of the companies in the specialist growth portfolio. Increasing uncertainty over earnings combined with already high ratings led to sharp falls in their share prices. What had seemed to be strong earnings growth stretching out several years started to be questioned not only for its durability but also for the shorter term outlook. The doubts centred more on the software companies which increasingly were finding customers delaying the signing of new contracts. Also those media companies exposed to advertising revenues were hit as many clients rushed to cut back expenditure in view of the uncertain economic climate.

There were a few bright spots with **Pizza Express** and **South Staffordshire Group** both producing share price returns over 40% for the year. **Xansa** (formerly FI Group) also performed well, defying what was a difficult year for the IT service companies.

Portfolio Activity

The major change over the year was the complete sale of **Colt Telecom**. When it became clear that the company might struggle to match expectations the balance of the holding was sold at a significant profit. Other holdings where there were increasing doubts over the longer term viability of the business were sold, including **Holmes Place** and **Trafficmaster**.

There were no new investments introduced to this specialist portfolio during the year but several of the holdings were built up to more significant levels in view of their increasingly favourable prospects. These included **Sage Group** which continues to dominate the software market for small and medium-sized businesses as well as start-up companies. Increasingly they are taking market share throughout Europe and the USA. Also the holdings in **Pizza Express** and **Anite** were increased as their ability to push profits ahead in uncertain times became more assured.

Outlook

The low point of markets in 2001 was late September. The subsequent recovery in share prices was led by the technology companies and selected media stocks. This helped many of the holdings in the portfolio which in some cases had fallen too far. Even after this recovery the ratings of many of the holdings are now much more realistic and offer the prospect of good returns in 2002.

Witanwisdom

"The secret of success is constancy of purpose"

Benjamin Disraeli

United Kingdom investments (specialist growth)

£'000	Equity investments by value		% of UK specialist growth portfolio
15,995	Henderson Strata	*investment trust*	15.56
12,503	Xansa	*business & computer services*	12.15
9,732	3i Group	*investment trust*	9.47
7,961	Taylor Nelson Sofres	*market information*	7.74
7,152	Pizza Express	*restaurants*	6.96
6,852	BTG	*patenting and licensing*	6.67
6,080	WPP	*media*	5.91
6,020	Shire Pharmaceutical	*pharmaceuticals*	5.86
4,860	CMG	*computer systems developments*	4.73
4,570	Sage Group	*software*	4.45
4,262	Anite	*i.t. consultancy and services*	4.15
3,615	South Staffordshire Group	*water supply and other services*	3.52
3,060	Interserve	*support services*	2.98
3,046	GWR	*local radio*	2.96
1,937	Capital Radio	*broadcasting*	1.88
1,068	Informa	*business information*	1.04
974	Diagonal	*i.t. services*	0.95
661	Parity	*computer systems*	0.64
658	London Bridge Software	*software for banking*	0.64
658	RM Group	*educational software*	0.64
574	Taylor & Francis	*publisher of journals*	0.56
525	Guardian IT	*business continuity*	0.51
34	Torotrak	*transmission systems*	0.03
102,797			100.00

North America,

portfolio review

Christopher Galleymore

North America portfolio (£353m) by sector	2001 %	2000 %
Financials	**23**	24
Non-Cyclical Consumer Goods	**22**	21
Information Technology	**20**	23
Cyclical Services	**12**	8
General Industrials	**6**	7
Resources	**5**	7
Non-Cyclical Services	**5**	4
Utilities	**3**	3
Basic Industries	**3**	2
Cyclical Consumer Goods	**1**	–
Fixed Interest	**–**	1
	100	100

The US economy slipped into recession last year after 10 years of economic expansion, the longest uninterrupted period of prosperity since the second world war. Unlike other post war recessions this downturn was led by the corporate sector with a sharp slow down in capital spending and a rapid reduction in inventories. The US consumer has remained remarkably resilient. The recession has been accompanied by an unusually sharp decline in corporate profits. This reflects the higher operating leverage resulting from years of heavy capital spending to substitute capital for labour.

The Federal Reserve has responded with aggressive monetary stimulus, cutting interest rates 11 times from 6.5% to 1.75% over the course of the year. Normally this degree of monetary easing would lead to a sharp rally in the equity market, but the magnitude of the decline in profits has more than counterbalanced it. Operating earnings on the S&P 500 are estimated to have declined by over 30% in 2001, bringing profit margins down to the post war lows last seen in 1983. As a result the market has suffered a 10.8% decline in sterling terms over the past year.

Portfolio Activity

The major change over the period has been the move back into some of the quality names in the 'old economy'. As signs of recession triggered the move to stimulative monetary and fiscal policies, investors started to move into areas which generally do well in the early stages of an economic recovery. Keeping a focus on strong balance sheets and managements with proven track records, purchases were made of **Johnson Controls** in automobile parts manufacture, **Canadian National Railway**, **Caterpillar** and **Parker Hannifin** which makes industrial components used in a wide range of end markets. Within the consumer sector we added **Target**, one of the leading discount retailers.

The other main area of activity was in technology where the magnitude of the slowdown in spending affected even the strongest companies. Sales were made of a number of mid-sized companies in order to focus on a small number of industry leaders. **BEA Systems**, **Brocade Communications**, **EMC Corp**, **Juniper Networks**, **Nortel Networks**, **Siebel Systems**, **Sycamore Networks**, **Veritas Software** and **Verisign** were all sold, offset by

North America investments

£'000	Equity investments by value		% of North America portfolio
25,430	Henderson American Smaller Companies	*open ended investment company*	7.21
14,111	Microsoft	*software & computer services*	4.00
14,033	Pfizer	*pharmaceuticals*	3.98
13,769	General Electric Co	*diversified industries*	3.90
12,855	American International	*insurance*	3.64
12,639	Exxon Mobil	*oil & gas*	3.58
11,330	Citigroup	*bank*	3.21
10,251	Duke Energy	*electricity*	2.91
9,973	IBM	*information technology hardware*	2.83
9,886	Wal-Mart Stores	*general retailers*	2.80
9,697	American Home Products	*pharmaceuticals*	2.75
9,111	Bristol Myers Squibb	*pharmaceuticals*	2.58
8,088	Cisco Systems	*software and computer services*	2.29

£'000	Equity investments by value		% of North America portfolio
7,940	AOL Time Warner	*software, computer & media services*	2.25
7,488	Intel	*information technology hardware*	2.12
7,450	Pepsico	*beverages*	2.11
7,010	Home Depot	*general retailers*	1.99
6,595	Alcoa	*steel & other metals*	1.87
6,468	First Data	*support services*	1.83
6,205	Target	*general retailers*	1.76
6,158	Medtronic	*health*	1.75
6,131	American Express	*speciality & other finance*	1.74
6,122	Clear Channel Communications	*media & photography*	1.74
6,091	Johnson & Johnson	*health*	1.73
5,537	Marsh & McLennan	*insurance*	1.57
5,515	Du Pont (Ei) De Numours	*chemicals*	1.56
5,275	Pharmacia	*pharmaceuticals*	1.50

increasing the positions in **Cisco Systems**, **IBM** and **Intel**. In addition, towards the end of the year we repurchased **Sun Microsystems** and **Lucent** at prices well below the levels at which they had been sold last year.

The result of these changes has been a reduction in the total number of holdings to 52 names, a deliberate move to concentrate the portfolio. Within financials **Freddie Mac** and **Ace** were sold and the proceeds used to buy **JP Morgan Chase** and add to **AIG**, **Citigroup** and **Morgan Stanley**. In telecommunications the emerging carriers **Level 3 Communications** and **Nextel Communications** were sold, with purchases of **Verizon**, **SBC** and **AT & T Wireless** used to raise the sector exposure to a smaller underweight, as cuts in capital spending start to bring capacity back in line with demand. Finally in consumer staples the portfolio continues to focus on those companies which continue to deliver earnings growth. New holdings in **Colgate-Palmolive** and **Philip Morris** were added while **Safeway** and **Interpublic Group** were sold as profits fell short of expectations.

Outlook

The S&P 500 has just experienced the second worst bear market since 1945 with a peak to trough decline of 37%. Even without the final selling panic in September following the World Trade Centre disaster, the decline would have been 28% which exceeds the post war average decline of 23%. In response the US now has in place aggressive fiscal stimulus as well as monetary easing. The combined impact of President Bush's May tax cut plus the emergency measures implemented after the terrorist attacks add up to over 1.5% of GDP, the largest stimulus since 1983. The economy should start to grow again by the second quarter of 2002 and equity markets discount the trough in the economy by around 6 months. This would be consistent with the market's low point established at the end of September. The muted build up in inflation remains the unique aspect of this current cycle. With large amounts of surplus manufacturing capacity in all regions of the world, companies have very little pricing power, and the secular growth rate in profits is likely to be much lower in the coming decade than in the past. In this environment companies which can sustain consistent earnings growth will be ever more scarce and are likely to sustain big valuation premia. As many of the traditional safe growth areas disappoint, such as some of the large mature pharmaceutical stocks, the challenge will be to identify tomorrow's growth companies. The smaller companies are likely to provide fertile hunting ground and we retain our exposure via the American Smaller Companies fund.

Witanwisdom

"It takes 20 years to make an overnight success"

Eddie Cantor

£'000	Equity investments by value		% of North America portfolio
4,891	Verizon Communications	*telecommunications services*	1.39
4,762	Dell Computers	*information technology hardware*	1.35
4,726	Philip Morris	*tobacco*	1.34
4,665	Cardinal Health	*health*	1.32
4,480	Wells Fargo	*bank*	1.27
4,460	Oracle Systems	*software and computer services*	1.26
4,425	Texas Instruments	*information technology hardware*	1.25
4,420	Morgan Stanley Dean Witter	*speciality & other finance*	1.25
4,394	Mellon Financial	*bank*	1.25
4,308	Caterpillar	*engineering and machinery*	1.22
4,246	JP Morgan Chase	*bank*	1.20
4,212	Coca Cola	*beverages*	1.19
4,170	AT & T	*telecommunications*	1.18

£'000	Equity investments by value		% of North America portfolio
3,981	Canadian National Railway	*transport*	1.13
3,884	Johnson Controls	*automobiles*	1.10
3,785	Parker Hannifin	*engineering and machinery*	1.07
3,571	Colgate-Palmolive	*personal care & household products*	1.01
3,472	Williams	*oil & gas*	0.99
3,263	Chevrontexaco	*oil & gas*	0.93
3,216	Comcast	*media & photography*	0.92
3,211	Sun Microsystems	*information technology hardware*	0.91
3,193	Worldcom	*telecommunications services*	0.91
3,095	SBC Communications	*telecommunications services*	0.88
3,030	Lucent Technologies	*information technology hardware*	0.86
2,962	AT & T Wireless	*telecommunications*	0.84
2,741	Molex	*information technology hardware*	0.78
352,721			100.00

Continental Europe,

portfolio review

John Botham

Continental Europe portfolio (£159m) by country	**2001**	2000
	%	%
France	**28**	29
Netherlands	**23**	27
Switzerland	**15**	16
Germany	**12**	10
Italy	**10**	5
Finland	**4**	2
Spain	**3**	4
Denmark	**3**	2
Sweden	**2**	2
Ireland	**–**	2
Belgium	**–**	1
	100	100

Market Review

European markets as measured by our benchmark index were down by around 22% during 2001. Through the first nine months of the year investors were concerned by the prospect of falling earnings and recession. Earnings prospects continued to deteriorate with individual company downgrades continuing to surprise investors. Despite several short-lived rallies European markets fell.

As we entered September pessimism reached a crescendo, culminating in the terrorist outrage of 11 September. This tragedy sowed the seeds of recovery with rapid action by central banks, especially the US Federal Reserve, and also the European Central Bank increasing the likelihood of economic recovery in 2002. Although necessary, this was not the sole factor behind the recovery in markets; the precipitous sell off both pre and post the tragedy created very attractive valuation levels whilst the fall in the oil price from around $27 in late 2000 to $18 this year has supported real incomes and removed any latent inflationary pressure. Business inventories are also at all-time lows. It was therefore no surprise to see markets rally over the final quarter of the year.

Technology stocks have continued their underperformance from 2000, as the overvaluation from bubble levels has continued to unwind and earnings expectations have been decimated by the slowing economic environment. Telecom stocks have laboured under their huge debt burden. By contrast, pharmaceuticals, food manufacturers and utilities have outperformed. The key to outperformance has been earnings stability. Perhaps the most surprising feature has been the outperformance of certain ‘old fashioned’ industrial sectors such as paper and building materials. In our view such sectors are benefiting from the consolidation that has occurred in past years which has caused better price and volume discipline and resulted in less volatile profits. It remains to be seen if such positive trends will extend to other highly cyclical industries like steel, chemicals and even semiconductors.

At an individual country level, Finland was the worst performer falling 38%, dragged down by the poor performance of the index heavyweight, **Nokia**. By contrast Spain fell only 7%, the defensive nature of its index constituents providing support.

The outperformance of defensive, predictable sectors was extremely marked until the low point of the year on 21 September. As markets have recovered and optimism regarding a 2002

Continental Europe investments

£’000	Equity investments by value			% of Continental Europe portfolio
7,378	BNP Paribas	(France)	*banking*	4.63
6,852	Total Fina Elf	(France)	*oil & gas*	4.30
6,655	Vivendi Universal	(France)	*media*	4.18
5,998	Ahold	(Netherlands)	*food retailer*	3.77
5,120	Nestlé	(Switzerland)	*consumer products*	3.22
4,901	Philips Electronics	(Netherlands)	*electronics*	3.08
4,698	Telecom Italia	(Italy)	*telecommunications*	2.95
4,605	Nokia	(Finland)	*mobile telecommunications*	2.89
4,595	Royal Dutch Petroleum	(Netherlands)	*oil & gas*	2.89
4,178	Swiss Reinsurance	(Switzerland)	*insurance*	2.62
4,143	SAP	(Germany)	*software & computer services*	2.60
3,896	Aventis	(France)	*pharmaceuticals*	2.45
3,822	Bayer	(Germany)	*chemicals*	2.40
3,724	Cie De St Gobain	(France)	*building materials*	2.34

£’000	Equity investments by value			% of Continental Europe portfolio
3,671	Telecom Italia Di Risp	(Italy)	*telecommunications*	2.31
3,561	Fortis	(Netherlands)	*insurance*	2.24
3,512	DSM	(Netherlands)	*chemicals*	2.20
3,496	Telefonica	(Spain)	*telecommunications*	2.20
3,436	Generali	(Italy)	*insurance*	2.16
3,369	Novo-Nordisk	(Denmark)	*pharmaceuticals*	2.12
3,249	Allianz	(Germany)	*insurance*	2.04
3,231	Hagemeyer	(Netherlands)	*distributor*	2.03
3,222	Credit Suisse	(Switzerland)	*banking*	2.02
3,188	Ericsson	(Sweden)	*mobile telecommunications*	2.00
3,184	Unicredito Italiano	(Italy)	*banking*	2.00
3,120	UBS	(Switzerland)	*banking*	1.96
2,977	Novartis	(Switzerland)	*pharmaceuticals*	1.87
2,973	Schneider Electric	(France)	*electrical equipment*	1.87

economic recovery has increased so the laggards have become the leaders and a number of technology and telecom stocks have risen like the proverbial phoenix!

Portfolio Activity

We entered the year overweight in more defensive sectors of the market. Despite our correct strategic positioning we suffered from some stock specific problems, for example **Ericsson**, the mobile infrastructure company. Indeed some of the more defensive holdings disappointed us, in particular **Buhrmann**, the Dutch office products company. We continued to invest for earnings predictability, disposing of holdings in telecoms equipment maker **Alcatel** and computer consultant **Cap Gemini**, boosting our positions in the oil sector through **Royal Dutch Shell** and the pharmaceutical sector through **Novo-Nordisk**, the Danish company. We continued in this vein until September when we began to selectively reacquire positions in stocks exposed to the economic cycle such as **Cap Gemini** (after two profit warnings) and **Infineon**, the German semiconductor manufacturer. Towards the end of the year, we also acquired a position in **Bayer**, the German chemical and life science company. Bayer has suffered an 'annus horribilis' after seeing a leading product withdrawn from the market but we believe this shock will encourage a restructuring which should lead to value being realised for shareholders.

Outlook

The rally since September has removed in most cases the obvious undervaluations. Further upward progress in share prices will depend on good news on the earnings front. Whilst we expect earnings to be flat this year we believe the bulk of downgrades are behind us and that analysts' expectations are now more realistic. Indeed there is the scope for upgrades to some forecasts as we go through the year. Having been too optimistic in 2001 we are wary of repeating the mistake in 2002 but on balance we feel the bigger risk is becoming too bearish close to the bottom of the economic cycle.

Whilst we acknowledge the risks we feel that some positive trends are now emerging, particularly in the technology and telecoms areas. Manufacturing capacity in key sectors is being reduced, demand for internet and mobile telephony services continues to grow and balance sheets are being repaired both by equity injection and cash flow generation. The difficult market conditions seen over the past two years have also removed competition in some areas, allowing better pricing conditions. Easier monetary policy, falling oil prices, reasonable relative valuations and low inventory are also supportive and should help produce improved returns in 2002.

Witanwisdom

"Wisdom is oftentimes nearer when we stoop than when we soar"

William Wordsworth

Continental Europe investments

£'000	Equity investments by value			% of Continental Europe portfolio
2,877	ABN Amro	(Netherlands)	*banking*	1.81
2,861	Swatch	(Switzerland)	*household products*	1.80
2,858	E. ON	(Germany)	*electricity*	1.79
2,662	Bayerische Motoren Werke	(Germany)	*automobiles*	1.67
2,562	Sanofi-Synthelabo	(France)	*pharmaceuticals*	1.61
2,437	Elsevier	(Netherlands)	*publishing - media*	1.53
2,322	VNU	(Netherlands)	*publishing - media*	1.46
2,050	UPM-Kymmene	(Finland)	*paper & packaging*	1.29
1,919	Zurich Financial Services	(Switzerland)	*insurance*	1.21
1,881	Lagardere	(France)	*media*	1.18
1,860	Aegon	(Netherlands)	*insurance*	1.16
1,842	Infineon Technology	(Germany)	*i.t. hardware*	1.15
1,699	TDC A/S	(Denmark)	*telecommunications*	1.07

£'000	Equity investments by value			% of Continental Europe portfolio
1,607	Koninklijke KPN	(Netherlands)	*telecommunications*	1.01
1,573	Bouygues	(France)	*telecommunications*	0.99
1,557	Orange	(France)	*telecommunications*	0.98
1,445	Vivendi Environment	(France)	*water*	0.91
1,323	ST Microelectronics	(France)	*i.t. hardware*	0.83
1,147	JC Decaux International	(France)	*media*	0.72
1,066	Charles Voegele	(Switzerland)	*general retailers*	0.67
749	Telepizza	(Spain)	*restaurants*	0.47
744	Cap Gemini	(France)	*software & computer services*	0.47
723	Wanadoo	(France)	*software & computer services*	0.45
692	Accor	(France)	*hotels*	0.42
17	Vivendi Environ. Warrants	(France)	*water*	0.01
159,227				100.00

Japan,

portfolio review

Michael Wood-Martin

Japan portfolio (£70m) by sector	2001	2000
	%	%
General Industrials	**30**	32
Cyclical Services	**25**	26
Financials	**14**	15
Non-Cyclical Services	**11**	13
Basic Industries	**7**	7
Information Technology	**5**	3
Cyclical Consumer Goods	**4**	–
Non-Cyclical Consumer Goods	**4**	4
	100	100

Market Review

As with other stockmarkets, Japan was unable to buck the downward trend with both stock prices and the currency falling sharply over the year. While the domestic environment remains in what appears to be a never-ending deflationary trap, the decline in overseas demand had a marked impact on Japanese companies. The mid-year election of reform minded Prime Minister Koizumi did little in the way of arresting the slide in economic activity while the fall in the yen towards year-end was partly a reflection of this deterioration and a willingness by the authorities to let the currency depreciate to bolster exports.

Activity

Toyota Motor was the only position of any size established during the period. The share price had languished relative to its peers yet the company has a strong balance sheet and healthy cash flow generation. More pertinent to the overall fund was the reduction in exposure to the equity market at the end of July. This move was fortuitous as the fall in the stockmarket came predominantly towards the end of the period.

Outlook

With the domestic environment seemingly unable to produce anything which might resemble a sustainable recovery, the outlook for the US economy becomes all the more significant. Japanese industrial production is near to an all time low and, with news of mounting bankruptcies, the marketplace has been subjected to a deluge of dismal economic data. Any indication of recovery within the US accompanied by action to be taken within the domestic banking sector might clear the way for a positive move by the equity market.

Witanwisdom

"Austerity breeds the boldest businessmen" *R.K. MacDonald*

Japan investments

£'000	Equity investments by value		% of Japan portfolio
4,147	Mitsubishi Tokyo Financial	*banking*	5.93
4,083	Nippon Express	*transport*	5.84
4,019	Canon	*electrical*	5.75
3,942	Ito-Yokado	*general retailer*	5.64
3,657	Toshiba	*electrical*	5.23
3,450	Secom	*security services*	4.94
3,423	Toppan Printing	*media & photography*	4.90
3,404	Pioneer	*electrical*	4.87
3,276	Tokyo Broadcasting Systems	*media*	4.69
3,256	Asahi Chemical	*chemical*	4.66
3,219	CSK	*computer services*	4.61
3,203	Sony	*electrical*	4.58

£'000	Equity investments by value		% of Japan portfolio
3,133	Toyota Motor	*automobiles*	4.48
3,019	NTT Docomo	*telecommunications*	4.32
2,970	Keyence	*electrical*	4.25
2,505	Kirin Brewery	*beverages*	3.58
2,485	Takefuji	*speciality & other finance*	3.56
2,418	Nippon Telegraph & Telephone	*telecommunications*	3.46
2,291	Sekisui House	*housing construction*	3.28
2,113	Daiwa Securities	*speciality & other finance*	3.02
2,055	KDDI	*telecommunications*	2.94
1,793	Kyocera	*electrical*	2.57
1,786	Mitsui & Co	*diversified industries*	2.56
241	Nomura Research Institute	*computer services*	0.34
69,888			100.00

Far East,

portfolio review

William Pitman

Far East portfolio (£76m) by country

	2001	2000
	%	%
Australia	**35**	33
Hong Kong	**27**	35
South Korea	**12**	7
Singapore	**10**	11
China	**9**	6
Taiwan	**7**	7
Thailand	–	1
	100	100

Market Review

Although in aggregate Pacific stockmarkets finished slightly down on the year, 2001 proved to be a year of considerable volatility in the region notwithstanding the events of 11 September. While movements closely correlated with those of the major global stockmarkets, Asia maintained its role as a warrant on the global economy. This innate gearing is a product of both the region's dependence on exports (particularly of electronics) as well as the movement in risk premia. Within the region, the strongest returns were associated with the technology driven stockmarkets of Korea (+35.9%) and Taiwan (+13.6%).

Portfolio Activity

A decision was taken during the year to substantially reduce the list of stocks within the Pacific region to create a better balance within the overall portfolio. This shorter stock list is cautiously pro-cyclical with a bias towards Asia and against Australasia. At the sectoral level key overweight positions are in technology and real estate, with a corresponding underweight stance in utility and consumer stocks.

Outlook

The outlook for the Pacific stockmarkets remains dependent on the external environment, which in itself is dominated by the direction of the US economy. While considerable uncertainty remains, indications that the manufacturing cycle in the US is bottoming are a positive backdrop to Asia. Structural upside is provided by generally robust economic conditions within the region, supported by strong domestic liquidity; and as such regional markets should be well supported going forward.

Witanwisdom

"A wise man will make more opportunities than he finds"

Francis Bacon

Far East investments

£'000	Equity investments by value			% of Far East portfolio
7,194	Westpac Banking	(Australia)	*bank*	9.48
6,562	Samsung Electronics	(South Korea)	*information technology hardware*	8.64
6,536	China Mobile	(China)	*telecommunications*	8.61
6,271	BHP	(Australia)	*mining*	8.26
5,674	Cheung Kong	(Hong Kong)	*real estate*	7.47
5,517	Taiwan Semiconductor	(Taiwan)	*information technology hardware*	7.26
4,940	Brambles	(Australia)	*transport*	6.50
4,870	Macquarie Bank	(Australia)	*bank*	6.41
4,473	Swire Pacific	(Hong Kong)	*diversified industries*	5.89

£'000	Equity investments by value			% of Far East portfolio
4,253	United Overseas Bank	(Singapore)	*bank*	5.60
4,150	Hang Seng Bank	(Hong Kong)	*bank*	5.46
3,586	MTR	(Hong Kong)	*transport*	4.72
3,561	News Corporation	(Australia)	*media*	4.69
3,165	City Developments	(Singapore)	*real estate*	4.17
2,654	Korea Telecom	(South Korea)	*telecommunications*	3.49
2,493	Sun Hung Kai Properties	(Hong Kong)	*real estate*	3.28
52	Siam Selective Growth Trust	(Thailand)	*investment trust*	0.07
75,951				100.00

Emerging Markets,

portfolio review

Richard Hopkins

Emerging Markets portfolio (£nil) by country	2001	2000
	%	%
Brazil	–	52
Mexico	–	40
Chile	–	8
	–	100

Market Review

2001 was the year that the threat of contagion between emerging markets was finally laid to rest. Investors spent the whole year waiting for Argentina to default on its debt and devalue its currency. Turkey abandoned its own semi-fixed exchange rate regime and the South African Rand lost one third of its value against the US dollar.

Despite these characteristic emerging market crises, some emerging markets rose substantially in value. In sterling terms, Russia rose by 57.3% and Mexico by 21.3%.

Each of these success stories happened for its own reason. Russia benefited from a falling sovereign risk premium while Mexico enjoyed the financial benefits of its increasing economic convergence with the United States.

The year also saw the largest ever acquisition of an emerging markets company by a multinational corporation as Citibank of the US acquired Mexico's Banacci.

Overall, though, the year was a difficult one as global recession eroded returns in export-oriented economies, while the end of the global investment boom deprived the capital-dependent markets of their essential life blood.

Portfolio Activity

During the year we sold all our holdings in non-Asian emerging markets. Everything other than Mexico was sold in the earlier part of the year in the face of uncertainty caused by the pending Argentinean meltdown. And in the latter part of the year we also sold our holdings in Mexico in order that cash could be made available for the more compelling recovery prospects available within Asian markets.

Outlook

We will continue to apply a policy of investing only in individual emerging markets at specific times rather than carrying a general emerging markets allocation. The beginning of 2002 is being characterised by the long awaited destruction of Argentina's flimsy financial system. If it is replaced by something that ensures some kind of financial stability in South America then we may well choose to invest in neighbouring Brazil. If the general threat of sovereign default in highly indebted countries recedes then we may consider the Turkish market. Additionally, the ability to look at Russia is always available if that country continues to go on rebuilding stable financial and political institutions.

Witanwisdom

"It is less important to redistribute wealth than it is to redistribute opportunity"

Arthur H Vandenberg

Directors' Report

Status

The Company is an investment company as defined in section 266 of the Companies Act 1985 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2000. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

Activities and Business Review

A review of the business is given in the Chairman's Statement on pages 4 and 5 and in the reviews on pages 7 to 22. It is recommended that the net revenue on ordinary activities after taxation be dealt with as follows:

Dividends	£'000
Preference	83
Interim ordinary (paid)	12,654
Final ordinary (proposed)	15,298
Transfer to revenue reserve	1,599
	29,634

Corporate Governance

A corporate governance statement is set out on pages 26 to 28.

Substantial Shareholdings

As at 29 January 2002, the following shareholder had notified the Company of interests in the Company's ordinary share capital.

	Number of ordinary shares	%
AXA Investment Managers UK Limited	35,723,019	10.16

Directors

The directors of the Company are shown on page 2. All the directors held office throughout the year under review. At the forthcoming Annual General Meeting, Lord Inchyra and Mr H M Henderson will retire in accordance with the Company's Articles of Association. Mr Henderson offers himself for re-election but Lord Inchyra has decided to stand down from the Board.

Mr Clarke is employed by Henderson Global Investors Limited, the Company's Manager. Mr Henderson is a senior executive of Cazenove, the Company's Stockbroker, and Mr McVeigh is a director of Schroder Salomon Smith Barney; both firms are brokers through which the Company buys, sells, underwrites and lends investments. Witan, through its investment in Turnstile Investments Limited, participated until April 2001 in a subordinated loan made to Cazenove Finance BV, a company which was wholly owned by Cazenove & Co. (see note 12 (iv) on page 37). In the same month, as one of a number of institutional investors, it purchased a holding of shares in Cazenove Group plc ("Cazenove") (see note 12 (v) on page 37). Subject to these exceptions, no director was a party to, or had an interest in, any contract or arrangement with the Company at any time during the year or to the date of this report. No director has a service contract with the Company.

Directors' Interests

The interests of the directors in the share capital of the Company were as follows:

	31 December 2001	
Ordinary shares:	Beneficial	Non-Beneficial
Lord Faringdon	841,360	1,348,457
Lord Inchyra	9,866	–
H M Henderson	522,732	234,064
C G Clarke	178,924	3,924
R W C Colvill	4,735	–
A W Jones	97,536	–
R H McGrath	27,688	50
C S McVeigh III	3,000	4,964
	1,685,841	1,591,459

	1 January 2001	
Ordinary shares:	Beneficial	Non-Beneficial
Lord Faringdon	952,275	2,074,017
Lord Inchyra	6,511	6,000
H M Henderson	522,732	234,064
C G Clarke	178,924	3,924
R W C Colvill	4,636	–
A W Jones	97,536	–
R H McGrath	7,500	–
C S McVeigh III	5,828	–
	1,775,942	2,318,005

Mr McGrath's non-beneficial holding increased by 12 shares on 25 January 2002 as a result of regular investment through the Jump share plan. No other changes in the interests of the directors have been notified since the year end. No director had an interest in the secured bonds or debenture stock of the Company. At 31 December 2001 Lord Faringdon had a non-beneficial interest in 8,775 3.4 per cent. cumulative preference shares (1 January 2001: 8,775).

Directors' Report

continued

Directors' Fees

The Company's Articles of Association limit the fees payable to the directors to £150,000 per annum. The directors propose that this limit be increased to £200,000 per annum and a resolution to this effect is set out in the Notice of Annual General Meeting on page 46. In the year under review the directors' fees totalled £150,000 (Chairman: £25,000; Chairman of the Audit and Management Engagement Committees £20,000; others £17,500). There is no expectation that, if the resolution is passed, the revised limit will be reached in the foreseeable future. However, the Board believes that the fees should reflect the time spent and the responsibilities borne by directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited.

Manager

Investment management, accounting, secretarial, administrative and custody services are provided to the Company by subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson").

The management agreement between the Company and Henderson provides for the payment of a composite management fee. The management fee for the year ended 31 December 2001 was £4,000,000. This figure will be increased in respect of subsequent years by the average increase in investment management salaries in the annual McLagan survey, subject to such increases being not more than 6.5% per annum.

In addition, a performance fee is payable at the rate of £100,000 for each 0.1% by which the Company's net asset value per share outperforms the capital value of the Company's benchmark over the year, the performance fee being capped at £1,500,000. In the event that the net asset value per share falls over the relevant year, a 50% discount applies such that the cap is halved to £750,000 and the performance fee is calculated as £50,000 for each 0.1% of outperformance of the benchmark. The benchmark comprises the FTSE All-Share Index and the FTSE World (ex UK) Index in the proportion 60:40.

The management fee is paid quarterly in arrears and any performance fee is payable after the publication of the annual report for the relevant year. All fees are subject to VAT as applicable. These arrangements, which were revised in 2000 to apply with effect from 1 January 2001, are intended to be maintained for three years. The management agreement may be terminated by either party, but in certain events the Company would be required to pay compensation to Henderson of an amount equal to one year's management charges. Compensation is not payable if one year's notice of termination is given.

Towards the end of 2000 the Company invested in the Henderson American Smaller Companies Fund (an open ended investment company (OEIC) managed by Henderson). The management charges borne within the OEIC are rebated to the Company and, accordingly, the management fee of £4,000,000 was reduced by £279,403. Therefore the management fee actually payable in respect of the year ended 31 December 2001 was £3,720,597 (excluding VAT) (2000: £3,622,500). No performance fee is payable in respect of the year ended 31 December 2001 (2000: £nil).

The Manager uses certain services which are paid for, or provided by, various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

Share Buy-Backs

The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital profits.

At the Annual General Meeting in March 2001 a special resolution was passed giving the Company authority, until the conclusion of the Annual General Meeting in 2002, to make market purchases for cancellation of the Company's own ordinary shares up to a maximum of 52,717,168 shares (being 14.99% of the issued ordinary share capital as at 23 March 2001). This authority was not used during the year and no shares have been bought back between the year end and the date of this report.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the Annual General Meeting (equivalent to 52,717,168 ordinary shares if there is no change in the issued ordinary share capital between the date of this report and the Annual General Meeting). Under the Listing Rules of the UK Listing Authority this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make either a single purchase or a series of purchases, within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefits to shareholders. The directors do not intend to use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought at a price that is less than 25p (the nominal value) or more than 5% above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the Annual General Meeting in 2003.

Payment of Suppliers

It is the Company's payment policy for the financial year to 31 December 2002 to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. At 31 December 2001 the Company had no trade creditors (2000: none).

Auditors

The auditors, Deloitte & Touche, have indicated their willingness to continue in office. A resolution re-appointing them and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Donations

No donations were made to political parties during the year.

The Company has authority to make charitable donations up to a maximum of £35,000 in any year, such authority to expire on 31 December 2003. Each year the Company makes modest donations to a carefully selected list of national charities. Donations totalling £28,000 were made during the year to the charities listed below; most of the donations were of £1,000 each.

Youth
National Association of Clubs for Young People
National Playing Fields Association
The Scout Association
The Guide Association
YMCA England
YWCA of Great Britain

Conservation
The National Trust
WWF – UK

Aged
Friends of the Elderly
Elizabeth Finn Trust

General
Barnardo's
The Home Farm Trust
Royal National Lifeboat Institution
The Samaritans

Art and education
The Ditchley Foundation
International Students Trust
The National Art Collections Fund
Philharmonia Orchestra

Health and care
Alzheimer's Disease Society
British Red Cross (including a special donation for relief work in Afghanistan)
Macmillan Cancer Relief
Liverpool School of Tropical Medicine
The Royal Marsden Cancer Fund
Royal National Institute for the Blind
The Royal National Institute for Deaf People
The Mental Health Foundation
The Institute of Cancer Research
The Army Benevolent Fund

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
29 January 2002

Corporate Governance

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code ("the Code").

Application of the Principles of the Code

The Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment trust company, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus not all the provisions of the Code are directly applicable to the Company.

Directors

The Board currently consists of eight non-executive directors, the majority of whom are independent of the Company's Manager (Henderson Global Investors Limited). Their biographical details, set out on page 2, demonstrate a breadth of investment, industrial, commercial and professional experience with an international perspective.

The Board meets at least ten times a year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The Board has set limits on the concentration of investments, on the use of derivatives, on the lending of securities and on the extent to which borrowings may be used. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board. The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting, enabling the directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

When a director is appointed he or she is offered an induction seminar which is held by the Manager. Directors are also provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise.

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Act. In accordance with the Company's Articles of Association, new directors stand for election at the first annual general meeting following their appointment and every director stands for re-election at intervals of not more than three years.

The Chairman of the Company is a non-executive director. A senior non-executive director has not been identified as the Board considers that all the directors have different qualities and areas of expertise on which they may lead when issues arise. Accordingly, concerns can be conveyed to any one of them.

Board Committees

The Board has established audit, management engagement and nominations committees with defined terms of reference and duties. The membership of these committees is set out on page 2.

The Audit Committee is responsible for the review of the annual report and the interim report, the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them. It also meets with representatives of the Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

The Management Engagement Committee is responsible for the regular review of the terms of the management contract with the Manager.

The Nominations Committee is responsible for making recommendations on the appointment of new directors. Each director is invited to submit nominations and external advisers may be used to identify potential candidates. The nominations list is considered by the Board as a whole in accordance with its agreed procedures.

Directors' Remuneration

The Board as a whole considers the directors' remuneration; therefore it has not appointed a separate remuneration committee. Because the Company is an investment trust company and all its directors are non-executive, the Company is not required to comply with the provisions of the Code in respect of the remuneration of executive directors. The directors' fees are detailed in note 7 to the accounts on page 35.

Relations with Shareholders

The Manager has an annual programme of meetings with institutional shareholders and matters raised at these meetings are reported to the Board.

The Board considers that shareholders should be encouraged to attend and participate in the Annual General Meeting. The Annual General Meeting is chaired by the Chairman of the Board and attended by the Chairman of the Audit and Management Engagement Committees. Details of the proxy votes received in respect of each resolution are made available to shareholders. Representatives of the Manager make a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 48.

Accountability and Audit

The statement of directors' responsibilities in respect of the accounts is set out on page 28. The report of the auditors is set out on page 29. The Board has delegated contractually to external agencies, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Manager's compliance and risk department on an ongoing basis.

Internal Control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance"). The process was fully in place from 26 July 2000 and up to the date of approval of this annual report. In addition the Board has conducted its annual review of the effectiveness of the Company's system of internal control, covering all the controls, including financial, operational and compliance controls and risk management. This review took into account points raised during the year in the Board's regular appraisal of specific areas of risk. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. The Board receives each quarter from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its internal controls (a 'FRAG' report) which includes a report from the Manager's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers.

Corporate Governance

continued

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not directly employ any staff. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review from time to time whether a function equivalent to an internal audit is needed.

Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Exercise of Voting Powers

The Board has approved a corporate governance voting policy which, in its opinion, accords with current best practice whilst maintaining a primary focus on financial returns.

Statement of Compliance

The directors consider that the Company has complied throughout the year ended 31 December 2001 with all the relevant material provisions set out in Section 1 of the Code.

Statement of Directors' Responsibilities

in respect of the accounts

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 as at the end of the financial year and of the net revenue of the Company 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; and
- 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 ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Witan Investment Trust plc

We have audited the financial statements of Witan Investment Trust plc for the year ended 31 December 2001 which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, 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 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 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 Company's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the Company, 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 affairs of the Company as at 31 December 2001 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors
London
29 January 2002

Note to those who access this document by electronic means

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 2001

Notes		Year ended 31 December 2001 Revenue £'000	Capital £'000	Total £'000	(Restated*) Year ended 31 December 2000 Revenue £'000	Capital £'000	Total £'000
2	Total capital losses from investments	–	**(316,911)**	**(316,911)**	–	(153,837)	(153,837)
3	Income from fixed asset investments	**35,894**	–	**35,894**	37,827	–	37,827
4	Other interest receivable and similar income	**2,369**	–	**2,369**	1,965	–	1,965
	Gross revenue and capital losses	**38,263**	**(316,911)**	**(278,648)**	39,792	(153,837)	(114,045)
5	Management fee	**(1,022)**	**(3,065)**	**(4,087)**	(978)	(2,935)	(3,913)
6, 7	Other administrative expenses	**(2,645)**	–	**(2,645)**	(2,460)	–	(2,460)
	Net return/(loss) on ordinary activities before interest payable and taxation	**34,596**	**(319,976)**	**(285,380)**	36,354	(156,772)	(120,418)
8	Interest payable	**(2,533)**	**(7,599)**	**(10,132)**	(1,328)	(3,983)	(5,311)
	Net return/(loss) on ordinary activities before taxation	**32,063**	**(327,575)**	**(295,512)**	35,026	(160,755)	(125,729)
9	Taxation on net return on ordinary activities	**(2,429)**	**1,514**	**(915)**	(2,485)	1,522	(963)
	Net return/(loss) on ordinary activities after taxation	**29,634**	**(326,061)**	**(296,427)**	32,541	(159,233)	(126,692)
	Dividends – preference shares	**(83)**	–	**(83)**	(83)	–	(83)
	Attributable to the ordinary shareholders	**29,551**	**(326,061)**	**(296,510)**	32,458	(159,233)	(126,775)
	Dividends – ordinary shares						
	Interim payment of 3.60p (2000: 3.50p)	**(12,654)**	–	**(12,654)**	(12,703)	–	(12,703)
10	Final proposed of 4.35p (2000: 4.25p)	**(15,298)**	–	**(15,298)**	(14,947)	–	(14,947)
		(27,952)	–	**(27,952)**	(27,650)	–	(27,650)
18	**Transfer to/(from) reserves**	**1,599**	**(326,061)**	**(324,462)**	4,808	(159,233)	(154,425)
11	**Return/(loss) per ordinary share**	**8.40p**	**(92.71)p**	**(84.31)p**	8.95p	(43.92)p	(34.97)p

The revenue columns of this statement represent the revenue accounts of the Company.

*Restated for the change in accounting policy (see note 1(ii) on page 33).

The notes on pages 33 to 43 form part of these accounts.

Balance Sheet

at 31 December 2001

Notes		2001 £'000	(Restated*) 2000 £'000
12	**Fixed asset investments**		
	Listed in the United Kingdom	**933,538**	1,119,159
	Listed abroad	**657,787**	773,638
	Unquoted at directors' valuation	**32,586**	30,217
		1,623,911	1,923,014
	Current assets		
13	Debtors	**6,154**	6,081
	Cash at bank and short term deposits	**45,931**	69,657
		52,085	75,738
14	**Creditors:** amounts falling due within one year	**(19,677)**	(18,065)
	Net current assets	**32,408**	57,673
	Total assets less current liabilities	**1,656,319**	1,980,687
15	**Creditors:** amounts falling due after more than one year	**(144,097)**	(144,003)
	Total net assets	**1,512,222**	1,836,684
	Capital and reserves		
17	Called up share capital		
	Preference shares	**2,555**	2,555
	Ordinary shares	**87,921**	87,921
18	Share premium	**16,237**	16,237
18	Other reserves		
	Redemption reserve	**5,905**	5,905
	Capital reserve – realised	**1,072,787**	1,122,387
	Capital reserve – unrealised	**307,083**	583,544
18	Revenue reserve	**19,734**	18,135
19,20	**Shareholders' funds** (including non-equity interests of £2,555,000)	**1,512,222**	1,836,684
21	**Net asset value per ordinary share**	**429.3p**	521.5p

The accounts were approved by the directors on 29 January 2002 and were signed on their behalf by

Lord Faringdon
C G Clarke

*Restated for the change in accounting policy (see note 1(ii) on page 33).

The notes on pages 33 to 43 form part of these accounts.

Cash Flow Statement

for the year ended 31 December 2001

Notes		2001 £'000	2001 £'000	2000 £'000	2000 £'000
22	**Net cash inflow from operating activities**		**31,543**		30,478
	Servicing of finance				
	Debenture and secured bond interest paid	**(10,035)**		(3,914)	
	Bank and loan interest paid	**(17)**		(1,125)	
	Dividends paid on preference shares	**(83)**		(83)	
	Net cash outflow from servicing of finance		**(10,135)**		(5,122)
	Taxation				
	UK tax recovered	**73**		625	
	Overseas tax recovered	**500**		398	
	Net tax recovered		**573**		1,023
	Financial investment				
	Purchase of investments	**(585,091)**		(714,370)	
	Sale of investments	**567,686**		773,132	
	Cash inflow from forward exchange contracts	**185**		–	
	Net cash (outflow)/inflow from financial investment		**(17,220)**		58,762
	Equity dividends paid		**(27,601)**		(27,787)
	Management of liquid resources				
	Cash recalled from/(placed on) short term deposit		**5,000**		(20,000)
	Net cash (outflow)/inflow before financing		**(17,840)**		37,354
	Financing				
	Buy-back of ordinary shares	**–**		(94,356)	
	Issue of 6.125 per cent. secured bonds 2025	**–**		98,703	
	Issue expenses paid in respect of 6.125 per cent. secured bonds 2025	**(56)**		(633)	
	Net cash (outflow)/inflow from financing		**(56)**		3,714
23	**(Decrease)/increase in cash**		**(17,896)**		41,068

Reconciliation of net cash flow to movement in net debt

Notes		2001 £'000	2000 £'000
	(Decrease)/increase in cash as above	**(17,896)**	41,068
	Cash (inflow)/outflow from liquid resources	**(5,000)**	20,000
	Cash outflow/(inflow) from debt financing	**56**	(98,070)
	Change in net debt resulting from cash flows	**(22,840)**	(37,002)
	Exchange movements	**(830)**	(1,064)
	Net (increase)/decrease in valuation of debt	**(150)**	67
		(23,820)	(37,999)
	Net debt at 1 January	**(74,346)**	(36,347)
23	**Net debt at 31 December**	**(98,166)**	(74,346)

The notes on pages 33 to 43 form part of these accounts.

Notes to the Accounts

1 **Accounting policies**

(i) Basis of accounting

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of fixed asset investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies* (the "SORP"). All of the Company's operations are of a continuing nature.

(ii) Change in accounting policy

With effect from 1 January 2001 investment management fees and interest payable, which previously were charged wholly to the revenue account, are allocated 25% to revenue and 75% to capital. The comparative figures for the year ended 31 December 2000 have been restated accordingly. The effect of this change is that the net revenue on ordinary activities after taxation for the two periods is increased by £9,150,000 and £5,396,000 respectively.

(iii) Valuation of fixed asset investments

UK listed investments are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE 100 reserve list constituents for which the last trade prices are used. Overseas listed investments and investments which are quoted but are unlisted are valued at their closing middle market prices as issued by various sources. Unquoted investments are valued by the directors based on a combination of factors relating to the investee companies, such as the cost of the investment, earnings multiples and net assets, less suitable discounts to provide for any lack of saleability.

(iv) Associated undertakings

Where the Company holds investments representing more than 20% of a class of equity share capital, they are not accounted for as associated undertakings if, in the opinion of the directors, the Company does not exercise significant influence over the financial or operating policies of the investee companies.

(v) Capital gains and losses

Realised and unrealised capital gains and losses on investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in other reserves.

(vi) Income

Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis and net of related tax credit. Income from fixed interest debt securities is recognised on a time apportionment basis and, if material, so as to reflect the effective yield on these securities. Bank deposit interest is accounted for on an accruals basis.

(vii) Expenses and finance costs

All expenses and finance costs are accounted for on an accruals basis. In accordance with the Board's expectation, over the long term, that investment returns will be attributable 75% to capital gains and 25% to revenue, the Company charges to capital 75% of the finance costs and management fees. All other expenses are charged to revenue. Expenses which are incidental to the purchase or sale of a fixed asset investment are included in the cost or deducted from the proceeds of sale of the investment.

In the previous financial year the Company charged to revenue 100% of both finance costs and management fees (see note 1(ii) above).

(viii) Taxation

The tax effect of different items of expenditure is allocated between capital and revenue using the Company's effective rate of tax for the year. Deferred taxation is provided for at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts, to the extent that it is probable that a liability or asset will crystallise in the future.

(ix) Foreign currency

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rate ruling on that date. In the case of forward exchange contracts entered into to hedge fluctuating exchange rates on foreign currency assets or liabilities, the difference between the value at the contracted forward rate and the forward rate ruling at the balance sheet date is included as a debtor or provided for as a creditor and included within other reserves.

(x) Financial instruments

Derivative instruments utilised by the Company comprise forward exchange contracts. A derivative instrument is considered to be used for hedging purposes when it alters the market risk profile of an existing underlying exposure of the Company. The Company has taken advantage of the exemption under Financial Reporting Standard 13 and excluded short-term debtors and creditors from disclosures under financial instruments where allowed (see note 16 on pages 38 to 40).

Notes to the Accounts

continued

2 Total capital losses from investments	2001 £'000	2000 £'000
Realised (losses)/gains based on historical cost	**(39,805)**	204,056
Less: amounts recognised as unrealised in the previous year	**(95,841)**	(238,258)
Realised losses based on carrying value at the previous balance sheet date	**(135,646)**	(34,202)
Net movement in unrealised appreciation	**(183,129)**	(118,571)
Net movement on foreign exchange	**1,864**	(1,064)
	(316,911)	(153,837)

3 Income from fixed asset investments	2001 £'000	2000 £'000
Franked:		
Dividends from listed investments	**25,425**	23,732
Special dividends from listed investments	**–**	2,682
Dividends from unquoted investments	**931**	614
	26,356	27,028
Unfranked – listed investments:		
Dividends	**9,175**	8,986
Interest from convertible and fixed interest stocks	**176**	964
Scrip dividends	**187**	849
	9,538	10,799
	35,894	37,827

4 Other interest receivable and similar income	2001 £'000	2000 £'000
Deposit interest	**2,083**	1,440
Stock lending fees and other income	**263**	330
Underwriting commission	**23**	195
	2,369	1,965

At 31 December 2001 the total value of securities on loan by the Company for stock lending purposes was £102,494,000 (2000: £68,774,000). The maximum aggregate value of securities on loan at any time during the year ended 31 December 2001 was £225,448,000 (2000: £249,947,000).

5 Management fee

	Year ended 31 December 2001			(Restated) Year ended 31 December 2000		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**930**	**2,791**	**3,721**	905	2,717	3,622
Irrecoverable VAT thereon	**92**	**274**	**366**	73	218	291
	1,022	**3,065**	**4,087**	978	2,935	3,913

A summary of the terms of the Management Agreement is given on page 24 in the Directors' Report.

6 Other administrative expenses (all charged to revenue)

	2001 £'000	2000 £'000
Auditors' remuneration for audit services	**27**	27
Auditors' remuneration for other services	**–**	8
Directors' fees (note 7)	**150**	130
Other expenses payable to the management company*	**61**	50
Bank charges and overseas safe custody fees	**298**	275
Marketing expenses◆	**1,500**	1,355
Other expenses	**460**	461
Irrecoverable VAT	**149**	154
	2,645	2,460

*Other expenses payable to the management company relate to share plan administrative services.

◆Marketing expenses include the recharge of salary costs of the marketing manager who is employed by Henderson to work on the Company's account.

7 Directors' emoluments

The directors' emoluments stated in note 6 are those actually paid by the Company. However, one director, Mr C G Clarke, is employed and paid by Henderson Global Investors (Holdings) plc and its subsidiaries ("Henderson") for the provision of services to the Company. It is necessary to state the amount which he receives from Henderson and which relates to the management of the Company even though the Company does not pay these emoluments and is not directly involved in their determination. The Company has been informed that emoluments paid by Henderson to the director for services to the Company in the year (including performance related bonus) were £44,000 (2000: £145,000). This amount, together with the amounts payable directly by the Company to the other directors, is included in the analysis below:

	2001 £'000	2000 £'000
Directors' fees paid by the Company to directors	**115**	100
Directors' fees paid by the Company to third parties	**35**	30
Total directors' fees paid by the Company	**150**	130
Salary and other benefits – paid by Henderson	**25**	57
Performance related bonus – paid by Henderson	**19**	88
Total emoluments	**194**	275

The highest paid director's emoluments totalled £44,000 (2000: £145,000).

The fees payable to the directors in respect of the year were as follows: the Chairman (Lord Faringdon) £25,000; Lord Inchyra £20,000; the other six directors £17,500 each. Mr Clarke's fees are paid to Henderson Global Investors Limited and Mr Henderson's fees are paid to Cazenove.

Notes to the Accounts

continued

8	Interest payable	2001 £'000	(Restated) 2000 £'000
	On the secured bonds, debenture stock, overdrafts and loans repayable:		
	Within one year	**18**	1,125
	In more than five years	**10,114**	4,186
	Amount allocated to capital	**(7,599)**	(3,983)
		2,533	1,328

9	Taxation on net return on ordinary activities	2001 £'000	(Restated) 2000 £'000
	UK corporation tax at 30% (2000: 30%)	**1,150**	1,182
	Double taxation relief	**(1,150)**	(1,182)
	Foreign withholding taxes	**1,597**	1,661
	Overseas taxation reclaimable	**(321)**	(411)
	Tax credits attributable to French and Italian dividend income	**(280)**	(211)
	Overprovision in prior years	**(81)**	(2)
	Transfer from deferred taxation account	**–**	(74)
	Tax attributable to expenses and interest payable charged to capital	**1,514**	1,522
		2,429	2,485

10 Dividends

The proposed final dividend of 4.35p per ordinary share (2000: 4.25p) has been calculated using the number of shares in issue at the date of the announcement of the preliminary results being 351,682,244 (2000: 351,682,244).

11 Return/(loss) per ordinary share

The revenue return per ordinary share is based on the earnings attributable to the ordinary shares of £29,551,000 (2000: £32,458,000 as restated) and on the weighted average number of ordinary shares of 25p each in issue during the year of 351,682,244 (2000: 362,573,612).

The capital return per ordinary share is based on the net capital losses for the year of £326,061,000 (2000: losses of £159,233,000 as restated) and on the weighted average number of ordinary shares of 25p each in issue, as shown above.

12 Fixed asset investments

(i) Changes in investments

	Valuation 31 December 2000 £'000	Purchases £'000	Sales £'000	Depreciation £'000	**Valuation 31 December 2001 £'000**	**Cost 31 December 2001 £'000**
United Kingdom	1,128,707	132,364	(145,485)	(170,563)	**945,023**	**669,933**
North America	383,391	124,753	(71,095)	(63,227)	**373,822**	**321,561**
Continental Europe	220,855	218,468	(232,248)	(47,848)	**159,227**	**155,611**
Japan	122,273	16,321	(39,565)	(29,141)	**69,888**	**99,046**
Far East	48,848	84,031	(50,768)	(6,160)	**75,951**	**73,186**
Emerging Markets	18,940	10,543	(27,647)	(1,836)	**–**	**–**
	1,923,014	586,480	(566,808)	(318,775)	**1,623,911**	**1,319,337**

12 Fixed asset investments (continued)

(ii) At 31 December 2001 the Company held 20% or more of any class of share of the following companies:

Name of company	Class of shares	% held
Henderson Strata Investments plc	Ordinary	20.2
Lessar Brothers Limited	Ordinary	25.7
Turnstile Investments Limited (see note (iv) below)	Ordinary	100.0
Turnstile Investments Limited	Second preference	100.0
Turnstile Investments Limited	Non voting first preference	100.0

All the above companies are registered and operate in England and Wales.

In addition to the above, the Company has interests of 3% or more of any class of capital in 2 (2000: 4) investee companies. At 31 December 2001 none of these investments represented more than 1% of the fixed asset investments and therefore are not considered significant in the context of these accounts. Where the Company holds investments representing more than 20% of a class of equity share capital, they are not accounted for as associated undertakings if, in the opinion of the directors, the Company does not exercise significant influence over the financial or operating policies of the investee companies.

(iii) **Thames River First Absolute Return Limited ("Thames River")**

The Company has entered into a three year investment contract with Thames River, a Cayman Islands investment company. In accordance with the terms of this contract, the Company has made a payment of $30,000,000 (approximately £20,000,000) to Thames River and has the right to receive a termination payment at the end of the contract related to the net asset value of Thames River. The directors' valuation of the Company's entitlement under the investment contract at 31 December 2001, based on the value of Thames River's underlying investments at that date, was £21,101,117. This sum is included in unquoted investments in the balance sheet.

The Company has no shares in, nor control over, Thames River but due to the nature of the investment contract this company falls within the definition of a quasi-subsidiary under FRS 5. Consolidated accounts have not been prepared due to the immateriality of the effect of any changes required on consolidation.

For the period ended 31 December 2000 the earnings per share were US$17.51, based on earnings of US$875,728. No dividend was declared or paid in 2001 (2000: nil).

(iv) **Turnstile Investments Limited (in members' voluntary liquidation)**

Turnstile Investments Limited participated in a subordinated loan made to Cazenove Finance BV, which was wholly owned by Cazenove & Co.. The loan bore a variable annual rate of interest linked to the profits of Cazenove & Co., with a minimum of 8% and a maximum of 25%. It was repaid during the year. The ordinary shares have restricted voting rights and Witan has not exercised significant influence over Turnstile Investments Limited.

(v) **Cazenove Group plc**

During the year the Company purchased a holding in Cazenove Group plc ("Cazenove"), a leading independent investment bank; currently Cazenove is an unquoted company. Cazenove was established by the partners of Cazenove & Co. to incorporate the business of that firm, to raise additional capital and to seek a stock market quotation in due course.

(vi) **Unquoted investments**

£'000	Investments by value		% of unquoted portfolio
21,101	Thames River First Absolute Return Limited	see note 12 (iii) above	64.76
6,750	Cazenove Group plc	see note 12 (v) above	20.71
1,948	Cazenove New Europe Access Fund	investment fund	5.98
1,640	Wadworth and Company Limited	brewing	5.03
1,147	Henderson Unquoted Growth Equities Funds	investment funds	3.52
32,586			100.00

Notes to the Accounts

continued

13	Debtors	2001 £'000	2000 £'000
	Sales for future settlement	**588**	1,466
	Unrealised profit on forward hedge	**2,509**	–
	Taxation recoverable	**374**	472
	Prepayments and accrued income	**2,609**	4,043
	Other debtors	**74**	100
		6,154	6,081

14	Creditors: amounts falling due within one year	2001 £'000	2000 £'000
	Purchases for future settlement	**1,565**	363
	Proposed final ordinary dividend	**15,298**	14,947
	Preference dividends	**38**	38
	Accruals	**2,776**	2,717
		19,677	18,065

15	Creditors: amounts falling due after more than one year	2001 £'000	2000 £'000
	Debentures redeemable other than in instalments are as follows (both are redeemable after more than five years):		
	8½ per cent. Debenture Stock 2016	**46,000**	46,000
	6.125 per cent. Secured Bonds due 2025	**98,097**	98,003
		144,097	144,003

On 15 December 2000 the Company issued £100,000,000 (nominal) 6.125 per cent. Secured Bonds due 2025, net of discount and issue costs totalling approximately £2,000,000. The discount and the issue costs will be written back over the life of the Secured Bonds. The nominal value of the Secured Bonds is redeemable on 15 December 2025.

The Debenture Stock and the Secured Bonds are secured by floating charges over all the undertaking and assets of the Company. The security of the charges applies *pari passu* to both issues.

16 Financial instruments

(i) Management of risk

The Company's financial instruments comprise:

- Equity and non-equity shares and fixed interest securities that are held in accordance with the Company's investment objective as set out on page 1;
- Debenture stock, secured bonds, preference shares, term loans and bank overdrafts, the main purpose of which is to raise finance for the Company's operations; and
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Derivative transactions which the Company enters into comprise only forward exchange contracts, the purpose of which is to manage currency risks arising from the Company's investing activities.

The main risks arising from the Company's financial instruments are due to fluctuations in market prices, interest rates and foreign exchange rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained constant throughout the year under review.

16 Financial instruments (continued)

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and movements in exchange rates. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular country or sector. The allocation of assets to international markets and stock selection are other factors which act to reduce market price risk. The portfolio managers actively monitor market prices throughout the year and report to the Board, which meets regularly in order to consider investment strategy.

Interest rate risk

The Company finances its operations through its debenture stock, secured bonds, preference shares and term loans as well as bank overdrafts and any retained revenues arising from operations. The Company borrows in the desired currencies at both fixed and floating rates of interest and the Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

Liquidity risk

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The maturity of the Company's existing borrowings is set out in paragraph (iii) below. Short term flexibility is achieved through the use of loan and overdraft facilities.

Foreign currency risk

The Company's total return and net assets can be significantly affected by currency translation movements as a portion of the Company's assets and revenue are denominated in currencies other than sterling. The international spread of investments acts to reduce this risk. Borrowings in foreign currencies are limited to levels appropriate to the asset exposure to these currencies.

(ii) Interest rate risk profile of financial assets and financial liabilities

Financial assets

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

Financial liabilities

The interest rate profile of the Company's financial liabilities at 31 December 2001 was:

	2001 Fixed rate financial liabilities £'000	**2001 Weighted average interest rate %**	**2001 Period for which interest rate is fixed years**	2000 Fixed rate financial liabilities £'000	2000 Weighted average interest rate %	2000 Period for which interest rate is fixed years
Sterling – Preference shares	**2,555**	**3.2**	**–**	2,555	3.2	–
Sterling – Debenture stock	**46,000**	**8.5**	**14.75**	46,000	8.5	15.75
Sterling – Secured bonds	**98,097**	**6.228**	**23.96**	98,003	6.228	24.96
	146,652			146,558		

(iii) Maturity profile of the Company's financial liabilities

All of the Company's financial liabilities at 31 December 2001 mature in more than five years.

The Company had an undrawn committed borrowing facility at 31 December 2001 as follows:

	2001 £'000	2000 £'000
Expiring in one year or less	**25,000**	25,000

Notes to the Accounts

continued

16 Financial instruments (continued)

(iv) Currency exposure

A portion of the financial assets and financial liabilities of the Company are denominated in currencies other than sterling with the effect that the net assets and total return can be significantly affected by currency movements.

Currency	Overseas investments 2001 £'000	Net monetary assets 2001 £'000	Total currency exposure 2001 £'000	Overseas investments 2000 £'000	Net monetary assets 2000 £'000	Total currency exposure 2000 £'000
US dollar	**348,740**	**6,968**	**355,708**	356,819	8,266	365,085
Euro	**126,508**	**3,340**	**129,848**	177,685	17,567	195,252
Yen	**69,888**	**2,535**	**72,423**	122,273	5,446	127,719
Other non-sterling	**133,752**	**3,530**	**137,282**	137,530	4,353	141,883
Total	**678,888**	**16,373**	**695,261**	794,307	35,632	829,939

Forward exchange contracts

During the year ended 31 December 2001 profits of £185,000 were realised relating to a forward exchange contract. There were no forward exchange contracts taken out during the year ended 31 December 2000.

The following Japanese yen forward exchange contract was outstanding at the balance sheet date:

Date of contract	Settlement date	Option	Amount Yen'000	Contracted rate	Forward settlement rate at 31 December 2001
29 October 2001	31 January 2002	Sell	5,600,000	175	189.89

(v) Fair values of financial assets and financial liabilities

All of the financial assets of the Company are held at fair value.

Set out below is a comparison by category of the book values and fair values of the Company's financial liabilities at 31 December 2001:

	Book value 2001 £'000	Fair value 2001 £'000	Book value 2000 £'000	Fair value 2000 £'000
Preference shares	**2,555**	**2,351**	2,555	1,961
Debenture stock	**46,000**	**53,763**	46,000	55,171
Secured bonds	**98,097**	**98,078**	98,003	100,980

The fair values of the debenture stock, secured bonds and preference shares have been calculated by reference to prices available from the markets on which the instruments are traded.

17 Called up share capital

	2001 £'000	2000 £'000
500,000 2.7 per cent. cumulative preference shares of £1	**500**	500
2,055,000 3.4 per cent. cumulative preference shares of £1	**2,055**	2,055
351,682,244 ordinary shares of 25p (2000: 351,682,244)	**87,921**	87,921
Allotted, called up and fully paid	**90,476**	90,476
38,097,756 unissued shares of 25p (2000: 38,097,756)	**9,524**	9,524
Authorised	**100,000**	100,000

No ordinary shares were bought back for cancellation during the year (2000: 19,820,850 ordinary shares at a cost of £94,356,000).

18 Reserves	Share premium £'000	Redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 January 2001 – as previously stated	16,237	5,905	1,127,783	583,544	12,739
Prior year adjustment (see note 1(ii))	–	–	(5,396)	–	5,396
At 1 January 2001 – as restated	16,237	5,905	1,122,387	583,544	18,135
Transfer on disposal of assets	–	–	95,841	(95,841)	–
Net movement on listed securities	–	–	(137,058)	(179,733)	–
Net movement on unquoted securities	–	–	1,412	(3,396)	–
Net movement on foreign exchange	–	–	(645)	2,509	–
Expenses and interest payable charged to capital	–	–	(10,664)	–	–
Tax relief on expenses and interest payable charged to capital	–	–	1,514	–	–
Net revenue retained for the year	–	–	–	–	1,599
At 31 December 2001	**16,237**	**5,905**	**1,072,787**	**307,083**	**19,734**

19 Non-equity interests

Shareholders' funds include £2,555,000 in respect of non-equity interests. These interests relate to the following shares

	2001 £'000	2000 £'000
500,000 2.7 per cent cumulative preference shares of £1	**500**	500
2,055,000 3.4 per cent cumulative preference shares of £1	**2,055**	2,055
	2,555	2,555

The 3.4 per cent. and 2.7 per cent. cumulative preference shares constitute a single class and confer the right, in priority to any other class of shares:

(i) to receive a fixed cumulative preferential dividend at the respective rates (exclusive of tax credit thereon) of 3.4 per cent. and 2.7 per cent. per annum, such dividend being payable half-yearly on 15 January and 15 July in each year, in respect of the 3.4 per cent. cumulative preference shares, and on 1 February and 1 August in each year, in respect of the 2.7 per cent. cumulative preference shares; and

(ii) to receive repayment of capital at par in a winding up of the Company (but do not confer any further right to participate in profits or assets).

The preference shareholders are entitled to receive notices of general meetings of the Company but are not entitled to attend or vote thereat (except on a resolution for the voluntary liquidation of the Company or for any alteration to the objects of the Company as set out in its Memorandum of Association).

20 Reconciliation of movement in shareholders' funds	**2001 £'000**	(Restated) 2000 £'000
Net revenue on ordinary activities after taxation	**29,634**	32,541
Dividends	**(28,035)**	(27,733)
	1,599	4,808
Buy-backs of ordinary shares	**–**	(94,356)
Net capital losses for the year	**(326,061)**	(159,233)
Net reduction to shareholders' funds	**(324,462)**	(248,781)
Shareholders' funds at 1 January	**1,836,684**	2,085,465
Shareholders' funds at 31 December	**1,512,222**	1,836,684

Notes to the Accounts
continued

21 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £1,509,667,000 (2000: £1,834,129,000) and on the 351,682,244 ordinary shares in issue at 31 December 2001 (2000: 351,682,244).

The movements during the year of the net assets attributable to the ordinary shares were as follows:

		£'000
Total net assets at 1 January 2001		1,836,684
Less: preference shares at par		(2,555)
Net assets attributable to the ordinary shares at 1 January 2001		1,834,129
Total net loss on ordinary activities after taxation		(296,427)
Dividends appropriated in the year:		
Preference shares	(83)	
Ordinary shares	(27,952)	
		(28,035)
Buy-backs of ordinary shares		–
Net assets attributable to the ordinary shares at 31 December 2001		1,509,667
Add: preference shares at par		2,555
Total net assets at 31 December 2001		1,512,222

22 Reconciliation of operating revenue to net cash inflow from operating activities	**2001 £'000**	(Restated) 2000 £'000
Net revenue before interest payable and taxation	**34,596**	36,354
Decrease/(increase) in accrued income	**1,434**	(148)
Decrease in other debtors	**26**	315
Increase/(decrease) in creditors	**129**	(551)
Management expenses charged to capital	**(3,065)**	(2,935)
UK income tax deducted at source	**(73)**	(260)
Overseas withholding tax suffered	**(1,317)**	(1,448)
Scrip dividends included in investment income	**(187)**	(849)
Net cash inflow from operating activities	**31,543**	30,478

23 Analysis of changes in net debt	31 December 2000 £'000	Cash flow £'000	Exchange movements £'000	Other non-cash movements £'000	**31 December 2001 £'000**
Net cash:					
Cash at bank and short term deposits	69,657	(22,896)	(830)	–	**45,931**
Less: deposits treated as liquid resources	(20,000)	5,000	–	–	**(15,000)**
	49,657	(17,896)	(830)	–	**30,931**
Liquid resources:					
Deposits included as cash	20,000	(5,000)	–	–	**15,000**
Debt:					
Debts falling due after more than five years	(144,003)	56	–	(150)	**(144,097)**
Net debt	(74,346)	(22,840)	(830)	(150)	**(98,166)**

Notes to the Accounts

continued

24 Capital commitments and contingent liabilities

There are capital commitments in respect of securities not fully paid up of £7,538,000 (2000: £8,858,000) and underwriting liabilities of £nil (2000: £8,625,000).

25 Related party transactions

Under an agreement dated 2 January 1996 the Company appointed wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, accounting, secretarial, administrative and custody services. Details of the fee arrangements for these services are given on page 24 in the Directors' Report. The total of the fees paid or payable under this agreement to Henderson in respect of the year ended 31 December 2001 was £3,720,597 excluding VAT (2000: £3,622,500), of which £932,244 was outstanding at 31 December 2001 (2000: £905,625).

At 31 December 2001 the Company held investments in funds managed by Henderson as shown in the table below, representing 2.6% of the Company's investment portfolio (2000: 3.0%). Dividends received during the year from these investments amounted to £150,000 net (2000: £255,000 net).

	2001 £'000	2000 £'000
Henderson American Smaller Companies Fund	**25,430**	22,278
Henderson Strata Investments plc	**15,995**	31,146
Henderson High Income Trust plc	**701**	2,624
Henderson Japanese Smaller Companies Trust plc	**–**	1,588
	42,126	57,636

Disability Act

Copies of this Report and Accounts or other documents issued by Witan Investment Trust plc are available from the Company Secretary.

If needed, copies can be made available in a variety of formats, either Braille or on audio tape or larger type as appropriate.

You can contact our Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphones to contact them directly without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if your prefer to go through a 'typetalk' operator (provided by The Royal National Institute for Deaf People), the number is **0800 959 598**.

For investors through the Witan Share Plan, PEP or ISA a minicom telephone service is available on **020 7850 5406**. This service is available during normal business hours.

Marketing Review – 2001

James Budden

Report for the year ended December 2001

The Company continues to pursue its long-term marketing objectives at the core of which is a commitment to enhance shareholder value by maximising and increasing the demand for the Company's shares.

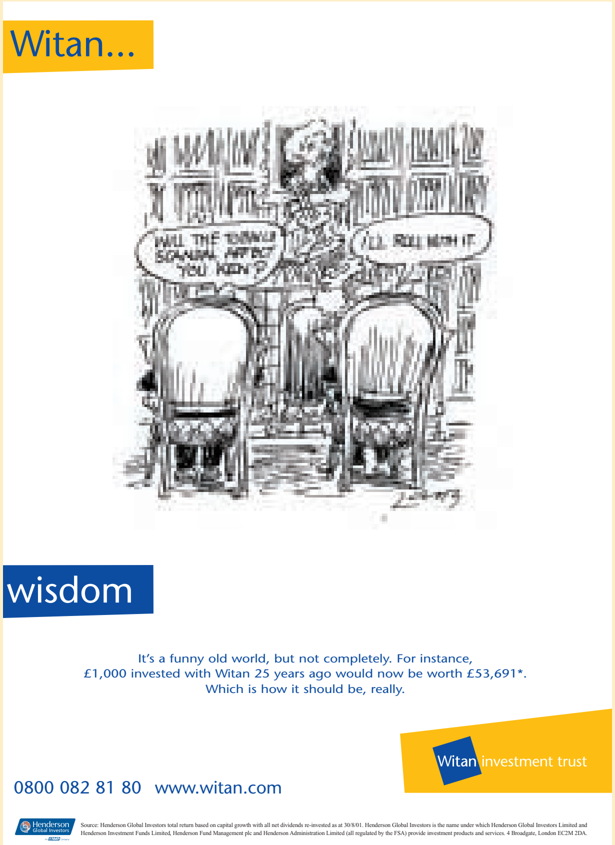
During 2001 Witan pursued its integrated marketing approach, combining advertising, direct mail, sponsorship, public relations and the Internet to promote the benefits of owning shares in the Company. The Trust used its unique brand footprint of Witanwisdom, combining an engaging approach with the sagacity of investing in Witan. The Company also highlighted Jump, the savings plan for children, as a separate entity within an increasingly popular sector of the savings and investment market place.

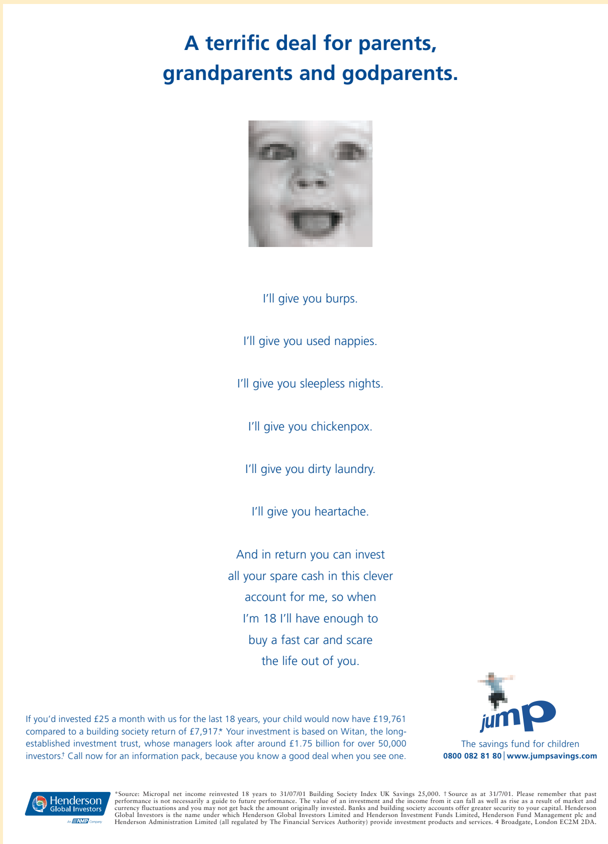
Market conditions and the subsequent difficult environment for investors made it a challenging prospect to encourage large scale investment into Witan's product plans during 2001. However the growing strength of Witan's brand and the increasing success of Jump the savings plan for children as a bespoke investment medium allowed the Trust to attract a high level of inflows into the Witan products. The following illustrates this achievement.

- Witan's share of the investment trust savings industry grew to nearly 10%
- Jump inflows rose by over 60%
- The number of shareholders within Witan's product plans increased by over 20%

Although Witan's marketing strategy is a process designed to build momentum over the longer term, several initiatives stood out during 2001.

- Witan continued to advertise its ISA and Share Plan products throughout the financial media stimulating both strong enquiry and demand. However, in addition the Trust undertook a branding campaign designed to enhance its public profile. This focused on two well-known publications, Private Eye and The Daily Telegraph, the former representing "wit" and the latter providing the "wisdom". Throughout the year Private Eye (see example) carried amusing topical compositions crafted by the popular cartoonist, Larry. Alongside this humorous approach, Witan's sponsorship of The Daily Telegraph crossword complete with proprietary clues, provided exercise of a cerebral kind for readers. Both programmes attracted favourable comment and interest for the Trust.
- Jump established itself as a leading medium for investment on behalf of children. A new creative look for the product was unveiled during the autumn (see example). This concentrated on the hangman's humour of being a parent who, despite suffering all the vicissitudes of bringing up a child, was still clever enough to save in the Jump plan on their behalf. The campaign proved highly successful





despite fierce market volatility and has been entered for several advertising awards. A new website, jumpsavings.com, was launched to complement the press activity.

- The first element of Witan's continued support of The Royal Horticultural Society was completed during the summer. Lord Faringdon opened the new Walled Garden at Wisley in June. Subsequently the garden was enjoyed by those shareholders making use of their complimentary tickets. Witan will again be making these free entry tickets available in 2002. The second element of the sponsorship, the Herb garden, is currently under construction and will be completed in the summer of 2003.

- Through its sponsorship of Tommy's Baby Day and the donation of investors' dealing fees during the autumn of 2001, Jump raised some £50,000 for this worthy charity. Jump will again be supporting Tommy's in 2002. Tommy's is a leading children's charity which funds vital medical research and has one goal, namely to save babies' lives and stop the heartache caused by miscarriage, stillbirth and premature birth.

These are tangible examples of Witan's marketing activity. However, it is the cumulative effect of its marketing process that adds value to shareholders' investments. During 2001 this was best illustrated by the fact that not only did the strong demand for Witan shares facilitate their liquidity but Witan's discount to net asset value remained relatively free of volatility. Its level consistently traded at a tighter margin than its immediate peer group, despite the falling equity markets.

Additionally, Witan's marketing activity continues to cover the following areas:

- Advertising the share price and net asset value in national papers and journals
- Publishing the net asset value daily
- Facilitating the involvement of nominee shareholders
- Membership of the AITC
- Support of AITC marketing initiatives

Marketing Strategy – 2002

The Board of directors once more approved key performance indicators for 2002 as measurement of the progress of Witan's marketing strategy. These have been identified as follows:

- Increased inflows into Witan product plans
- Growth in the number of Witan product plans opened by new investors
- Uplift in Witan's market share of investment trust industry savings plan subscriptions

The strategy employed to achieve these targets will involve creative application of the marketing mix as in 2001. Emphasis will be placed on ensuring cost effective response within all marketing activities.

The marketing budget is fixed annually and expenditure is kept under close review. The budget for 2002 is £1.5 million.

Witanwisdom

There are a variety of ways to invest in Witan. Naturally, Witan's shares can be traded easily on the stock market. However, bearing in mind the benefits of income reinvestment, regular savings and tax free wrappers, one of Witan's investment plans may be the answer.

- **Witan Share Plan** is a straightforward savings scheme with minimum lump sum investment from £500 and regular savings from £50 per month.

- **Witan ISA** enables investors to save tax free up to a limit of £7,000 per annum. The minimum lump sum investment is £2,000 with regular savings from £50 per month.

- **Witan Transfer PEP** allows investors to transfer all or any number of their existing PEP holdings into Witan. The transfer is free (except for 0.5% stamp duty) and investments retain their tax free status during and after transfer.

- **Jump** gives parents, grandparents or other adults the chance to save effectively for children over the long term. Minimum lump sum investment is set at £100 and regular contributions can be made from as little as £25 a month or quarter.

Call free on 0800 21 22 56 for product information and guidance.

Visit **www.witan.com** or **www.jumpsavings.com** for all the latest news and views and the opportunity to access plan application forms.

Please remember that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Tax assumptions may change if the law changes and the value of tax relief will depend upon your individual circumstances.

Henderson Global Investors is the name under which Henderson Global Investors Limited, Henderson Investment Funds Limited, Henderson Fund Management plc and Henderson Administration Limited (all regulated by the Financial Services Authority) provide investment products and services.

4 Broadgate, London EC2M 2DA.
Telephone 020 7410 4100.

Notice of Annual General Meeting

Notice is hereby given that the ninety-fourth Annual General Meeting of Witan Investment Trust plc will be held at the Lindley Hall, The Royal Horticultural Society Halls & Conference Centre, Vincent Square, London SW1 on Tuesday 12 March 2002 at 7.00 pm for the following purposes:

Ordinary Business

1 To receive the report of the directors and the audited accounts for the year ended 31 December 2001.

2 To declare a final dividend.

3 To re-elect Mr H M Henderson as a director of the Company.

4 To re-appoint Deloitte & Touche as auditors to the Company at a fee to be determined by the directors.

Special Business

To consider and, if thought fit, pass resolution 5 as an ordinary resolution and resolution 6 as a special resolution:

5 THAT the aggregate of all fees paid to the directors shall not exceed the sum of £200,000 per annum.

6 THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 (“the Act”) to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 25p each in the capital of the Company (“Ordinary Shares”), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99% of the Ordinary Shares in issue at 12 March 2002, the date of the Annual General Meeting, (equivalent to approximately 52,717,168 Ordinary Shares at 29 January 2002, the date of this Notice of Annual General Meeting);

(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, or such other amount as may be specified by the UK Listing Authority from time to time;

(d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2003 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board
G S Rice
For and on behalf of
Henderson Secretarial Services Limited,
Secretary
29 January 2002

Registered Office
4 Broadgate
London EC2M 2DA
Registered as an investment company in England No. 101625

Telephone: 020 7638 5757
Facsimile: 020 7377 5742

Notice of Annual General Meeting
continued

Notes

1 Only those ordinary shareholders registered in the register of members of the Company at 7.00 pm on 10 March 2002 shall be entitled to attend and vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 7.00 pm on 10 March 2002 will be disregarded in determining the rights of any person to attend or vote at the meeting.

2 An ordinary shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his or her behalf. Such proxy need not be a member of the Company.

3 A form of proxy is enclosed. To be valid the form of proxy must be completed and deposited at the office of the Company's Registrar not less than 48 hours before the time appointed for holding the meeting. The return of the form of proxy duly completed will not preclude a member from attending and voting in person at the meeting.
If shareholders so wish, the form of proxy may be returned in an envelope addressed to Computershare Investor Services PLC, FREEPOST SWB1002, PO Box 1075, Bristol BS99 3FA.

4 This notice is sent for information only to holders of the preference shares and the debenture stock who are not entitled to attend or vote at the meeting.

5 The register of directors' interests, kept by the Company in accordance with the requirements of the Companies Act 1985, will be available for inspection at the meeting.

Annual General Meeting Venue

Location of The Royal Horticultural Society Halls & Conference Centre

1 **Lindley Hall (AGM)**

2 **Lawrence Hall (Flower Show)**

Those shareholders who accept their invitation to attend the Annual General Meeting (to be held at 7.00pm on Tuesday 12 March 2002 in the Lindley Hall) are asked to note that they will have privileged access, immediately after the Annual General Meeting, to the RHS Westminster Early Spring Flower Show in the nearby Lawrence Hall. Exhibitors at the Show will be in attendance to deal with questions about the displays and to transact business with shareholders.

Shareholder Information

Points of Contact
If you have any questions or need more information concerning Witan or Henderson Global Investors, you may contact us in the following ways:

Freephone
Henderson Retail Client Services on **0800 21 22 56**

Website
www.witan.com

Post
For Share Plan/Jump queries:
The Share Plan Administrators
Registrars Department
PO Box 28448
Finance House
Orchard Brae
Edinburgh
EH4 1WQ

For PEP/ISA queries:
Henderson Global Investors
PO Box 620
London
EC2M 2SX

Points of Reference
You can follow the progress of your savings through the newspapers. Witan's share price appears daily in the national press stock exchange listings under 'Investment Trusts' or 'Investment Companies'.

The London Stock Exchange Daily Official List (SEDOL) code is 0974406.

If you invest through the Witan Share Plan, ISA or PEPs you will be sent a valuation of your Plan every April and October, together with a copy of the Henderson Global Investors newsletter containing a comprehensive market review and general articles of interest.

Every February you will receive the annual report for Witan along with an invitation to attend the Company's Annual General Meeting. An interim report is despatched every September.

For details on the ways to invest and save in Witan, please see Witanwisdom on page 45 of this document.

Nominee Share Code
Where notification has been received in advance, Witan will provide nominee operators with copies of shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman.

Capital Gains Tax
The calculation of the tax on chargeable gains will depend on your personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Registrar
Computershare Investor Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0870 702 0010

Auditors
Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Solicitors
Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Stockbroker
Cazenove
12 Tokenhouse Yard
London EC2R 7AN

Shareholder Analysis

	2001	2000	change
Private Individuals	62%	56%	10.7%
Insurance Companies	19%	22%	(13.6%)
Pension Funds	14%	15%	(6.6%)
Collective Investment Funds	3%	4%	(25.0%)
Other	2%	3%	(33.3%)

Source: Fulcrum Research as at 31 December 2001

Witan Investment Trust plc Report & Accounts 2001

HGI9232/2001

Printed by Perivan, London