

FINANCIAL HIGHLIGHTS

BETT BROTHERS PLC

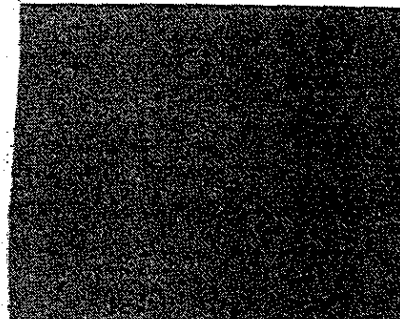
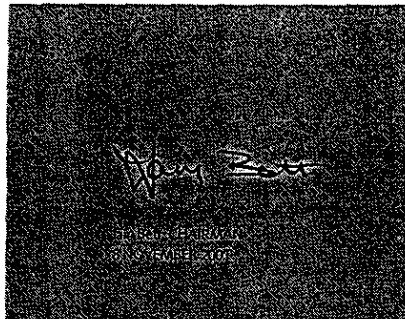
ACCOUNTS - YEAR ENDED 31/8/01

Record profits for shareholders have been achieved whilst embarking on a significant refocusing of the business. Expansion into new geographical areas is proceeding successfully and we are confident that the reinvestment of the proceeds of the sale of the Inns division will further that growth.

	2001	2000	
TURNOVER (INCLUDING DISCONTINUED OPERATIONS AND SHARE OF JOINT VENTURES)	£91.2m	£81.0m	up by 13%
PROFIT BEFORE TAXATION	£10.1m	£8.1m	up by 25%
EARNINGS PER SHARE	49.47p	40.35p	up by 23%
DIVIDEND	12.75p	11.55p	up by 10%
GEARING PERCENTAGE	25.0%	6.8%	
DIVIDEND COVER	3.9x	3.4x	up by 15%
SHAREHOLDERS' FUNDS	£49.5m	£43.7m	up by 13%



CHAIRMAN'S STATEMENT



THE YEAR UNDER REVIEW HAS BEEN ONE OF OUTSTANDING PROGRESS WITH TOTAL OPERATING PROFITS UP BY 35% TO £12.2M (2000 - £9.0M). THERE HAS ALSO BEEN SIGNIFICANT INVESTMENT IN THE FUTURE THROUGH THE CONTINUED EXPANSION OF OUR HOUSING ACTIVITIES, PARTICULARLY IN ENGLAND. OUR ACTIVITIES ARE MORE FOCUSED HAVING SOLD OUR INNS DIVISION. WE ARE NOW SET UP TO CONCENTRATE COMPLETELY ON HOUSEBUILDING AND COMMERCIAL PROPERTY DEVELOPMENT.

The overall result is a record pre-tax profit of £10.1m (2000 - £8.1m) an increase of 24%.

Both housebuilding and commercial property increased their contribution in the year as we continued to follow our long established strategy of controlled expansion.

In Housing the growth in operating profit was 43% at £8.9m (2000 - £6.2m). Scotland of course remains our largest region. We have traded there for over 50 years and there are still opportunities for its substantial growth to continue. I am delighted that our North West region has again increased its profit and that it is becoming a significant force.

During the year we established a new region based in Newcastle. Naturally there is a cost involved at the early stages but they are off to a promising start.

Our partnership housing division was a start up two years ago and made its first contribution to profit in the year.

Property development operating profits similarly showed a good increase, rising to £2.9m (2000 - £2.5 m) an uplift of 12%. Their projects are well spread throughout the UK, have a relatively low risk profile and while it is a strong business on its own account there is increasing potential for the housing and property development divisions to work together on mixed use schemes.

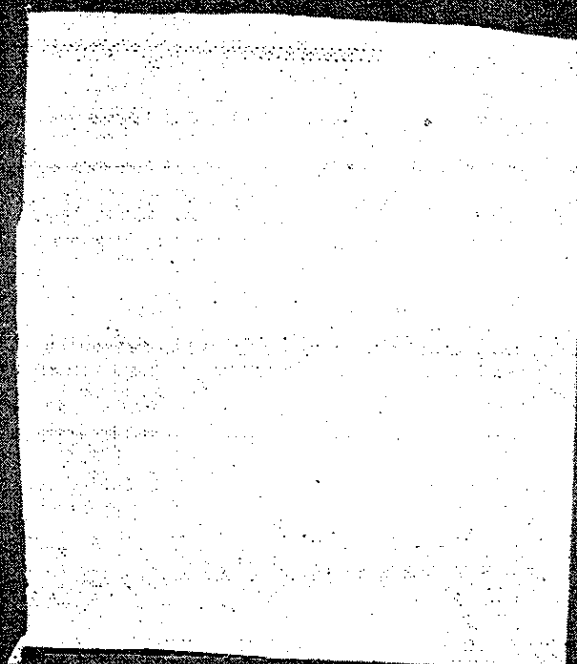
This is the last year that Bett Inns will contribute to operating profit. After more than 20 years of involvement in the trade, and a solid contribution from the business in recent times, it was an important event to sell to a management buy out immediately after the year end. The operating profit was flat at £1.7m (2000 - £1.7m). The Board had concluded that Bett Inns, although a sound business, is concentrated in the Dundee area and that the funds generated by the sale could more profitably be invested in growing the core activities.

During the year the housing market was relatively strong although the property market was somewhat weaker as institutional investors were influenced by a number of factors including the weakness of stock markets. The outlook at present is more uncertain than for many years with war, global slowdown and nervous stockmarkets. There are however many positive signals for our activities which are exclusively based within the UK where the economic outlook is better. In housing we operate outside the South East and believe that the fundamentals of high employment, low interest rates and affordability will allow us to continue to grow. In commercial property continuing low interest rates can make projects attractive to owner occupiers and other investors.

Our teams and our businesses are stronger than ever and this enables us to continue the plan of growing profitably what we have, and in investing in new opportunities for the future. Our immediate challenge is to replace the profit previously made by Bett Inns. Given reasonable market conditions we would expect to achieve that in the short term.

I would like to thank all of our teams for their outstanding effort and commitment and I would also like to welcome Steven Lyon who joined the Main Board as Group Finance Director on 3 September 2001. He continues as Finance Director of our housing division.

The Board's policy on dividends is to continue to provide sensible progression. Accordingly a final dividend of 9.10p is recommended making a total of 12.75p for the year, an overall increase of 10.4%.



[Signature]

ROD - CHIEF EXECUTIVE
31 NOVEMBER 2001

Opportunity

THE PAST YEAR HAS SEEN ENORMOUS CHANGE IN THE HOUSEBUILDING INDUSTRY WITH THE CONSOLIDATION OF SEVERAL LEADING COMPANIES IN THE SECTOR THROUGH ACQUISITION AND MERGER. THERE IS A WIDELY HELD VIEW THAT THIS IS INEVITABLE, AND TO THE DISADVANTAGE OF SMALLER GROUPS.

We intend to continue our growth and therefore to get bigger. Nevertheless, we do not believe that bigger necessarily means better, or that consolidation is the only way forward.

It is a paradox that in a period of strong market conditions new house build completions have been almost static and in some areas have fallen. Industry consolidation is more likely the evidence of the very difficult planning environment and of the pressure on public companies to grow their numbers.

The benefits of scale are limited in an industry where so much of the resources are sourced locally. We intend to harness the advantages of running local businesses, with their shorter lines of communication and more flexible entrepreneurial spirit, to build the group and remain a competitive force.

There are many competitive challenges in continuously improving the design and quality of our product, delivering a strong customer focus and in investing in our people through training and development to achieve ambitious targets. We will meet these challenges and seize the opportunities for soundly based growth.

• SUPERIOR QUALITY PRODUCTS • CRAFTING AND EXPERIENCE • ATTENTION TO DETAIL •

Turnover up by 25%

Housing margins
increased by 1.5% overall to 11.5%

BETT HOMES

In total throughout the Group we sold 644 homes (2000 – 556 homes) which produced total turnover of £77.4m (2000 – £61.9m) at an average selling price of £120,000 (2000 – £111,000). The range of prices was from £50,000 to £305,000 which is our market.

Housing margins increased by 1.5% overall to 11.5% which figure includes the dilutive impact of starting new regions. This effect will become less marked as the regions mature. We will also benefit from a constant drive for improvement in efficiency.

Our land bank at the year end consisted of over 3000 plots under our control with a planning status of zoned or better and over 5500 plots under option. Our approach in recent years has been to target larger sites in faster selling areas. The problems with the planning process are well documented. However the effect of delays on larger, faster selling sites can have a very disruptive effect on production and sales programmes. Our approach is to continue to strengthen the land banks in each region to help alleviate this problem.

Product development is a continuing priority. During the year our range was subjected to a thorough critical review which has resulted in the recent launch of revitalised 'strong sellers' combined with attractive and competitive new designs. This exercise also provided the opportunity to present a different elevational treatment for which we have chosen an Arts & Crafts theme. The move from drawing board to site takes some time and so these new styles are only now appearing on site – to a very encouraging response.

• AN HOLISTIC APPROACH • CARING FOR OUR ENVIRONMENT • BUILDING WITH IMAGINATION •

The importance of 'kerb appeal'

CONTINUING NHBC RECOGNITION

We are ever more conscious of the importance of 'kerb appeal' and place great emphasis on an holistic approach to development where the attention to the detail of entrance statements, layout and landscaping are a vital complement to good house design.

The industry as a whole needs to improve its reputation for customer care. We are setting our standards higher and working through training and better procedures to maintain and enhance what is already a good reputation.

A more detailed regional comment follows.

Scotland

We have a presence in all the main markets in Scotland. We sold 465 units marginally up from 456 units in 2000 from 13 sites (12 sites in 2000) at an average selling price of £132,000 (2000 – £112,000). The main outlets were in Aberdeen, Dundee, Stirling, Glasgow and the Edinburgh area.

Our land bank is strongest in Scotland.

A number of longer term sites are coming to an end, with new ones taking considerable time to get through the planning process. We expect contributions in the new financial year from Bothwell, Dundee, Livingston, Hamilton, Knightswood (Glasgow), Larbert, Dunfermline, Kintore and Elrick (Aberdeen).

During the year our site teams continued their successful history of winning awards by gaining NHBC recognition at Pitreavie (Dunfermline).

• SATISFYING CUSTOMER NEEDS • GEOGRAPHIC EXPANSION •

AFFORDABLE HOMES FOR SALE AND FOR RENT

An increasingly significant contribution from the North West

North West

Turnover at £10.6m was similar to last year but was produced from 89 units (2000 – 100 units) with a higher average selling price of £120,000 (2000 – £108,000) and the margins were also better.

The acceleration of progress from this region is becoming more evident as it benefits from a stronger team, better landbank and greater momentum. Some excellent sites are underway with production expected from eight sites in 2002 compared with four in 2001. These include Crewe, Alsager, Adlington, Leyland, Liverpool and Glossop.

I am delighted that an NHBC award was won again in the North West, this time at Crewe.

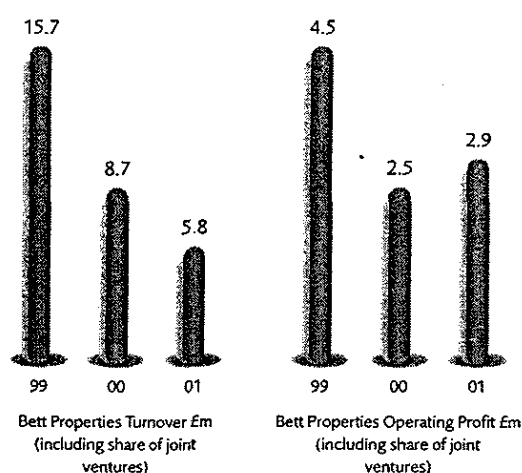
As operational gearing takes effect we expect an increasingly significant contribution from the North West.

North East

During the year we invested in the start up of a North East region based in Newcastle. This small team has worked hard over a short period such that we are already operating on two sites in the Durham area – and we recorded our first sales in October 2001.

There is great determination to create a strong business and to deliver the potential.

• KNOWING OUR MARKETS • ASSEMBLING THE RIGHT TEAM • CREATING OPPORTUNITIES •



**Attractive and competitive
new designs**

**OPERATING
PROFIT UP 12%**

Partnership

Our Partnership division supplied its first contribution to profit during 2000/01 in line with the plan set at its formation in 1999.

Its objective is to work with local authorities and housing associations to provide 'affordable' homes for sale and for rent. The division's development is conditioned by local authority and housing association budgets which can be committed well in advance. The output in the year of 90 units is a very creditable performance and so is the pace at which its reputation has been established. Some strong alliances have been built for the future which will be the basis of further growth.

Four sites were operated in the year in Aberdeen, Hamilton, Coatbridge and Airdrie.

We are especially pleased to have reached agreement recently with West Lothian Council in one of Scotland's most extensive public/private housing partnerships to date. The total value of the project is over £26m.

PROPERTIES

Bett Properties, including our share of joint ventures, managed to increase its operating profit to £2.9m (2000 – £2.5m) in a very uneasy market. Institutional interest was limited but our team produced a number of successful projects during the year.

At Bromsgrove near Birmingham infrastructure works started on the 17.5 acres identified for industrial and distribution space and the first sale was recorded in the year. Similarly at Bridgend in Wales our joint venture with Ford Motor Company on 60 acres concluded an initial sale to Lidl for a major distribution depot.

• UTILISING TECHNOLOGY • INVESTING IN THE FUTURE •

Our landbank is strongest in Scotland

IMPROVING THE INVESTMENT VALUE

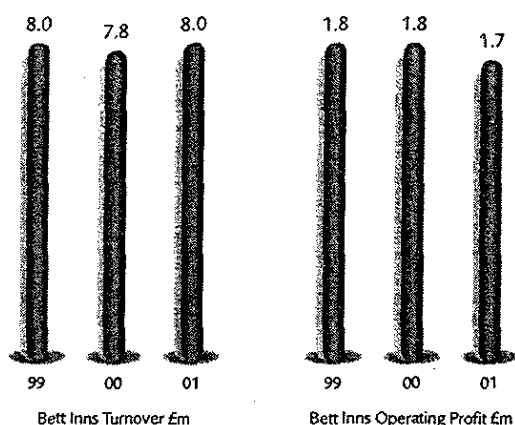
Further development took place at Sidcup through our joint company B & S Ventures and there remain only 2.4 acres for industrial development.

There was also a satisfactory sale of development land at Guild Base in Aberdeen.

A substantial number of projects are carried out through joint venture arrangements where a common view of sensible exposure to risk is shared. In addition to the above, schemes include:

- Rich Industrial Estate (Newhaven) (99,500 ft²) and Martello Enterprise Estate (Littlehampton) (53,000 ft²), a 28,000 ft² industrial property in Aylesbury and a 15,000 ft² office in Reading. These are owned through B & S Ventures and have potential for refurbishment and onward sale.
- Haymarket – Edinburgh. Having completed and successfully sold the first phase last year the remaining part of the site has a consent for 38,000ft² of offices in a strongly improving area.
- Newcastle. We have a site of 47 acres close to the Tyne Tunnel. Proposals for development for warehousing and distribution are in for planning.
- Barnsley. A planning application for 58,500 ft² of food/non-food retail development is being pursued. Early indications are of good interest from retailers.
- Warrington. We have recently secured a site for 70,000 ft² of industrial/warehousing in an area of good potential.

• A CARING CULTURE • LISTENING TO OUR CUSTOMERS • TRAINING ADVANCEMENT •



A REPUTATION FOR CUSTOMER CARE

Investing in our people

It was reported last year that a change of use was gained for development at Stobcross, Glasgow where residential had overtaken commercial values.

In a joint venture funded by the Bank of Scotland we last year acquired a £28.4m portfolio of 6 office properties with the objective of improving the investment value mainly for the institutional market. To date two properties have been sold successfully and the others are being actively managed.

In summary we have therefore several opportunities for further growth but as before the progress and timing will be dependent on market conditions.

BETT INNS

A static operating profit of £1.72m (2000 – £1.77m) was a good performance from the portfolio of 3 hotels, 13 pubs and a nightclub.

The division maintained its excellent reputation for value for money and service and our policy of maintaining the fabric of the outlets over the long term has also paid off.

As reported in the Chairman's Statement the division was sold to a management buy out immediately after the year end, for a premium after expenses of £0.6m over net asset value. This allows us to concentrate on our core activities where the funds will be re-invested.

In the year to 31 August 2001, the Group generated profits before tax of £10.1m. Continued significant investment in work in progress, which includes land for future development, was reflected as an increase in net debt of £9.4m.

OPERATING RESULTS

In the year to 31 August 2001 profit before tax was £10.1m compared with £8.1m in the previous year on turnover of £87m up from £73m in the year to August 2000.

The housing division sold 644 units at an average selling price of £120,000 producing turnover of £77m compared with 556 units, turnover of £62m and an average selling price of £111,000 in the previous year.

The Property division increased operating profit to £2.9m from £2.6m previously. A significant proportion of the current year operating profit, £2.2m, was generated by our joint venture companies.

The Inns division's profits were flat at £1.7m (2000 – £1.7m) from broadly the same portfolio of 3 hotels, 13 pubs and a nightclub. This business was sold to management on 3 September 2001 for a cash consideration of £13.0m plus the net current asset value, giving rise to a gain after expenses of £0.6m over net asset value, which will be reported in the accounts for the year to 31 August 2002.

INTEREST

There was a significant rise in interest charges during the year to £2.1m (2000 – £0.9m) which was due to the increased investment in land and work in progress to support the expansion of activity. Interest cover was almost six times.

We implemented a fixed rate hedge (from June 2001) on £5m at 5.4% for one year and an additional £5m at 5.6% for two years.

The remainder of the Group's borrowings is exposed to changes to the variable rate of interest. Opportunities to minimise or eliminate this risk are monitored on an ongoing basis, taking into account anticipated future interest rate movements and borrowing requirements.

TAXATION

The effective rate of tax for the year was 22 % (2000 – 23%). The Group continues to benefit from significant tax losses which serve to reduce the effective rate of tax to 73% of the standard rate. The potential deferred tax asset in respect of the remaining trading losses of £11.8m has not been recognised.

EARNINGS AND DIVIDEND PER SHARE

Earnings per share went up from 40.33p to 49.47p. The Board has recommended a final dividend of 9.10p making a total dividend for the year of 12.75p an increase of 10.4%. Dividend cover is 3.9 (2000 – 3.4).

CASHFLOW

A significant investment in work in progress, which includes land for future development, was reflected in an increase in net debt of £9.4m (2000 – increase £6.6m) although the level of debt remains modest.

The principal movements were as follows:

	2001 £m	2000 £m
Operating Profit	10.0	6.4
Investment in work in progress (net)	(14.8)	(9.2)
Interest	(1.0)	(0.6)
Taxation	(1.5)	(1.8)
Dividends	(1.9)	(1.7)
All other	(0.2)	0.3
Net increase in debt	(9.4)	(6.6)

The investment in work in progress reflects the continuing growth in the properties' and the housebuilding businesses in particular. A further £14m of expenditure on development land is included within accruals at year end.

NET DEBT

At the end of the year, the Group had net debt of £12.4m (2000 – £3m) which represents gearing of 25% (2000 – 7%). Given the nature of the Group's business this is an unrepresentative position and gearing averaged 42% (2000 – 15%) during the year. The Group has negotiated bank facilities totalling £55m, including a revolving credit facility of £20m which is available until 28 February 2003, with the balance on overdraft facilities. The variable rate of interest is broadly 1% above base rate and all bank covenants were complied with throughout the period.

RETURN ON CAPITAL

Total shareholders' funds at the end of the year amounted to £49.5m, an increase of £5.8m or 13%. This represents a net asset value of £3.13 per share (2000 – £2.77).

The total return on capital employed, based on the average of the net assets employed at the beginning and end of the year and profits before interest earned in the year, was 22% (2000 – 22%).

FRS 17

During the year, the Accounting Standards Board issued a new standard – FRS 17 'Retirement Benefits' – which requires to be fully implemented by 31 August 2003. The Group has adopted the transitional disclosure requirements in the year to 31 August 2001 which include disclosure of:

- the major actuarial assumptions used for the actuarial valuation
- the fair value of the assets in the scheme
- the present value of the liabilities of the scheme
- the expected rate of return at the balance sheet date
- the contribution rate for the year.

EXECUTIVE

I C R Bett* Age 55.

The son of the original chairman of Bett Brothers plc. Joined the Company in 1963 and was made a director in 1966. Became chairman and joint managing director in 1982 and on the appointment of Mr R G Hanna as chief executive in February 1992, became executive chairman. He is president of The Benevolent Society of the Licensed Trade of Scotland.

R G Hanna CA Age 59.

Appointed as director and chief executive in February 1992. Formerly joint managing director of Cala plc, he is a non-executive director of Edinburgh High Income Trust plc and chairman of Glasgow Income Trust plc.

I T Townsend FRICS Age 52.

Commenced employment in the Group in 1974 and was appointed a director of Bett Properties in 1981 and managing director in 1993. He was appointed to the Board of Bett Brothers plc in May 1989.

A Anderson Age 50.

Joined the Group in September 1996 as managing director of Bett Homes and was appointed to the Board of Bett Brothers plc on 1 September 1998. Formerly technical director with Beazer Homes Scotland.

S Lyon ACMA Age 39.

Appointed to the Board of Bett Brothers plc as group finance director on 3 September 2001. Joined the Group in 1993 and was appointed finance director of Bett Homes in 1997. Formerly held finance positions with Cala plc and Stewart Milne Group Limited.

NON-EXECUTIVE

G H Webster FRICS* Age 61.

The senior independent director who was appointed as non-executive director in August 1992. A chartered surveyor, he is a non-executive director of a number of companies including The Scottish Friendly Assurance Society Limited and Forth Ports plc.

A H Macdiarmid* Age 65.

Appointed as non-executive director in March 1996. A chartered accountant, formerly an executive director of Coats Viyella plc, he is a non-executive director of a number of private companies.

**Members of the Audit and Remuneration Committees.*

DIVISIONAL DIRECTORS

Housebuilding and Related Activities Scotland	North west N Uttley R I Kelly K Davidson S B Griffin
J M Kirkpatrick K D Haldane J J McGowan I J McGouldrick	North east D S Barlow R D Law
	Partnerships I C Baird
	Properties D Robinson

COMPANY SECRETARY
E R Mason FCA

REGISTERED OFFICE

Bett Brothers plc
9 Cox Street
Dundee DD3 9HA
Tel: 01382 884191
Fax: 01382 833918

**REGISTRARS AND
TRANSFER OFFICE**

Lloyds TSB Registrars
117 Dundas Street
Edinburgh EH3 5ED

BANKERS

Bank of Scotland
New Uberior House
Earl Grey Street
Edinburgh EH3 9BN

STOCKBROKERS

Bell Lawrie White
7 Drumsheugh Gardens
Edinburgh EH3 7QH

AUDITORS

Arthur Andersen
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

SOLICITORS

Dickson Minto WS
11 Walker Street
Edinburgh EH3 7NE

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 August 2001.

BUSINESS REVIEW

A review of the Group's principal business activities for the year ended 31 August 2001 is presented on pages 3 to 11. Group turnover and profit before interest are analysed in note 3.

RESULTS AND DIVIDENDS

	£000	£000
Group profit for the financial year		7,810
Dividends paid and proposed		
– interim paid of 3.65p per share (2000–3.30p per share)	(571)	
– final proposed of 9.10p per share (2000–8.25p per share)	(1,438)	(2,009)
Proposed transfer to retained profits		5,801

DIRECTORS AND THEIR INTERESTS

The directors who served during the year, and their interests, are as shown in the Remuneration Report.

Mr Iain C R Bett and Mr Alexander Anderson retire by rotation and are eligible and willing to stand for re-election at the forthcoming annual general meeting. Mr Bett has a service contract which may be terminated by the Company giving two years' notice and Mr Anderson has a service contract which may be terminated by the Company giving one year's notice. Mr Steven Lyon was appointed by the Board after the last annual general meeting and, being eligible also offers himself for re-election at the forthcoming annual general meeting; he has a service contract which may be terminated by the Company giving one year's notice.

SUBSTANTIAL SHAREHOLDINGS

On 8 November 2001, the following substantial interests in the Company's ordinary share capital were registered:

	Number of Shares	Percentage held
Mrs Irene W Bett	1,893,130	11.98%
Edinburgh Fund Managers plc	1,150,000	7.28%
Mrs Margaret F Bett	785,000	4.97%
Albert A Bett's Executry	552,760	3.50%

EXECUTIVE SHARE OPTION SCHEME

At the 1998 Annual General Meeting the Bett Brothers plc 1992 Executive Share Option Scheme was replaced with the Bett Brothers plc 1998 Executive Share Option Scheme comprising two parts, an Inland Revenue approved part and an unapproved part. The two parts are identical except where the Inland Revenue requirements for approval dictate otherwise, to ensure that the parts operate consistently wherever possible.

Date of Grant	Number of Options Outstanding at 31.8.00	Granted	Exercised	Lapsed	Number of Options Outstanding at 31.8.01	Option Price
9 December 1993	40,000	–	(25,000)	–	15,000	101p
2 December 1994	30,000	–	(10,000)	–	20,000	179p
7 December 1995	10,000	–	–	–	10,000	178p
9 December 1996	17,000	–	–	–	17,000	172p
5 December 1997	10,000	–	–	–	10,000	154p
17 May 1999	145,000	–	–	(25,000)	120,000	178.5p
18 November 1999	58,000	–	–	(10,000)	48,000	223.5p
13 November 2000	–	120,000	–	(20,000)	100,000	199.5p
	310,000	120,000	(35,000)	(55,000)	340,000	

Options under the Scheme are normally exercisable three years after the date of grant and for a period of seven years thereafter. Between 1 September 2001 and 8 November 2001, no options under the Scheme lapsed.

DIRECTORS' REPORT

SAVINGS RELATED SHARE OPTION SCHEME

The Bett Brothers plc Savings Related Share Option Scheme was approved by shareholders on 17 December 1993 and is approved under the Income and Corporation Taxes Act 1988. The following options have been granted under the scheme:

	Outstanding at 01.09.00	Granted in year	Lapsed in year	Exercised in year	Outstanding at 31.08.01
Granted 09.01.97 at 132p					
Number of persons	19	–	–	(2)	17
Number of shares	48,079	–	(3,232)	(6,698)	38,149
Granted 08.01.98 at 129p					
Number of persons	19	–	(3)	(1)	15
Number of shares	61,771	–	(8,477)	(1,417)	51,877
Granted 23.12.98 at 116p					
Number of persons	33	–	(5)	(1)	27
Number of shares	147,084	–	(26,429)	(335)	120,320
Granted 21.12.99 at 187p					
Number of persons	44	–	(8)	–	36
Number of shares	109,522	–	(11,003)	–	98,519
Granted 22.12.00 at 173p					
Number of persons	–	59	(5)	–	54
Number of shares	–	104,381	(5,850)	–	98,531

Options under the Scheme are exercisable either during the period of six months following the completion of the related five year SAYE contract which is 1 March 2002, 1 March 2003, 1 April 2004, 1 April 2005 and 1 April 2006 respectively, or when employees have left the Company more than three years since the option grant date.

Between 1 September 2001 and 8 November 2001 the following options have lapsed or have been exercised:

	Lapsed	Exercised
Granted 23.12.98	9,122	361
Granted 21.12.99	10,828	–
Granted 22.12.00	1,950	–

PURCHASE OF OWN SHARES

The Company has authority to make market purchases of shares in the Company up to a maximum number of 1,576,197 shares. This authority expires on 19 March 2002 and renewal of this authority will be sought at the forthcoming annual general meeting.

FIXED ASSETS

Information relating to changes in tangible fixed assets is given in note 11 to the accounts.

The Group's interests in investment properties were valued on an open-market existing use basis as at 31 August 2001 and the resulting valuations have been incorporated in the accounts.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Group contributed £1,100 (2000 – £2,900) to charities during the year. There were no political contributions in the year (2000 – £ nil).

CORPORATE GOVERNANCE

The Company has complied with the provisions of the Code of Best Practice set out in section 1 of the Combined Code on Corporate Governance, other than where indicated below.

There are some practical difficulties for a company of this size in implementing all of the provisions. The Company has two non-executive directors whereas the Code recommends at least three based on a board comprising of seven directors; the non-executive directors are experienced and independent.

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the principles have been applied is set out below and in the Remuneration Report.

The principal responsibilities of the Board are to agree overall strategy and investment policy, to approve major capital expenditure, to monitor the performance of the senior management and to ensure that there are proper internal controls in place.

The Audit Committee is comprised of the two non-executive directors and the Chairman. It receives and reviews reports from management relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group.

The committee has unrestricted access to the auditors.

DIRECTORS' REPORT

The Remuneration Committee is also comprised of the two non-executive directors and the Chairman. It keeps under review the scale and structure of remuneration of the executive directors and the terms of their service contracts. The Remuneration Report is presented on pages 18 to 20.

GOING CONCERN

On the basis of current financial projections and bank facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the accounts.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced was formalised and was in place from 1 September 2000 to the date of approval of the Annual Report and Accounts. That process is regularly reviewed by the Board and accords with the internal control and guidance for directors on the Combined Code produced by the Turnbull working party. The key elements of the process are summarised as follows:

- The Board meets on a regular basis to review and assess financial and operational performance and to discuss the management of key business risks and issues. The Board reviews the strategic direction of the Group and has primary responsibility for identifying the major business risks facing the Group and developing appropriate strategies, actions and approaches to manage those risks;
- A regular program of risk assessments is undertaken where the business risks which impact the achievement of business objectives are evaluated and prioritised. This ensures that the Board and senior management review and reflect upon the overall risk profile facing the Group and that key risks receive the appropriate level of management attention on an ongoing basis;
- Regular meetings are held by the management teams of each division and financial performance and the management of key business risks are discussed in detail. Actions, responsibilities and targets are set and performance reviewed at subsequent meetings. The Board is represented on each divisional management team.

The outputs from this process as well as the underlying process itself is regularly reviewed by the Board in order to develop and further embed risk management and risk awareness throughout the Group. The key elements of the system of internal control can be summarised as follows:

- The Group has a management structure designed to provide the shortest lines of communication with each division having its own management team with representation from the Board. The Group and each division operate with clearly defined management roles and responsibilities;
 - A comprehensive system is in place for reporting and monitoring divisional performance. Budgets are prepared by each division and, following a Group review, are considered and adopted by the Board. Forecasts are prepared and updated quarterly and routinely reported at Board meetings;
 - As noted above, regular meetings are held by the Board and the management teams of each division. Financial performance and the management of key business risks are discussed in detail. Actions, responsibilities and targets are set and performance reviewed at subsequent meetings;
 - Clearly defined controls and approval procedures are in place within each division. Purchase of land and other major capital expenditure require structured Board authority;
 - Periodic independent reviews of the adequacy and effectiveness of the system of internal control across the Group are undertaken at the request of the Board;
 - Regular reporting is provided to the Board on the other Group functions including insurance, taxation, treasury, secretarial and legal.
- In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Group's system of internal control. The key elements of this review process include:
- Regular Board and divisional management meetings as described above with detailed review and investigation of any variances from budget;
 - Review by the Board of the outputs of the risk assessment process and ongoing monitoring of the risk profile facing the business;
 - Review by the Board of the findings of independent assessments of internal control undertaken across the Group;
 - Review by the Audit Committee of the results of the annual audit and half-year results.

The Board reviews the need for an internal audit department on an annual basis.

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting, to be held at 1.00pm on Wednesday 19 December 2001 at 9 Cox Street, Dundee, is contained in a separate letter from the Chairman accompanying this annual report.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

SUPPLIER PAYMENT POLICY

It is the Company's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions, to ensure that suppliers are made aware of these terms and to abide by them. At 31 August 2001, there was the equivalent of 52 days (2000 – 50 days) purchases outstanding.

ENVIRONMENTAL POLICY

The Group keeps itself informed of all legislation, regulations and Codes of Practice on environmental matters that are relevant to its operations. It makes best endeavours to ensure that its personnel are aware of and adequately instructed in the requirements of this legislation, and takes all other reasonable actions to ensure compliance.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception in 1994 and is open to all employees. In addition, all salaried staff receive an annual bonus related to the profitability of their division.

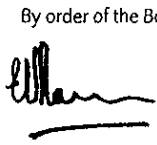
AUDITORS

The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

CAPITAL GAINS TAX

The middle market quotation of the 20p ordinary shares at 31 March 1982 was 52.5p.

By order of the Board



E R Mason, SECRETARY
8 NOVEMBER 2001

REMUNERATION REPORT

As well as complying with the provisions of the Code as disclosed in the Company's corporate governance statements, the Company has applied the Principles of Good Governance relating to directors' remuneration as described below. For completeness of presentation this report covers the remuneration of the non-executive as well as the executive directors, and also related matters such as the interests of the directors in the Company's shares. It therefore covers issues which are the concern of the Board as a whole in addition to those which are dealt with by the Remuneration Committee.

COMPOSITION

The Remuneration Committee is appointed by the Board and is composed of the two non-executive directors, Graham H Webster (Remuneration Committee Chairman) and Alistair H Macdiarmid, and Iain C R Bett (Executive Chairman of the Board). The Board considers that the remuneration received by Iain Bett as Board Chairman does not materially influence his judgement as a member of the Remuneration Committee. His salary and benefits are determined by the two non-executive directors and Mr Bett is not present for these discussions. No discretionary bonus is paid to Mr Bett, and he does not receive any options under any executive share option scheme.

The non-executive directors do not hold any share options, nor participate in any bonus or pension schemes; they have no personal interest in the matters to be decided other than as shareholders and no day-to-day involvement in running the businesses of the Group. Their fees are determined at an annual meeting of the directors.

Apart from the requirement that Remuneration Committees should consist exclusively of non-executive directors, the constitution and operation of the Remuneration Committee comply with the Principles of Good Governance relating to directors' remuneration.

REMUNERATION POLICY

The basic objectives of the Remuneration Committee's policies are that executive directors should receive compensation which is appropriate to their level of responsibility and performance, and which will attract, motivate and retain executives of the necessary calibre. The Committee also agrees, in consultation with Ronald G Hanna, Chief Executive, the principles underlying remuneration for other senior executives.

DIRECTORS' REMUNERATION

	Salary/ Fees £000	Benefits £000	Bonuses £000	Total Excluding Pensions 2001 £000	2000 £000	Money Purchase Pension Contributions 2001 £000	2000 £000
Iain C R Bett (Chairman)	101	16	–	117	117	–	–
Ronald G Hanna (Chief Executive)	160	17	72	249	235	70	66
Ian T Townsend (Executive Director)	111	12	28	151	135	–	–
Alexander M Macrae (Executive Director) – resigned 19.11.00	17	3	–	20	113	1	3
Alexander Anderson (Executive Director)	120	13	60	193	151	–	–
Graham H Webster (Non-Executive Director)	17	–	–	17	17	–	–
Alistair H Macdiarmid (Non-Executive Director)	13	–	–	13	13	–	–
	539	61	160	760	781	71	69

Mr Steven Lyon was appointed by the Board as Group Finance Director on 3 September 2001.

Basic Salary The salary of individual executive directors is reviewed at 1 September each year. Account is taken of individual achievements, any change in responsibilities that may have occurred and the salaries for similar roles in comparable companies.

Benefits Certain executive directors receive taxable benefits comprising car, fuel, telephone and healthcare. Under long-standing contractual arrangements, taxable benefits for Iain C R Bett and Ian T Townsend are pensionable.

REMUNERATION REPORT

Bonuses and Profit Related Pay Payments under discretionary bonus and profit related pay schemes for the executive directors are conditional on the achievement of operating profit and specific performance targets.

Profit Related Pay is pensionable whereas discretionary bonuses are not, with the exception of bonuses paid to Ronald G Hanna; this is a long-standing contractual arrangement and unlikely to be repeated in future appointments.

Pensions Executive directors joining the Company prior to 1 September 1997 were entitled to become members of the Group's contributory defined benefit pension scheme or, if preferred, to receive payment of a proportion of salary into a personal money purchase pension scheme. Executive directors joining the Company after 1 September 1997 are entitled to join the Group's personal pension money purchase scheme and receive payment of a proportion of salary into the scheme. The Group's defined benefit pension scheme is designed to provide a pension of one sixtieth of final pensionable salary for each year of completed pensionable service. The pension contributions shown in the table above reflect the actual payments made for those directors who are not members of the Group's defined benefit pension scheme. The following directors had accrued entitlements under the Group's defined benefit scheme as follows:

	Increase in accrued pension excluding inflation £000	Transfer value of increase £000	Accrued pension 31 August 2001 £000	Accrued pension 31 August 2000 £000
Iain C R Bett	2	5	61	59
Ian T Townsend	5	37	55	50
Alexander Anderson	2	13	8	6

The pension entitlement shown is that which would be paid annually from normal retirement based on service to the end of the year under review.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less director's contributions.

Members of both schemes have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Share Options The Committee believes that share ownership by executive directors and senior executives strengthens the link between their personal interest and those of the shareholders. The Group operates an Executive Share Option Scheme which comprises of an Inland Revenue approved part and an Inland Revenue unapproved part. The most recent grants of options to executive directors were on 13 November 2000. The Remuneration Committee has initially set a performance condition of options normally only being exercisable if the growth of the Company's earnings per share at least matches the growth in the Retail Prices Index plus 9 per cent over a three year period.

DIRECTORS AND THEIR INTERESTS

The directors who held office at 31 August 2001 and their beneficial interests in the ordinary shares of Bett Brothers plc were as follows:

	Number of Shares 31 August 2001	Number of Shares 31 August 2000
Iain C R Bett	3,181,276	3,181,276
Ronald G Hanna	1,028,018	1,028,018
Ian T Townsend	90,389	65,389
Alexander M Macrae – resigned 19.11.00	–	–
Alexander Anderson	21,000	21,000
Graham H Webster	57,200	57,200
Alistair H Macdiarmid	20,000	20,000

Iain C R Bett has a non-beneficial interest in 10,000 shares (2000 – 10,000). In addition, he is an executor of Albert A Bett's Executry (2000 – same) and this non-beneficial interest is described on Page 14.

Steven Lyon was appointed a director on 3 September 2001 at which time his beneficial interest was 72,070 ordinary shares.

REMUNERATION REPORT

There were no movements in the interest of directors between 1 September 2001 and 8 November 2001.

The following directors have interests in options under the Executive Share Option Scheme:

	Number of Options					Exercise Price	Date from which Exercisable	Expiry Date
	At 01.09.00	Granted In Year	Lapsed In Year	Exercised In Year	At 31.08.01			
Ian T Townsend	25,000	–	–	25,000*	–	101p	09.12.96	09.12.03
	10,000	–	–	–	10,000	179p	02.12.97	02.12.04
	25,000	–	–	–	25,000	178.5p	17.05.02	17.05.09
	–	15,000	–	–	15,000	199.5p	13.11.03	13.11.10
Alexander M Macrae – resigned 19.11.00	15,000	–	15,000	–	–	178.5p	17.05.02	17.05.09
	10,000	–	10,000	–	–	223.5p	18.11.02	18.11.09
Alexander Anderson	17,000	–	–	–	17,000	172p	09.12.99	09.12.06
	25,000	–	–	–	25,000	178.5p	17.05.02	17.05.09
	18,000	–	–	–	18,000	223.5p	18.11.02	18.11.09
	–	15,000	–	–	15,000	199.5p	13.11.03	13.11.10

* Options exercised on 28 November 2000 when the mid-market price was 215p, a gain of £28,500.

On his appointment to the Board on 3 September 2001, Steven Lyon held the following executive share options:

10,000	154p	05.12.00	05.12.07
10,000	178.5p	17.05.02	17.05.09
10,000	199.5p	13.11.03	13.11.10

The mid market price of the shares at 31 August 2001 was 257.5p and the range during the year was 187p to 289p.

In addition to the above, executive directors have an interest in a Savings Related Share Option Scheme which was introduced in 1994. Under this scheme, the maximum number of shares over which the directors have options are:

	Number of Options	Exercise Price
Ian T Townsend	9,024	187p
Alexander Anderson	13,310	129p-132p
Steven Lyon	14,547	116p

No directors had any interest in contracts with the Group.

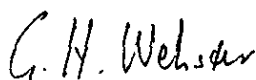
EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

The notice period for executive directors is two years with the exception of Alexander Anderson and Steven Lyon who have a one year notice period. The Committee is aware that the terms of certain contracts are longer than the one year recommended by the Principles of Good Governance, but it considers them appropriate having regard to established practice in the market place and necessary to enable the Company to attract and retain the highest calibre of management.

OUTSIDE APPOINTMENTS

Subject to Board approval, executive directors may serve as non-executive directors on the boards of other companies and may retain remuneration from such appointments.

On behalf of the Board



Graham H Webster, CHAIRMAN, Remuneration Committee
8 NOVEMBER 2001