

Registered Number: 1940906

# Henderson Strata Investments plc

Report & Accounts for the year ended  
31 October 1999

Printed copies of this annual report, including  
photographs, are available on request from the  
Company's Registered Office.



A35  
COMPANIES HOUSE

\*A31QDOTY\*

0104  
15/03/00

# Contents

## **Directors' Review**

- 1 Company Profile
- 2 Financial Highlights
- 2 Performance
- 2 Historical Record
- 3 Chairman's Statement

## **Investment Review**

- 4 Classification of Investments
- 5 Ten Largest Holdings
- 6-7 United Kingdom Review
- 8-9 North America Review
- 10 Continental Europe Review
- 11 Japan Review

## **Financial Review**

- 12-14 Report of the Directors
- 15-16 Corporate Governance
  - 17 Statement of Directors' Responsibilities
  - 17 Report of the Auditors
- 18 Statement of Total Return
- 19 Balance Sheet
- 20 Cash Flow Statement
- 21-27 Notes to the Accounts

## **Shareholder Information**

- 28-29 Notice of Annual General Meeting
- 30 Directors
- 30 Management Team
- 31 Information about the Company
- 31 Nominee Code
- 32 Henderson Investors Investment Trust Share Plan
- 32 Henderson Investors Selection ISA

Henderson Strata Investments plc seeks to achieve above average capital growth through an international portfolio of smaller companies.

## Background

The pace of change in the world is accelerating. This is being driven by the internet and the increasing flexibility of data transfer and of video and voice transmission internationally. We are on the threshold of a complete change in the way business will be conducted.

## Strategy

Since launch in 1985 we have searched out exciting growth companies around the world. Our approach has not changed because we believe that by adopting a consistent style combined with a rigorous process we shall achieve returns ahead of our benchmark, the FTSE SmallCap Index (excluding investment companies).

## Stocks

The search for companies is on a stock by stock basis. Applying strict criteria quickly separates the true long term growth stocks from those which may prove to be just an average investment. If circumstances change and the prospects look less encouraging an investment is sold promptly. This ensures a dynamic portfolio.

## Opportunity

The basis of an attractive company is one which is operating in a growth market with high barriers to entry and able to price competitively and profitably. Managements are also key since they must have a clear strategy, be focused on what they do best and be motivated strongly by personal financial investment in the business. Finally, there must be scope for the share price to appreciate. We are ready to embrace the exciting changes envisaged for the next decade.

## Financial Highlights

|                           | Year ended<br>31 October<br>1999 | Year ended<br>31 October<br>1998 |
|---------------------------|----------------------------------|----------------------------------|
| Total net assets          | <b>£125.70m</b>                  | £86.60m                          |
| Net asset value per share | <b>715.31p</b>                   | 492.80p                          |
| Loss per share            | <b>(2.05p)</b>                   | (1.69p)                          |
| Dividend per share        | <b>nil</b>                       | nil                              |

## Performance

|                                                         | 1 Year<br>% | 5 Years<br>% | 10 Years<br>% |
|---------------------------------------------------------|-------------|--------------|---------------|
| Net asset value total return                            | 45.2        | 154.6        | 379.6         |
| Share price total return                                | 35.1        | 115.7        | 355.7         |
| FTSE SmallCap Index<br>(excluding investment companies) |             |              |               |
| total return                                            | 35.6        | 70.6         | 125.8         |
| FTSE All-Share Index total return                       | 18.7        | 117.1        | 266.4         |

Total return assumes net dividends are reinvested and excludes transaction costs.

Source: AITC Services Limited.

## Historical Record

| Year ended<br>31 October | Total assets<br>less current<br>liabilities in £'000 | Net asset value<br>per ordinary<br>share in pence† | Net asset value<br>per warrant<br>in pence | Earnings/(loss)<br>per ordinary<br>share in pence | Dividend<br>per ordinary<br>share in pence |
|--------------------------|------------------------------------------------------|----------------------------------------------------|--------------------------------------------|---------------------------------------------------|--------------------------------------------|
| 1986                     | 20,729                                               | 133.1                                              | 33.1                                       | 1.90*                                             | 0.50#                                      |
| 1987                     | 19,790                                               | 127.4                                              | 27.4                                       | 0.75                                              | 0.58                                       |
| 1988                     | 22,371                                               | 142.8                                              | 42.8                                       | 1.11                                              | 0.70                                       |
| 1989                     | 25,829                                               | 163.5                                              | 63.5                                       | 1.67                                              | 1.15                                       |
| 1990                     | 21,089                                               | 135.2                                              | 35.2                                       | 1.83                                              | 1.32                                       |
| 1991                     | 29,480                                               | 185.3                                              | 85.3                                       | 1.56                                              | 1.40                                       |
| 1992                     | 29,736                                               | 186.3                                              | 86.3                                       | 1.45                                              | 1.40                                       |
| 1993                     | 45,315                                               | 271.0                                              | —                                          | 1.36                                              | 1.40                                       |
| 1994                     | 47,492                                               | 284.0                                              | —                                          | 1.00                                              | 0.50                                       |
| 1995♦                    | 58,797                                               | 351.7                                              | —                                          | 2.35                                              | 1.40                                       |
| 1996                     | 78,255                                               | 453.8                                              | —                                          | 1.72                                              | 1.40                                       |
| 1997                     | 86,111                                               | 495.5                                              | —                                          | (0.43)                                            | 0.50                                       |
| 1998                     | 86,596                                               | 492.8                                              | —                                          | (1.69)                                            | nil                                        |
| <b>1999</b>              | <b>125,696</b>                                       | <b>715.3</b>                                       | <b>—</b>                                   | <b>(2.05)</b>                                     | <b>nil</b>                                 |

† Assuming full subscription of the warrants in issue between 16 October 1985 and 31 January 1993. All warrants had been exercised as at 31 January 1993.

\* From commencement of business on 16 October 1985.

# A special dividend of 1.10p was also paid.

♦ Restated, where applicable, for the change in accounting policy made in the 1996 accounts in respect of the recognition of dividend income. Periods prior to 31 October 1995 have not been restated.

# Chairman's Statement

## **Net Asset Value**

I am pleased to report that the net asset value per share at the year end was 715.31p. This represents a rise of 45.2% over the year which compares with an increase in the FTSE SmallCap Index (excluding investment companies) of 31.5%. These figures do not include income.

Performance has been particularly strong in recent weeks, especially within the UK investments, as investors have become less concerned about the possibility of major computer problems at the beginning of the year 2000. This has been reflected in a sharp recovery in the share prices of the information technology companies. There may be some isolated problems but most companies' preparations for the change have been thorough and investors are now looking into next year and beyond. The prospects for computer systems development and implementation in the next few years are immense as companies change the way they operate to compete in increasingly global, electronic markets.

Our weighting in the North American markets has reduced over the year, reflecting in part the relative weakness of the US smaller company sector. The Japanese markets have witnessed a very strong recovery and our portfolio has benefited from this. In Continental Europe, as in the UK, stock selection has produced very strong returns. The economic outlook for countries in the Pacific has become clearer and we have made several investments in the area since the year end.

## **Focus**

The investment approach that has served us so well is continually reviewed to ensure exposure to the companies which are leading the way through innovation and at the same time are placing great emphasis on customers' needs. This has resulted in an even stronger focus on exceptional growth companies throughout the portfolio.

## **Gearing**

Throughout most of the year we have had no borrowings while we searched patiently for opportunities. The purchase of several new investments in the last few months has led to a return to a geared position. The borrowings will rise further as exposure to the Pacific is increased and as any new issues are added in other markets.

## **Dividend**

Investment income is low due to the growth emphasis. This means your directors are not recommending the payment of a dividend for the year just ended.

## **Share Buy-Back Powers**

Your Board is again seeking enabling powers to allow the Company to buy in its own shares. Last year, the Company was prevented from using these powers due to restrictions imposed on the Company by the rules of The City Code on Takeovers and Mergers. In October this year, Rule 37, which imposed this restriction, was amended and now provides the Company with greater flexibility to buy back its own shares. In the short term, because of the constraints of the Code, any such purchases are likely to be modest in number.

## **Outlook**

The world is changing fast and those companies which are prepared to make fundamental changes in the way they do business will be the winners. Often such companies are quite small and do not have the problem of outdated systems or facilities. Your company is well placed to find and invest in such opportunities.

Frans ten Bos  
Chairman

*25 November 1999*

# Classification of Investments

as at 31 October 1999

|                                    | United<br>Kingdom<br>% | North<br>America<br>% | Continental<br>Europe<br>% | Japan<br>% | Total<br>1999<br>% | Total<br>1998<br>% |
|------------------------------------|------------------------|-----------------------|----------------------------|------------|--------------------|--------------------|
| <b>Resources</b>                   |                        |                       |                            |            |                    |                    |
| Oil & Gas                          | —                      | 0.7                   | —                          | —          | <b>0.7</b>         | 2.4                |
|                                    | —                      | 0.7                   | —                          | —          | <b>0.7</b>         | 2.4                |
| <b>Basic Industries</b>            |                        |                       |                            |            |                    |                    |
| Chemicals                          | —                      | —                     | —                          | —          | —                  | 0.6                |
| Construction & Building Materials  | 2.4                    | —                     | 0.4                        | 0.7        | <b>3.5</b>         | 5.8                |
| Forestry & Paper                   | —                      | —                     | 0.2                        | —          | <b>0.2</b>         | —                  |
| Steel & Other Metals               | —                      | —                     | —                          | —          | —                  | 0.2                |
|                                    | 2.4                    | —                     | 0.6                        | 0.7        | <b>3.7</b>         | 6.6                |
| <b>General Industrials</b>         |                        |                       |                            |            |                    |                    |
| Aerospace & Defence                | —                      | 0.3                   | —                          | —          | <b>0.3</b>         | —                  |
| Diversified Industrials            | —                      | 0.6                   | —                          | —          | <b>0.6</b>         | 1.8                |
| Electronic & Electrical Equipment  | 1.5                    | 2.0                   | —                          | 1.4        | <b>4.9</b>         | 5.2                |
| Engineering & Machinery            | 0.3                    | —                     | 1.9                        | 0.6        | <b>2.8</b>         | 4.4                |
|                                    | 1.8                    | 2.9                   | 1.9                        | 2.0        | <b>8.6</b>         | 11.4               |
| <b>Cyclical Consumer Goods</b>     |                        |                       |                            |            |                    |                    |
| Automobiles                        | 0.7                    | —                     | —                          | —          | <b>0.7</b>         | 1.3                |
| Household Goods & Textiles         | —                      | —                     | 0.9                        | —          | <b>0.9</b>         | 1.9                |
|                                    | 0.7                    | —                     | 0.9                        | —          | <b>1.6</b>         | 3.2                |
| <b>Non-Cyclical Consumer Goods</b> |                        |                       |                            |            |                    |                    |
| Food Producers & Processors        | 0.2                    | —                     | 0.4                        | 1.0        | <b>1.6</b>         | 1.2                |
| Health                             | —                      | 1.4                   | —                          | —          | <b>1.4</b>         | 1.8                |
| Packaging                          | —                      | —                     | 0.1                        | —          | <b>0.1</b>         | —                  |
| Personal Care & Household Products | —                      | —                     | —                          | —          | —                  | 0.1                |
| Pharmaceuticals                    | 2.9                    | 0.1                   | —                          | 0.3        | <b>3.3</b>         | 4.6                |
|                                    | 3.1                    | 1.5                   | 0.5                        | 1.3        | <b>6.4</b>         | 7.7                |
| <b>Cyclical Services</b>           |                        |                       |                            |            |                    |                    |
| Distributors                       | 2.3                    | 0.5                   | —                          | —          | <b>2.8</b>         | 2.4                |
| General Retailers                  | 1.8                    | 0.6                   | 0.6                        | —          | <b>3.0</b>         | 8.2                |
| Leisure, Entertainment & Hotels    | 6.1                    | 0.7                   | 0.6                        | 0.6        | <b>8.0</b>         | 4.5                |
| Media & Photography                | 9.6                    | 2.6                   | —                          | 0.3        | <b>12.5</b>        | 7.0                |
| Restaurants, Pubs & Breweries      | 4.7                    | —                     | —                          | 0.1        | <b>4.8</b>         | 6.4                |
| Support Services                   | 1.9                    | 0.5                   | 1.1                        | 0.6        | <b>4.1</b>         | 9.0                |
| Transport                          | 0.9                    | 0.3                   | —                          | —          | <b>1.2</b>         | 2.1                |
|                                    | 27.3                   | 5.2                   | 2.3                        | 1.6        | <b>36.4</b>        | 39.6               |
| <b>Non-Cyclical Services</b>       |                        |                       |                            |            |                    |                    |
| Food & Drug Retailers              | —                      | —                     | —                          | —          | —                  | 1.7                |
| Telecommunications Services        | 0.4                    | 1.6                   | —                          | 0.4        | <b>2.4</b>         | 0.3                |
|                                    | 0.4                    | 1.6                   | —                          | 0.4        | <b>2.4</b>         | 2.0                |
| <b>Information Technology</b>      |                        |                       |                            |            |                    |                    |
| Information Technology Hardware    | 5.2                    | —                     | 0.6                        | —          | <b>5.8</b>         | 2.1                |
| Software & Computer Services       | 23.0                   | 2.4                   | 1.1                        | 0.9        | <b>27.4</b>        | 20.4               |
|                                    | 28.2                   | 2.4                   | 1.7                        | 0.9        | <b>33.2</b>        | 22.5               |
| <b>Financials</b>                  |                        |                       |                            |            |                    |                    |
| Banks                              | 0.1                    | 1.4                   | —                          | —          | <b>1.5</b>         | 1.0                |
| Insurance                          | —                      | —                     | —                          | —          | —                  | 0.8                |
| Real Estate                        | —                      | —                     | —                          | —          | —                  | 0.3                |
| Speciality & Other Finance         | 4.1                    | 0.7                   | 0.2                        | 0.5        | <b>5.5</b>         | 2.5                |
|                                    | 4.2                    | 2.1                   | 0.2                        | 0.5        | <b>7.0</b>         | 4.6                |
| <b>Totals 1999</b>                 | <b>68.1</b>            | <b>16.4</b>           | <b>8.1</b>                 | <b>7.4</b> | <b>100.0</b>       |                    |
| Totals 1998                        | 66.9                   | 20.7                  | 8.3                        | 4.1        |                    | 100.0              |

There were no convertible or fixed interest securities at either 31 October 1999 or 31 October 1998. All holdings are equity shares, with the exception of the two unquoted investments (see pages 7 and 9) which are limited partnerships that invest in equity shares.

# Ten Largest Holdings (all United Kingdom)

at 31 October 1999

## 1. ARM Holdings

**Value £6,684,000**

ARM licenses high performance, low cost power-efficient microprocessors to the major electronics companies for an extensive range of applications. The company has recently signed new licences and collaborations with the aim of establishing its architecture as the standard for embedded processors in a multitude of consumer products.

## 2. Fitness First

**Value £5,088,000**

Fitness First is developing a chain of health and fitness clubs with a focus on the concept of "affordable" fitness. It currently operates around 50 clubs in the UK and now approaching 20 in Germany through a 50% owned company. The prospects for expansion across Europe are very encouraging.

## 3. London Bridge Software

**Value £4,065,000**

London Bridge supplies software and services for credit risk management as well as customer relationship management which promises to be a major growth opportunity over the next few years. Recent acquisitions and contracts provide exceptional growth prospects.

## 4. Kewill Systems

**Value £3,824,000**

Kewill Systems is at the forefront of developments within the e-commerce market which promises to bring unprecedented growth as internet activity rises exponentially. Deals with companies such as FedEx will ensure impressive earnings growth.

## 5. Pizza Express

**Value £3,220,000**

Pizza Express is a fast growing pizza restaurant with an exemplary track record. New openings and regular refurbishment have ensured steadily rising sales in the UK. New developments include opening branches overseas as well as building a business in pasta restaurants. The growth is set to continue.

## 6. Euro Sales Finance

**Value £2,849,000**

Euro Sales Finance provides sales finance services to small and medium-sized entrepreneurial companies within Europe. The growth potential is enormous.

## 7. Taylor & Francis

**Value £2,778,000**

Taylor & Francis is a long-established specialist publisher of scientific and technical journals and books. The company is expanding fast through organic growth and acquisitions which are taking it into new markets in Asia and the US.

## 8. Admiral

**Value £2,626,000**

Admiral provides a comprehensive range of services in information technology. These include business consultancy, systems development, software integration, systems operation and training. Activity is set to rise sharply in 2000 and beyond.

## 9. Diagonal

**Value £2,550,000**

Diagonal is the UK market leader in installing SAP software for major international companies. It is now building up a support services division to help companies needing further development and enhancement of their SAP systems. Growth in earnings is set to rise sharply in 2000 and ensuing years.

## 10. Parity

**Value £2,507,000**

Parity offers consultancy, systems development and training in all aspects of a company's computer systems. Additionally it provides temporary skilled personnel in information technology. The company operates in the UK and is expanding across mainland Europe and also into the US. Growth prospects remain good.

# United Kingdom Review

## Review

Henderson Strata's UK portfolio has been focused on computer hardware and software companies for some two years and these stocks did not participate in the surge in the smaller companies index earlier in the year. Nevertheless, advantage was taken of the uncertainty during the second quarter arising from concerns over the year change to 2000 to add to some of the computer companies in view of the very positive prospects for profits in 2000 and beyond. This

move has proved very rewarding in recent weeks as the fears over the date change have receded and investors have begun to consider the implications for computer systems development in 2000 and beyond.

## Activity

Adding to such holdings as **London Bridge Software**, **royalblue** and **Financial Objects** has increased the percentage in the Information Technology (IT) sector to over 40% in the UK portfolio. This demonstrates our strong belief in the outstanding prospects for continued growth in demand for versatile operating systems to enable companies to learn more about their customers, to be more responsive to customers' demands, to have more control over their ordering from suppliers and to conduct business electronically with customers. In other words IT has become business critical whereas in recent years it has been used to cut costs and increase efficiency. This is a step change forward and key to our thinking for the future.

## List of Investments at 31 October 1999

| £'000 |                        |                                     | % of total portfolio | £'000 |                               |                                       | % of total portfolio |
|-------|------------------------|-------------------------------------|----------------------|-------|-------------------------------|---------------------------------------|----------------------|
| 6,684 | ARM Holdings           | specialist microprocessors          | 5.2%                 | 2,169 | Guardian IT                   | business continuity services          | 1.7%                 |
| 5,088 | Fitness First          | health and fitness clubs            | 4.0%                 | 2,132 | Helphire                      | credit hire and repair                | 1.7%                 |
| 4,065 | London Bridge Software | computer software development       | 3.2%                 | 2,053 | RM                            | educational software                  | 1.6%                 |
| 3,824 | Kewill Systems         | software systems                    | 3.0%                 | 2,014 | BTG                           | patenting and licensing               | 1.6%                 |
| 3,220 | Pizza Express          | restaurants                         | 2.5%                 | 1,940 | Druck                         | precision pressure measurement        | 1.5%                 |
| 2,849 | Euro Sales Finance     | factoring and invoice discounting   | 2.2%                 | 1,908 | Ashtead                       | plant and tool hire                   | 1.5%                 |
| 2,778 | Taylor & Francis       | scientific journals and books       | 2.2%                 | 1,835 | Taylor Nelson Sofres          | global market research                | 1.4%                 |
| 2,626 | Admiral                | consultancy and systems development | 2.0%                 | 1,832 | Holmes Place                  | health and fitness clubs              | 1.4%                 |
| 2,550 | Diagonal               | computer software installation      | 2.0%                 | 1,786 | GWR Group                     | local radio                           | 1.4%                 |
| 2,507 | Parity                 | computer systems development        | 1.9%                 | 1,647 | Shire Pharmaceutical          | pharmaceuticals                       | 1.3%                 |
| 2,429 | Luminar                | licensed theme bars                 | 1.9%                 | 1,578 | News Communications and Media | local newspapers                      | 1.2%                 |
| 2,380 | Infoma                 | business information                | 1.9%                 | 1,476 | ITNET                         | business process outsourcing          | 1.1%                 |
| 2,321 | Clinton Cards          | greeting card retailer              | 1.8%                 | 1,468 | Galen                         | pharmaceuticals                       | 1.1%                 |
| 2,306 | Druid                  | business change consultants         | 1.8%                 | 1,246 | Metal Bulletin                | information on specialist areas       | 1.0%                 |
| 2,187 | royalblue              | software systems                    | 1.7%                 | 1,241 | Financial Objects             | software for financial companies      | 1.0%                 |
| 2,185 | Trifast                | fastener distribution               | 1.7%                 | 1,186 | Tilbury Douglas               | construction and engineering services | 0.9%                 |

The increasing importance of the internet has spawned many small companies some of which are now looking for a quote in order to raise their profile as well as raise new money. We have met most of them and made an initial investment in those we believe have a viable business plan. Since almost all are still loss-making, the best approach is to retain a small holding and keep a careful eye on how the business develops. We add to a holding as we become more confident the management will succeed. Since the year end we have added to **NetBenefit**, **Gameplay** and **eXchange Holdings**. This growth in internet activity has raised the demand for information to be displayed on web sites and, since media companies are the main providers, investment in this sector has been increased. Such stocks make up 14% of the UK portfolio and include **Taylor & Francis** and **GWR Group**.

We have sold holdings which disappointed such as **Vanguard Medica** and sold those likely to face increasing pressures from consumers becoming more price conscious through utilising the considerable power of the internet. These include **Electronics Boutique** and **Alexon**.

### Outlook

The way of doing business is being transformed by the internet. We have reflected this in the choice of UK investments and we are low in manufacturing and much heavier in the service industries. We believe that we are in the ideal position to spot the trends likely to develop in the coming years as the trickle of companies seeking a quote turns into a stream. The long term returns should be rewarding for investors.

Richard Smith

| £'000 |                      |                                           | % of total portfolio | £'000  |                         |                                          | % of total portfolio |
|-------|----------------------|-------------------------------------------|----------------------|--------|-------------------------|------------------------------------------|----------------------|
| 1,035 | Trafficmaster        | traffic information                       | 0.8%                 | 291    | Baltimore Technologies  | information secure services              | 0.2%                 |
| 954   | Torotrak             | transmission systems                      | 0.7%                 | 284    | † Systems International | computer consultancy and recruitment     | 0.2%                 |
| 893   | ICM Computer         | systems integration and continuity        | 0.7%                 | 237    | Allied Leisure          | bowling and burger bars                  | 0.2%                 |
| 827   | † Gameplay.com       | facilitates playing games on the internet | 0.6%                 | 230    | * Henderson Unquoted    |                                          |                      |
| 692   | † Pure Entertainment | enables games to be downloaded            | 0.5%                 |        | Growth Equities II      |                                          |                      |
| 616   | Dicom                | document management solutions             | 0.5%                 |        | Fund                    | unquoted investment fund                 | 0.2%                 |
| 533   | Redstone Telecom     | comprehensive telephony services          | 0.4%                 | 217    | Acatos & Hutcheson      | edible oils and fats                     | 0.2%                 |
| 493   | Powderject           |                                           |                      | 198    | eXchange Holdings       | financial products online                | 0.2%                 |
|       | Pharmaceuticals      | painless drug delivery                    | 0.4%                 | 175    | Oxford Asymmetry        |                                          |                      |
| 437   | Mentmore Abbey       | flexible business accommodation           | 0.3%                 |        | International           | synthesis of chemical compounds          | 0.1%                 |
| 436   | † Coffee Republic    | coffee bars                               | 0.3%                 | 173    | † GB Railways           | train operator                           | 0.1%                 |
| 403   | Bristol United Press | local newspapers                          | 0.3%                 | 134    | Deltron Electronics     | distribution of electronic components    | 0.1%                 |
| 382   | domnick hunter       | manufacturer of gas filters and driers    | 0.3%                 | 97     | † NetBenefit            | domain name registration and services    | 0.1%                 |
| 342   | ITE Group            | exhibition management                     | 0.3%                 | 36     | Utilitec                | specialist services to utility companies | -                    |
|       |                      |                                           |                      | 87,625 |                         |                                          | 68.1%                |

†quoted on the Alternative Investment Market

\*unquoted investment

# North America Review

## Review

Smaller companies have rebounded from their lows of October 1998, although they have failed to match the rise of their larger peers. The market started to power ahead at the beginning of the year as fears of a global meltdown receded. However, stronger than expected economic growth, worries of resurgent inflation and rising bond yields have caused the market to stall in recent months.

## Activity

Over the past year, the portfolio has increased its exposure to technology. Demand for technology, especially for companies which participate in the burgeoning Internet and e-business arena, has boomed. The Internet is a medium that has long term deflationary implications and in which most companies are eager to invest in order to drive down costs and increase their competitive advantage. Due to the newness of many of these companies, valuations can prove to be a challenge. However, we have selectively increased exposure to the Internet and have concentrated on buying companies that participate in infrastructure buildout. Our exposure to the technology sector now exceeds 30%. New holdings include **Vignette**, an internet software company, and **Critical Path**, an e-mail hosting company.

## List of Investments at 31 October 1999

| £'000 |                     |                                        | % of total<br>portfolio | £'000 |                     |                                        | % of total<br>portfolio |
|-------|---------------------|----------------------------------------|-------------------------|-------|---------------------|----------------------------------------|-------------------------|
| 853   | Cox Radio           | owns and operates radio stations       | 0.7%                    | 393   | Celestica           | electronics manufacturing services     | 0.3%                    |
| 836   | Mettler Toledo      | laboratory weighing instruments        | 0.6%                    | 392   | Cinar               | television programmes                  | 0.3%                    |
| 648   | US Food Services    | food distribution services             | 0.5%                    | 388   | Resmed              | manufactures respiratory               |                         |
| 604   | Bank United         | financial services                     | 0.5%                    |       |                     | medical equipment                      | 0.3%                    |
| 593   | US Trust            | financial services                     | 0.5%                    | 383   | SFX Entertainment   | live entertainment events              | 0.3%                    |
| 592   | Lamar Advertising   | outdoor advertising operator           | 0.5%                    | 375   | Oak Industries      | cable TV equipment                     | 0.3%                    |
| 563   | Waters              | manufactures and distributes           |                         | 349   | Mony Group          | life assurance and investment products | 0.3%                    |
|       |                     | chromatography equipment               | 0.4%                    | 339   | CDW Computer        | sells microcomputer hardware           |                         |
| 534   | Zale                | jewellery retailers                    | 0.4%                    |       | Centers             | and peripherals                        | 0.3%                    |
| 510   | Scholastic          | publishes and distributes              |                         | 315   | Carolina First      | regional banking                       | 0.2%                    |
|       |                     | children's books                       | 0.4%                    | 310   | Allied Capital      | small business finance                 | 0.2%                    |
| 501   | Entercom            |                                        |                         | 302   | Accredo Health      | pharmaceutical services                | 0.2%                    |
|       | Communications      | radio broadcasting                     | 0.4%                    | 301   | Verisign            | e-commerce                             | 0.2%                    |
| 496   | Applied Power       | tool and equipment manufacturer        | 0.4%                    | 291   | Amerisource Health  | drug distribution                      | 0.2%                    |
| 479   | Sybron              | manufactures dental products           | 0.4%                    | 289   | Vignette            | internet services                      | 0.2%                    |
| 473   | Premier Parks       | theme park operators                   | 0.4%                    | 288   | Salem               |                                        |                         |
| 440   | Hanover Compressor  | natural gas compressor rental services | 0.3%                    |       | Communications      | radio broadcasting                     | 0.2%                    |
| 425   | Carey International | chauffeur vehicle service              | 0.3%                    | 286   | Luminant Worldwide  | internet and e-commerce                | 0.2%                    |
| 411   | L-3 Communications  | communication systems and products     | 0.3%                    | 283   | Medallion Financial | financial loan service                 | 0.2%                    |
| 398   | Devry               | educational training services          | 0.3%                    | 268   | Triton Pcs          | telecommunications services            | 0.2%                    |

Elsewhere, we increased exposure to the media sector. The advertising environment has been particularly robust and radio stocks have been key beneficiaries. New holdings were added in **Cox Radio** and **Entercom**. Holdings in the healthcare services sector were significantly reduced as many companies are experiencing severe price pressure. Complete sales included **Henry Schein**, a dental distributor.

### Outlook

In the short term the market faces several challenges. However, as we look into the New Millennium we believe that prospects for smaller companies look favourable. Since January 1994, smaller companies have suffered

their worst relative period of underperformance compared to larger companies in the last 70 years. Despite producing earnings growth comparable to larger companies, the lack of liquidity has severely compressed valuations. Recent outperformance has been very encouraging. We believe that the combination of robust earnings growth and low valuations, together with the opportunity to invest in some of the most exciting companies in the US, bodes well for the future prospects of smaller companies.

Ann Hall

| £'000 |                           |                                                                  | % of total portfolio | £'000  |                                          |                                           | % of total portfolio |
|-------|---------------------------|------------------------------------------------------------------|----------------------|--------|------------------------------------------|-------------------------------------------|----------------------|
| 258   | Whittman-Hart             | strategic information technology services                        | 0.2%                 | 192    | Terayon Communication Systems            | cable modem systems                       | 0.2%                 |
| 248   | Next Link Communications  | local telecommunications services                                | 0.2%                 | 190    | Critical Path                            | e-mail hosting solutions                  | 0.2%                 |
| 245   | Ventana Medical Systems   | cancer treatment diagnostics                                     | 0.2%                 | 189    | Novellus Systems                         | semi-conductor capital equipment          | 0.1%                 |
| 242   | Flextronics International | electronics manufacturing services                               | 0.2%                 | 185    | Dril-Quip                                | offshore drilling equipment               | 0.1%                 |
| 237   | Navigant Consulting       | electric utility consultants                                     | 0.2%                 | 180    | Insight Communications                   | cable TV operators                        | 0.1%                 |
| 232   | Spanish Broadcasting      | spanish radio station operator (in US)                           | 0.2%                 | 180    | Copper Mountain Networks                 | telecommunications service provider       | 0.1%                 |
| 230   | Renal Care                | dialysis and ancillary services                                  | 0.2%                 | 176    | Network Appliance                        | manufactures data network storage devices | 0.1%                 |
| 228   | Cleartnet Communications  | digital wireless communications                                  | 0.2%                 | 172    | Mindspring Enterprises                   | internet access provider                  | 0.1%                 |
| 224   | Dendrite International    | provides comprehensive electronic territory management solutions | 0.2%                 | 172    | Liquid Audio                             | provides music over the internet          | 0.1%                 |
| 221   | Provident Bankshares      | commercial banking                                               | 0.2%                 | 164    | Teligent                                 | voice/video telecommunications service    | 0.1%                 |
| 216   | Noble Drilling            | offshore drillers                                                | 0.2%                 | 150    | Complete Business Solutions              | information technology services           | 0.1%                 |
| 209   | Pinnacle                  | owns and leases wireless communication towers                    | 0.2%                 | 123    | Ziff-Davis (Zdnet)                       | internet access provider                  | 0.1%                 |
| 209   | Allaire                   | web software                                                     | 0.2%                 | 114    | Coulter Pharmaceutical                   | drug and therapy development for cancer   | 0.1%                 |
| 208   | High Speed Access         | high speed internet access                                       | 0.2%                 | 109    | Priority Healthcare                      | pharmaceutical distributor                | 0.1%                 |
| 207   | CSK Auto                  | auto part stores                                                 | 0.2%                 | 23     | *T Rowe Price Strategic Partners Fund II | emerging company fund                     | -                    |
| 202   | Focal Communications      | local telecommunications services                                | 0.2%                 |        |                                          |                                           |                      |
| 200   | Time Warner Telecom       | local telecommunications services                                | 0.2%                 |        |                                          |                                           |                      |
|       |                           |                                                                  |                      | 21,042 |                                          |                                           | 16.4%                |

\*unquoted investment

# Continental Europe Review

## Review

October 1998 proved to be the lowest point for market confidence after the emerging markets crisis. Initially it was the continuing strength of the US economy that helped confidence to be rebuilt but, as the year progressed, signs of a strengthening European recovery became increasingly visible. In these conditions smaller companies outperformed over the year, notably during 1999.

## Activity

The outlook for ERP (enterprise resource planning) software companies generally became more uncertain, with concerns over the competitive situation and the impact of the date change to 2000 on ordering patterns, and as a result we disposed of our holding in **Scala Business Solutions**.

We added a number of investments that are technology-related. **Intershop** of Germany is a leading international provider of e-commerce software. The company has a full product range of high quality offerings and some very strong and respected partners. Other purchases included **ICT**, the Dutch specialist embedded software company which is seeing very strong growth, and **SEZ**, an Austrian supplier of semiconductor processing equipment.

Outside technology **Zapf Creation**, which supplies children's functional dolls and has a very strong domestic market position, was bought. The company's well developed marketing strategy has produced strong growth in Germany and is proving to be equally successful within Europe and the US.

## Outlook

The outlook for continental Europe is encouraging with economic growth strengthening but inflation and interest rates likely to remain at low levels for some time. A feature of the last few years has been the extremely large volume of new companies coming to the market, providing exposure to new niche areas not previously available. This should provide some good investment possibilities. We will continue to focus on finding high quality companies with strong growth prospects at reasonable prices. They do exist and we will continue to search them out.

Simon Savill

## List of Investments at 31 October 1999

| £'000 |                     |                                    | % of total portfolio | £'000  |                  |                             | % of total portfolio |
|-------|---------------------|------------------------------------|----------------------|--------|------------------|-----------------------------|----------------------|
| 951   | Ekornes             | "stressless" furniture             | 0.7%                 | 326    | Danske           |                             |                      |
| 824   | Zapf Creation       | children's dolls                   | 0.6%                 |        | Traelastkompagni | DIY                         | 0.3%                 |
| 800   | Intershop           |                                    |                      | 311    | Consodata        | database marketing services | 0.2%                 |
|       | Communications      | e-commerce software                | 0.6%                 | 300    | Tecis Holding    | financial services          | 0.2%                 |
| 798   | Tandberg Television | digital TV equipment               | 0.6%                 | 278    | Devote           | IT architecture consulting  | 0.2%                 |
| 746   | SEZ                 | semiconductor processing equipment | 0.6%                 | 254    | Semcon           | technical consulting        | 0.2%                 |
| 717   | Du Pareil Au Mème   | children's clothing retail         | 0.6%                 | 196    | Munksjo          | speciality paper            | 0.2%                 |
| 696   | Lectra Systems      | textile CAD/CAM equipment          | 0.6%                 | 187    | Rapala Normark   | fishing lures               | 0.2%                 |
| 641   | Selecta             | vending services                   | 0.5%                 | 159    | IMV Technologies | animal fertility equipment  | 0.1%                 |
| 541   | Swisslog            | logistics solutions                | 0.4%                 | 154    | City Mail        | mail distribution           | 0.1%                 |
| 493   | Kaba                | security products                  | 0.4%                 | 119    | Bien-Haus        | housing products            | 0.1%                 |
| 485   | Royal Canin         | pet nutrition                      | 0.4%                 | 55     | Hawesko          | wine mail order and retail  | -                    |
| 412   | ICT Automatisering  | embedded software specialist       | 0.3%                 | 12     | Mandator         | IT consultancy              | -                    |
|       |                     |                                    |                      | 10,455 |                  |                             | 8.1%                 |

# Japan Review

## Review

October 1998 was the nadir for Japan's smaller company indices. From their lows, the Tokyo Second Section Index rose by 143% and the JASDAQ Index by 238% to the end of October 1999. A strengthening yen further enhanced returns to foreign investors. The stock market recovery was in anticipation of an improvement in the economy derived from the impact of fiscal packages, a gradual improvement in consumer sentiment and economic recovery in mainland Asia, but performance was concentrated in a small number of high growth companies in "new" industries.

## Activity

Activity increased as market liquidity and sentiment improved. Holdings in companies seen as unlikely to benefit from the trend towards technology and service-related industries are being progressively sold. These include **Ichiken, Glory, Azwell** and **Tsudakoma**.

Purchases focused on service and high-tech related companies. **Cresco**, a software developer, has the highest exposure to the financial sector where large increases in IT-related spending are forecast. **Fanci** is a rapidly expanding additive-free cosmetics and nutritional supplements company. **Inter** provides finance to very small businesses. **Mobilephone Telecommunications** provides Internet-like data for mobile telephones, an area in which Japan leads the world. **Meitec** provides engineers on an outsourcing basis and should benefit from broader economic recovery.

## Outlook

The domestic consumer remains the key but elusive factor in economic recovery, but continued yen strength will have a dampening effect. We believe, however, that moderate economic growth will prove sustainable. Against this background a broader range of better managed companies in more economy-sensitive sectors should be able to take advantage of the improving regulatory and taxation environments to restructure and realise significantly improved profits.

Jeremy Hall

## List of Investments at 31 October 1999

| £'000 |                                |                                    | % of total portfolio | £'000        |                     |                                      | % of total portfolio |
|-------|--------------------------------|------------------------------------|----------------------|--------------|---------------------|--------------------------------------|----------------------|
| 1,128 | Cresco                         | software                           | 0.9%                 | 421          | Foster Electric     | manufacturer of electrical machinery | 0.3%                 |
| 822   | Meitec                         | professional staff                 | 0.6%                 | 420          | Fanci               | natural cosmetics                    | 0.3%                 |
| 809   | Touei Housing                  | house builder                      | 0.6%                 | 407          | Maspro Denkoh       | manufacturer of electrical machinery | 0.3%                 |
| 745   | Tsubaki Nakashima              | manufacturer of machinery          | 0.6%                 | 357          | Asatsu Dik          | advertising                          | 0.3%                 |
| 724   | H.I.S.                         | travel agent                       | 0.6%                 | 208          | Horiba Instruments  | manufacturer of electrical machinery | 0.2%                 |
| 707   | New Japan Radio                | telecom components                 | 0.6%                 | 158          | Sagami Chain        | food retailer                        | 0.1%                 |
| 664   | Fujicco                        | food manufacturer                  | 0.5%                 | 76           | Relocation Services | corporate outsourcing                | 0.1%                 |
| 654   | Inter Co                       | lending to very small companies    | 0.5%                 | 58           | Aiya                | food retailer                        | 0.1%                 |
| 575   | Hokuto                         | mushroom technology                | 0.4%                 | 38           | Namura              |                                      |                      |
| 542   | Mobilephone Telecommunications | content provider for mobile phones | 0.4%                 |              | Shipbuilding        | shipbuilding                         | -                    |
|       |                                |                                    |                      | <u>9,513</u> |                     |                                      | <u>7.4%</u>          |

# Report of the Directors

The directors present their annual report and the audited accounts of the Company for the year ended 31 October 1999.

## Activities and Business Review

A review of the business is given in the Chairman's Statement on page 3 and the Portfolio Reviews on pages 6 to 11.

## 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 October 1998 and the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

## PEPs and ISAs

The Company intends to continue as a fully qualifying investment trust company under the Personal Equity Plan regulations. It intends also to qualify under the Individual Savings Account regulations. The Company is a participant in the Henderson Investors Selection ISA, details of which are set out on page 32.

## Life of the Company

On 19 January 1995 the shareholders agreed, in general meeting, that the Company should continue in existence at least until the year 2005.

At the first annual general meeting convened for a date on or after 1 January 2005, and at every tenth annual general meeting thereafter, the members will be asked to approve the continuation of the Company by ordinary resolution. If any such ordinary resolution is not passed, the directors will convene an extraordinary general meeting within three months at which proposals for the liquidation or reconstruction of the Company will be proposed.

## Assets

At 31 October 1999 the total net assets were

£125,696,000 and the net asset value per share was 715.31p, an increase of 45.2% over the previous year.

## Revenue and Dividend

The Company's gross revenue for the year was £1,100,000, a decrease of £366,000 from the figure for the preceding year. The net loss on ordinary activities after taxation was £360,000, compared to a net loss of £296,000 in the previous year. The directors do not recommend the payment of a dividend.

## Directors

The directors of the Company at the date of this report, all of whom served throughout the year under review, are listed on page 30.

At the forthcoming annual general meeting, Mr R D H Bryce and Mr E T Whitley will retire in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election.

Mr R W Smith is an executive of Henderson plc and is remunerated by that company in respect of services provided to Henderson Strata Investments plc under the management agreement.

Mr E T Whitley is a partner of Cazenove & Co., which is one of the stockbrokers through which the Company buys and sells investments.

No director has, or during the year under review had, a contract of service with the Company.

## Directors' Interests

The interests of the directors in the Company's ordinary share capital on the dates set out below were as follows:

|                             | 31 October<br>1999 | 1 November<br>1998 |
|-----------------------------|--------------------|--------------------|
| <i>Beneficial interest:</i> |                    |                    |
| F H ten Bos                 | 19,204             | 10,000             |
| S R Burley                  | 10,100             | 10,100             |
| R W Smith                   | 31,650             | 26,500             |
| E T Whitley                 | 14,000             | 14,000             |
| R D H Bryce                 | 4,241              | 3,670              |
| G B Burnett                 | 3,522              | 3,522              |

# Report of the Directors

continued

Between the year end and the date of this report, Mr Bryce increased his beneficial shareholding to 4,271 ordinary shares by the regular purchase of shares through the Henderson Investors Investment Trust Share Plan. No other changes to the directors' interests have been notified. No director has any non-beneficial interest in the shares of the Company.

## Substantial Shareholdings

The following shareholders had notified the Company of interests comprising 3% or more of the Company's ordinary share capital at 25 November 1999:

|                                                      | %     |
|------------------------------------------------------|-------|
| Witan Investment Company plc                         | 20.66 |
| Other discretionary managed clients of Henderson plc | 5.37  |
| Rio Tinto Pension Investments Limited                | 5.20  |

## Manager

Investment management, UK custodial, accounting, administrative and company secretarial services are provided to the Company by Henderson plc and its subsidiaries ("Henderson"). The annual management fee, which is paid quarterly, is calculated at the composite rate of 0.25% per quarter of the value of the Company's net chargeable assets (excluding borrowings and investments in funds managed by Henderson) on a two year rolling average basis. The management agreement may be terminated by either party but in certain circumstances the Company will be required to pay compensation amounting to one year's management fees. Compensation is not payable if one or more year's notice is given.

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.

## Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the forthcoming annual general meeting.

## Authority to Allot Shares and Disapply Pre-emption Rights

The directors have not used the powers granted to them at the annual general meeting held in January 1999 to allot new ordinary shares for cash on a non pre-emptive basis. However, the directors wish to renew these powers at the forthcoming annual general meeting. Accordingly, resolutions to give the Board authority to allot shares for cash on a non pre-emptive basis will be proposed and are set out in full in the Notice of Annual General Meeting on pages 28 and 29.

The resolutions, if passed, will give the directors authority to issue shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £219,654 (equivalent to 878,616 ordinary shares of 25p each and 5 per cent of the Company's existing issued ordinary share capital as at the date of this report). The directors intend to use the authority to issue new shares when they believe it to be advantageous to the Company's existing shareholders to do so. New shares are not allotted at other than a premium to net asset value. The authority will lapse unless renewed at the annual general meeting in 2001.

## Share Buy-Backs

It is proposed to seek shareholders' approval at the forthcoming annual general meeting to permit the Company to purchase its own shares. A recent amendment to company law has made it possible for the Company to fund any purchases of its own shares from realised capital profits without having to surrender its status as an investment company under section 266 of the Companies Act 1985. The Company's Articles of Association permit the Company to purchase its own shares and to fund any such purchases from its accumulated realised capital profits.

At the annual general meeting in January 1999 the Company was authorised to make market purchases of its own shares. On 8 March 1999 the directors issued a statement saying that the Company would not be exercising the authority to buy back shares. This decision was taken as certain rules under The City Code on Takeovers and Mergers ("the Code") would have

# Report of the Directors

continued

prevented a significant number of shareholders from buying the Company's shares.

The Board has been advised that in October this year the Panel on Takeovers and Mergers amended its rules so that it is now possible for the Company to make some purchases of its own shares within the constraints of the Code, subject to shareholder approval. Accordingly, a resolution will be proposed at the forthcoming annual general meeting to authorise the Company to make market purchases of its ordinary shares in accordance with the provisions of the Companies Act and the Listing Rules of the London Stock Exchange. The resolution, if passed, will allow the Company to purchase up to a maximum of 2,634,095 ordinary shares (this number representing 14.99% of the issued ordinary share capital as at the date of this report) at a price that is not less than 25p (the nominal value per share) and not more than 5 per cent above the average middle market value of the shares over the preceding five business days.

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 and would be in the best interests of shareholders generally. The authority will lapse unless renewed at the annual general meeting in 2001.

## **The Payment of Creditors**

It remains the Company's policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no single policy as to the terms used. 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 October 1999 the Company had no trade creditors.

## **Year 2000**

Henderson plc and its subsidiaries ("Henderson"), which provides investment management, UK custodial,

accounting, administrative and company secretarial services to Henderson Strata Investments plc, has undertaken a corporate action programme, under Henderson board supervision, to establish the precise scope of the risks posed to Henderson Strata Investments plc by the consequences of the Year 2000 date change and to address those risks. Henderson's strategy is to validate that its computer systems achieve Year 2000 conformity (as defined by the British Standards Institute in its paper DISC PD2000-1), and to require both its suppliers and the suppliers to Henderson Strata Investments plc to ensure that their computer systems achieve the same or an equivalent standard. Costs relating to the Year 2000 project are to be borne by Henderson.

The directors are aware that effective management of the Year 2000 date change is important to the operations of the businesses in which the Company has interests and that it is one of the many factors considered by the portfolio managers in the evaluation of existing or potential investments.

By order of the Board

G S Rice

For and on behalf of

Henderson Secretarial Services Limited,

Secretary

25 November 1999

# Corporate Governance

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is appropriate for an investment trust company and which enables the Company to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance, published in June 1998.

The Board considers that the Company has complied with the provisions contained within the Combined Code throughout the accounting period to 31 October 1999 except as identified below. This statement describes how the relevant principles of governance are applied to the Company.

## **The Board**

The Board currently consists of six non-executive directors, five of whom are independent of the Company's investment manager. Their biographical details, set out on page 30, demonstrate a breadth of investment, industrial, commercial and professional experience, with an international perspective.

The Board meets at least four times a year and between these meetings there is regular contact with the representatives of the Manager (Henderson Investors Limited). Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for individual directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. 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 investment 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.

The Chairman 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 where issues arise and to whom concerns can be conveyed.

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 financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly 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 Board has not established a nominations committee to make recommendations on the appointment of new directors as it is a small Board. Each director is invited to submit nominations and the nominations list is considered by the Board as a whole in accordance with its agreed procedures.

A management engagement committee, with defined terms of reference and duties, has been established, which consists of four independent non-executive directors, to review and discuss the terms of the management contract with the Manager. There is also an audit committee with defined terms of reference and duties which consists of four independent non-executive directors. This 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.

All the directors are appointed for an initial term of three years, subject to re-election and the provisions of the

# Corporate Governance

*continued*

Companies Act and, in accordance with the existing Articles of Association, stand for election at the first annual general meeting following their appointment.

The Board has agreed that all directors will seek re-election by the shareholders at intervals of not more than three years. The names of the directors retiring by rotation at the next annual general meeting are given on page 12.

## **Directors' Remuneration**

Under the London Stock Exchange's Listing Rule 21.20 (i), where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply.

## **Relations with Shareholders**

The Board is conscious that the annual general meeting is an event which all shareholders are encouraged to attend and participate in. The annual general meeting is attended by the Chairman of the Board who is also the Chairman of the audit and management engagement committees. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting. After the formal business of the meeting, representatives of the Manager make a presentation. The Company has adopted a nominee share code, which is set out on page 31.

The Board believes that it is valuable to report to shareholders as soon as practicable after the Company's year end. The preliminary results were released on 26 November 1999 and the annual general meeting, of which twenty working days' notice has been given, will be held on 10 February 2000.

The Notice of Annual General Meeting on pages 28 and 29 sets out the business of the meeting and the resolutions are explained more fully in the Report of the Directors on pages 12 to 14. Separate resolutions are proposed for each substantive issue.

## **Accountability and Audit**

The statement of directors' responsibilities in respect of the accounts is set out on page 17.

The report of the auditors is set out on page 17.

As permitted by the London Stock Exchange and until the guidance for directors, published in September 1999 by

the Turnbull Committee, becomes effective on the scope, extent, nature and review of internal controls to which Code principle D.2 and provision D.2.1 relate, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial controls in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication of information, and that the assets of the Company are safeguarded. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance. As stated above, the Board has delegated contractually to external agencies the services the Company requires. The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls operated on behalf of its clients. The effectiveness of the internal financial controls is assessed by the Manager's compliance and risk management services and internal controls framework departments on an ongoing basis.

These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. By the procedures set out above the directors have kept under review the effectiveness of the internal financial controls throughout the year.

## **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 Company has approved a corporate governance voting policy (which, in summary, is based on the governance recommendations of the Codes of Best Practice from Cadbury and Greenbury) with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

# 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 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 to 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.

## Report of the Auditors

### to the members of Henderson Strata Investments plc

We have audited the financial statements on pages 18 to 27 and the accounting policies set out on page 21.

#### **Respective Responsibilities of Directors and Auditors**

The directors are responsible for preparing the Annual Report, including as described above the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 15 and 16 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

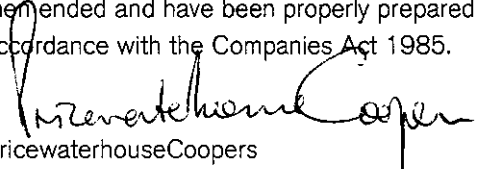
#### **Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 October 1999 and of the total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London

25 November 1999

# Statement of Total Return (incorporating the revenue account)

for the year ended 31 October 1999

| Notes | Year ended 31 October 1999                                                           |                  |                | Year ended 31 October 1998 |                  |                |                |
|-------|--------------------------------------------------------------------------------------|------------------|----------------|----------------------------|------------------|----------------|----------------|
|       | Revenue<br>£'000                                                                     | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000           | Capital<br>£'000 | Total<br>£'000 |                |
| 2     | Total capital gains/(losses) on investments                                          | -                | 39,460         | 39,460                     | -                | (397)          | (397)          |
| 3     | Income from fixed asset investments                                                  | 976              | -              | 976                        | 1,363            | -              | 1,363          |
| 4     | Other interest receivable and similar income                                         | 124              | -              | 124                        | 103              | -              | 103            |
|       | <b>Gross revenue and capital gains/(losses)</b>                                      | <b>1,100</b>     | <b>39,460</b>  | <b>40,560</b>              | <b>1,466</b>     | <b>(397)</b>   | <b>1,069</b>   |
| 5     | Management fee                                                                       | (1,125)          | -              | (1,125)                    | (1,035)          | -              | (1,035)        |
| 6, 7  | Other administrative expenses                                                        | (188)            | -              | (188)                      | (149)            | -              | (149)          |
|       | <b>Net (loss)/return on ordinary activities before interest payable and taxation</b> | <b>(213)</b>     | <b>39,460</b>  | <b>39,247</b>              | <b>282</b>       | <b>(397)</b>   | <b>(115)</b>   |
| 8     | Interest payable                                                                     | (28)             | -              | (28)                       | (337)            | -              | (337)          |
|       | <b>Net (loss)/return on ordinary activities before taxation</b>                      | <b>(241)</b>     | <b>39,460</b>  | <b>39,219</b>              | <b>(55)</b>      | <b>(397)</b>   | <b>(452)</b>   |
| 9     | Taxation on net loss on ordinary activities                                          | (119)            | -              | (119)                      | (241)            | -              | (241)          |
|       | <b>Net (loss)/return on ordinary activities after taxation</b>                       | <b>(360)</b>     | <b>39,460</b>  | <b>39,100</b>              | <b>(296)</b>     | <b>(397)</b>   | <b>(693)</b>   |
|       | Dividends – nil                                                                      | -                | -              | -                          | -                | -              | -              |
|       | <b>Transfer (from)/to reserves</b>                                                   | <b>(360)</b>     | <b>39,460</b>  | <b>39,100</b>              | <b>(296)</b>     | <b>(397)</b>   | <b>(693)</b>   |
| 10    | <b>(Loss)/return per ordinary share</b>                                              | <b>(2.05p)</b>   | <b>224.56p</b> | <b>222.51p</b>             | <b>(1.69p)</b>   | <b>(2.27p)</b> | <b>(3.96p)</b> |

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

The notes on pages 21 to 27 form part of these accounts.

# Balance Sheet

at 31 October 1999

| Notes                                                    | 1999<br>£'000  | 1998<br>£'000  |
|----------------------------------------------------------|----------------|----------------|
| <b>11 Fixed asset investments</b>                        |                |                |
| Listed in the United Kingdom                             | 84,886         | 53,289         |
| Quoted on the Alternative Investment Market ("AIM")      | 2,509          | 2,485          |
| Listed abroad                                            | 40,987         | 27,783         |
| Unlisted at the directors' valuation                     | 253            | 392            |
|                                                          | <u>128,635</u> | <u>83,949</u>  |
| <b>Current assets</b>                                    |                |                |
| <b>12 Debtors</b>                                        | 1,127          | 595            |
| Cash at bank                                             | 1,472          | 2,191          |
|                                                          | <u>2,599</u>   | <u>2,786</u>   |
| <b>13 Creditors: amounts falling due within one year</b> | (5,538)        | (139)          |
| <b>Net current (liabilities)/assets</b>                  | <u>(2,939)</u> | <u>2,647</u>   |
| <b>Total net assets</b>                                  | <u>125,696</u> | <u>86,596</u>  |
| <b>Capital and reserves</b>                              |                |                |
| <b>15 Share capital</b>                                  | 4,393          | 4,393          |
| <b>16 Reserves – non distributable</b>                   |                |                |
| Share premium account                                    | 15,937         | 15,937         |
| Realised profits                                         | 46,061         | 44,159         |
| Unrealised profits                                       | 59,395         | 21,837         |
| <b>16 Revenue reserve</b>                                | (90)           | 270            |
|                                                          | <u>125,696</u> | <u>86,596</u>  |
| <b>17 Equity shareholders' funds</b>                     |                |                |
|                                                          | <u>125,696</u> | <u>86,596</u>  |
| <b>18 Net asset value per ordinary share</b>             | <u>715.31p</u> | <u>492.80p</u> |

These accounts were approved by the directors on 25 November 1999 and signed on their behalf by:

F H ten Bos

R W Smith

The notes on pages 21 to 27 form part of these accounts.

# Cash Flow Statement

for the year ended 31 October 1999

| Notes | 1999<br>£'000                                              | 1999<br>£'000  | 1998<br>£'000 | 1998<br>£'000 |
|-------|------------------------------------------------------------|----------------|---------------|---------------|
| 19    | <b>Net cash outflow from operating activities</b>          |                | <b>(46)</b>   | <b>(31)</b>   |
|       | <b>Servicing of finance</b>                                |                |               |               |
|       | Interest paid                                              | (25)           | (338)         |               |
|       | Net cash outflow from servicing of finance                 | (25)           |               | (338)         |
|       | <b>Taxation</b>                                            |                |               |               |
|       | UK corporation tax recovered                               | -              | 134           |               |
|       | Income tax recovered                                       | 29             | 47            |               |
|       | Withholding tax recovered                                  | 23             | 31            |               |
|       | Net tax recovered                                          | 52             |               | 212           |
|       | <b>Financial investment</b>                                |                |               |               |
|       | Purchase of investments                                    | (36,923)       | (30,488)      |               |
|       | Sale of investments                                        | 32,728         | 37,081        |               |
|       | <b>Net cash (outflow)/inflow from financial investment</b> | <b>(4,195)</b> |               | <b>6,593</b>  |
|       | Equity dividends paid                                      | -              |               | (87)          |
|       | <b>Financing</b>                                           |                |               |               |
|       | Gross proceeds on issue of shares                          | -              | 1,178         |               |
|       | Net loans drawn down/(repaid)                              | 3,500          | (6,250)       |               |
|       | Net cash inflow/(outflow) from financing                   | 3,500          |               | (5,072)       |
| 20    | <b>(Decrease)/increase in cash</b>                         | <b>(714)</b>   |               | <b>1,277</b>  |

## Reconciliation of net cash flow to movement in net (debt)/funds

|    |                                       |                |              |
|----|---------------------------------------|----------------|--------------|
|    | (Decrease)/increase in cash as above  | (714)          | 1,277        |
|    | Cash (inflow)/outflow from financing  | (3,500)        | 6,250        |
|    | Exchange movements                    | (5)            | (28)         |
|    | Movement in net (debt)/funds          | (4,219)        | 7,499        |
|    | Net funds/(debt) at 1 November        | 2,191          | (5,308)      |
| 20 | <b>Net (debt)/funds at 31 October</b> | <b>(2,028)</b> | <b>2,191</b> |

The notes on pages 21 to 27 form part of these accounts.

# Notes to the Accounts

## 1 Accounting policies

### a 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.

### b Valuation of fixed asset investments

Listed and quoted investments are valued at their closing middle market prices. Unquoted investments are valued by the directors taking into account the information available on the investee companies and funds held by the Company.

### c Capital gains and losses

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

### d Income

Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis. Bank deposit interest and other income are accounted for on an accruals basis.

### e Expenses and interest payable

All administrative expenses, including the management fee, and interest payable are accounted for on an accruals basis and charged wholly to the revenue account. Expenses which are incidental to the purchase or sale of a fixed asset investment are included within the cost or deducted from the proceeds of the sale of the investment.

### f Deferred taxation

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.

### g 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.

### h Financial instruments

The Company has not utilised any derivative instruments in the year under review. The Company has taken advantage of the exemption allowed under Financial Reporting Standard 13 and excluded short term debtors and creditors from disclosures under financial instruments where allowed (see note 14 on page 24).

| 2 | Total capital gains and losses on investments                                     | 1999<br>£'000 | 1998<br>£'000 |
|---|-----------------------------------------------------------------------------------|---------------|---------------|
|   | Realised gains based on historical cost                                           | 1,907         | 2,445         |
|   | Less: amount recognised as unrealised gains in the previous year                  | (1,773)       | (4,420)       |
|   | Realised gains/(losses) based on carrying value at previous<br>balance sheet date | 134           | (1,975)       |
|   | Net movement in unrealised appreciation                                           | 39,331        | 1,606         |
|   | Net loss on foreign exchange                                                      | (5)           | (28)          |
|   |                                                                                   | <u>39,460</u> | <u>(397)</u>  |

# Notes to the Accounts

continued

| <b>3</b> | <b>Income from fixed asset investments</b> | <b>1999<br/>£'000</b> | <b>1998<br/>£'000</b> |
|----------|--------------------------------------------|-----------------------|-----------------------|
|          | Franked:                                   |                       |                       |
|          | Dividends from listed investments          | <b>691</b>            | 976                   |
|          | Dividends from AIM investments             | <b>14</b>             | 13                    |
|          | Dividends from unlisted investments        | <b>16</b>             | 14                    |
|          |                                            | <b>721</b>            | 1,003                 |
|          | Unfranked:                                 |                       |                       |
|          | Dividends from listed investments          | <b>245</b>            | 356                   |
|          | Scrip dividends from listed investments    | <b>6</b>              | —                     |
|          | Dividends from unlisted investments        | <b>4</b>              | 4                     |
|          |                                            | <b>255</b>            | 360                   |
|          |                                            | <b>976</b>            | 1,363                 |

| <b>4</b> | <b>Other interest receivable and similar income</b> | <b>1999<br/>£'000</b> | <b>1998<br/>£'000</b> |
|----------|-----------------------------------------------------|-----------------------|-----------------------|
|          | Deposit interest                                    | <b>83</b>             | 50                    |
|          | Stock lending fees                                  | <b>25</b>             | 33                    |
|          | Underwriting commission                             | <b>16</b>             | 20                    |
|          |                                                     | <b>124</b>            | 103                   |

At 31 October 1999 the total value of securities on loan by the Company for stock lending purposes was £2,123,000 (1998: £1,540,000). The maximum aggregate value of securities on loan at any time during the year ended 31 October 1999 was £5,089,000 (1998: £7,297,000).

| <b>5</b> | <b>Management fee (all charged to revenue)</b> | <b>1999<br/>£'000</b> | <b>1998<br/>£'000</b> |
|----------|------------------------------------------------|-----------------------|-----------------------|
|          | Management fee                                 | <b>1,069</b>          | 953                   |
|          | Irrecoverable VAT                              | <b>56</b>             | 82                    |
|          |                                                | <b>1,125</b>          | 1,035                 |

A summary of the terms of the management agreement is given on page 13 in the Report of the Directors.

| <b>6</b> | <b>Other administrative expenses (all charged to revenue)</b>    | <b>1999<br/>£'000</b> | <b>1998<br/>£'000</b> |
|----------|------------------------------------------------------------------|-----------------------|-----------------------|
|          | Auditors' remuneration for audit services                        | <b>9</b>              | 9                     |
|          | Directors' fees for services to the Company (note 7)             | <b>40</b>             | 33                    |
|          | Share plan administration fees payable to the management company | <b>27</b>             | 13                    |
|          | Other expenses                                                   | <b>102</b>            | 83                    |
|          | Irrecoverable VAT                                                | <b>10</b>             | 11                    |
|          |                                                                  | <b>188</b>            | 149                   |

# Notes to the Accounts

continued

## 7 Directors' emoluments

The directors' emoluments stated in note 6 are those actually paid by the Company. However, one director, Mr R W Smith, is employed by Henderson plc and its subsidiaries ("Henderson") in the provision of services to Henderson Strata Investments plc. Under the Companies Act 1985, it is necessary to state the proportion of the emoluments he receives from Henderson which relate to the management of the Company even though the Company does not pay these emoluments and is not involved in their determination. The Company has been informed that the applicable proportion of the emoluments paid by Henderson (including performance related bonus) was £97,000 (1998: £72,000). This amount, together with the amounts paid directly by the Company to the other directors, is included in the analysis stated below:

|                                                                      | 1999<br>£'000 | 1998<br>£'000 |
|----------------------------------------------------------------------|---------------|---------------|
| Fees (paid by the Company)                                           | 28            | 23            |
| Salaries and other benefits (paid by Henderson)                      | 29            | 26            |
| Performance related bonus (paid by Henderson)                        | 40            | 46            |
| Total emoluments                                                     | 97            | 95            |
| Fees paid to third parties including Henderson (paid by the Company) | 12            | 10            |
| Pension contributions                                                | 3             | 2             |

The pension contributions represent those paid by Henderson on behalf of Mr R W Smith to a non-contributory defined benefit pension scheme.

## 8 Interest payable

|                              | 1999<br>£'000 | 1998<br>£'000 |
|------------------------------|---------------|---------------|
| On bank loans and overdrafts | 28            | 337           |

## 9 Taxation on net loss on ordinary activities

|                                                       | 1999<br>£'000 | 1998<br>£'000 |
|-------------------------------------------------------|---------------|---------------|
| Tax credits attributable to franked investment income | 83            | 200           |
| Foreign withholding taxes                             | 49            | 63            |
| Underprovision in prior years                         | 1             | 2             |
| Overseas taxation reclaimable                         | (14)          | (22)          |
| Transfer from deferred taxation account               | —             | (2)           |
|                                                       | 119           | 241           |

## 10 (Loss)/return per ordinary share

The revenue loss per ordinary share is based on the net loss on ordinary activities after taxation of £360,000 (1998: £296,000) and on the weighted average number of ordinary shares of 25p each in issue during the year of 17,572,350 (1998: 17,493,236).

The capital return per ordinary share is based on net capital gains for the year of £39,460,000 (1998: net capital losses of £397,000) and on the weighted average number of ordinary shares of 25p each in issue during the year, as stated above.

# Notes to the Accounts

continued

|                                              | Valuation<br>1 Nov<br>1998<br>£'000 | Purchases<br>£'000 | Sales<br>Proceeds<br>£'000 | Appreciation/<br>(depreciation)<br>£'000 | Valuation<br>31 Oct<br>1999<br>£'000 | Cost<br>31 Oct<br>1999<br>£'000 |
|----------------------------------------------|-------------------------------------|--------------------|----------------------------|------------------------------------------|--------------------------------------|---------------------------------|
| <b>11 Changes in fixed asset investments</b> |                                     |                    |                            |                                          |                                      |                                 |
| United Kingdom                               | 56,121                              | 13,586             | 12,449                     | 30,367                                   | <b>87,625</b>                        | <b>38,324</b>                   |
| North America                                | 17,233                              | 16,792             | 15,493                     | 2,510                                    | <b>21,042</b>                        | <b>17,178</b>                   |
| Continental Europe                           | 7,068                               | 3,462              | 2,434                      | 2,359                                    | <b>10,455</b>                        | <b>6,604</b>                    |
| Japan                                        | 3,527                               | 4,667              | 2,910                      | 4,229                                    | <b>9,513</b>                         | <b>7,134</b>                    |
|                                              | <u>83,949</u>                       | <u>38,507</u>      | <u>33,286</u>              | <u>39,465</u>                            | <u><b>128,635</b></u>                | <u><b>69,240</b></u>            |

|                                | 1999<br>£'000       | 1998<br>£'000 |
|--------------------------------|---------------------|---------------|
| <b>12 Debtors</b>              |                     |               |
| Sales for future settlement    | <b>893</b>          | 335           |
| Other debtors                  | <b>40</b>           | 34            |
| Prepayments and accrued income | <b>172</b>          | 168           |
| Taxation recoverable           | <b>22</b>           | 58            |
|                                | <u><b>1,127</b></u> | <u>595</u>    |

|                                                          | 1999<br>£'000       | 1998<br>£'000 |
|----------------------------------------------------------|---------------------|---------------|
| <b>13 Creditors: amounts falling due within one year</b> |                     |               |
| Bank loans and overdrafts                                | <b>3,500</b>        | —             |
| Purchases for future settlement                          | <b>1,589</b>        | 11            |
| Other creditors                                          | <b>449</b>          | 128           |
|                                                          | <u><b>5,538</b></u> | <u>139</u>    |

## 14 Derivatives and other financial instruments

### (a) Management of risk

The Company's financial instruments comprise:

- Equity shares which are held in accordance with the Company's investment objective as set out on page 1;
- Sterling term loans used as a cost effective method of financing its investments; and
- Cash and short term debtors and creditors which arise from its investing activities.

The main risks arising from these financial instruments are due to fluctuations in market prices, foreign currency exchange rates and interest rates. There may also be risks due to a shortage of liquid funds, leaving the Company unable to meet funding commitments. The Board's policy for managing these risks is summarised below:

#### Market price risk

An investment trust is exposed to market risk due to fluctuations in the market prices of the investments held in its portfolio. 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 together with stock selection covering smaller companies 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 to consider investment strategy.

# Notes to the Accounts

continued

## Foreign currency risk

The Company's total return and balance sheet can be affected by fluctuations in foreign currency exchange rates as a portion of the Company's assets are denominated in currencies other than sterling. The international spread of investments acts to reduce this risk. From time to time the Company will hold foreign currency cash balances as well as foreign currency balances due to and receivable from brokers. These assets and liabilities arise from the Company's investing activities. This exposure is short term and not material.

## Interest rate risk

The Company has drawn down a sterling loan. However the loan is short term and the interest rate risk is not material.

## Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary.

## (b) 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 financial liabilities of the Company at 31 October 1999 comprise a short term sterling bank loan of £3,500,000 that bears an interest rate based on the bank's floating interest rate.

## (c) Maturity profile of the Company's financial liabilities

All of the Company's financial liabilities at 31 October 1999 mature within one year.

An unsecured, uncommitted, multicurrency loan facility of £10 million is available from The Royal Bank of Scotland plc at an interest rate of LIBOR plus 0.1875% for drawings up to 2 months and LIBOR plus 0.225% for terms longer than 2 months. An overdraft facility is available from RBS Trust Bank Limited for £10 million at base rate plus 1%. The terms of both these facilities are subject to annual review in March. At 31 October 1999 no amount had been drawn down on the overdraft facility.

## (d) Currency exposure

A portion of the Company's financial assets are denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by currency movements.

| Currency           | Monetary<br>assets<br>£'000 | Monetary<br>liabilities<br>£'000 | Net monetary<br>assets<br>£'000 |
|--------------------|-----------------------------|----------------------------------|---------------------------------|
| US dollars         | 21,994                      | (667)                            | 21,327                          |
| Japanese yen       | 9,937                       | —                                | 9,937                           |
| Euro               | 5,451                       | —                                | 5,451                           |
| Swiss francs       | 2,421                       | —                                | 2,421                           |
| Norwegian kroner   | 1,748                       | —                                | 1,748                           |
| Swedish kroner     | 617                         | —                                | 617                             |
| Danish kroner      | 326                         | —                                | 326                             |
| New Taiwan dollars | 73                          | —                                | 73                              |
| Total              | 42,567                      | (667)                            | 41,900                          |

## (e) Fair values of financial assets and financial liabilities

All of the Company's financial assets and financial liabilities are held at fair value.

# Notes to the Accounts

continued

## 15 Share Capital

£'000

Authorised:

At 1 November 1998 and at 31 October 1999

20,000,000 ordinary shares of 25p each

**5,000**

Allotted, issued and fully paid:

At 1 November 1998 and at 31 October 1999

**17,572,350 ordinary shares of 25p each**

**4,393**

## 16 Movements in reserves

Non-distributable

Distributable

|                                      | Share Premium<br>£'000 | Realised<br>£'000 | Unrealised<br>£'000 | Revenue<br>£'000 |
|--------------------------------------|------------------------|-------------------|---------------------|------------------|
| At 1 November 1998                   | 15,937                 | 44,159            | 21,837              | 270              |
| Transfer on disposal of assets       | —                      | 1,773             | (1,773)             | —                |
| Net gains on fixed asset investments | —                      | 134               | 39,331              | —                |
| Net loss on foreign exchange         | —                      | (5)               | —                   | —                |
| Revenue loss for the year            | —                      | —                 | —                   | (360)            |
| <b>At 31 October 1999</b>            | <b>15,937</b>          | <b>46,061</b>     | <b>59,395</b>       | <b>(90)</b>      |

## 17 Reconciliation of movement in equity shareholders' funds

1999  
£'000

1998  
£'000

|                                                             |                |        |
|-------------------------------------------------------------|----------------|--------|
| Net loss on ordinary activities after taxation for the year | (360)          | (296)  |
| Increase/(decrease) in non-distributable reserves           | <b>39,460</b>  | (397)  |
|                                                             | <b>39,100</b>  | (693)  |
| Proceeds from share issues                                  | —              | 1,178  |
| Net addition to shareholders' funds                         | <b>39,100</b>  | 485    |
| Shareholders' funds at 1 November                           | <b>86,596</b>  | 86,111 |
| <b>Shareholders' funds at 31 October</b>                    | <b>125,696</b> | 86,596 |

## 18 Net asset value per ordinary share

The net asset value per ordinary share is based on net assets attributable to the ordinary shares of £125,696,000 (1998: £86,596,000) and on the 17,572,350 ordinary shares in issue at 31 October 1999 (1998: 17,572,350).

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

|                                            | £'000          |
|--------------------------------------------|----------------|
| Total net assets at 1 November 1998        | 86,596         |
| Total net return                           | 39,100         |
| <b>Total net assets at 31 October 1999</b> | <b>125,696</b> |

# Notes to the Accounts

continued

| <b>19 Reconciliation of operating revenue to net cash outflow from operating activities</b> | <b>1999<br/>£'000</b> | <b>1998<br/>£'000</b> |
|---------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Net revenue before interest payable and taxation                                            | (213)                 | 282                   |
| Decrease/(increase) in accrued income                                                       | 6                     | (5)                   |
| Increase in other debtors                                                                   | (16)                  | (18)                  |
| Increase in other creditors                                                                 | 319                   | 1                     |
| Tax on unfranked investment income deducted at source                                       | (53)                  | (91)                  |
| Tax credits on franked investment income deducted at source                                 | (83)                  | (200)                 |
| Scrip dividends included in investment income                                               | (6)                   | -                     |
| <b>Net cash outflow from operating activities</b>                                           | <b>(46)</b>           | <b>(31)</b>           |

| <b>20 Analysis of changes in net funds/(debt)</b> | <b>31 October<br/>1998<br/>£'000</b> | <b>Cash Flow<br/>£'000</b> | <b>Exchange<br/>Movements<br/>£'000</b> | <b>31 October<br/>1999<br/>£'000</b> |
|---------------------------------------------------|--------------------------------------|----------------------------|-----------------------------------------|--------------------------------------|
| Cash at bank and short term deposits              | 2,191                                | (714)                      | (5)                                     | <b>1,472</b>                         |
| Bank loans                                        | -                                    | (3,500)                    | -                                       | <b>(3,500)</b>                       |
| <b>Total</b>                                      | <b>2,191</b>                         | <b>(4,214)</b>             | <b>(5)</b>                              | <b>(2,028)</b>                       |

## 21 Contingent liabilities and capital commitments

There are no contingent liabilities in respect of underwriting commitments (1998: £nil). There are capital commitments in respect of securities not fully paid up of £48,000 (1998: £74,000).

## 22 Related party transactions

Under the terms of an agreement dated 19 September 1996 the Company has appointed wholly owned subsidiaries of Henderson plc ("Henderson") to provide investment management, UK custodial, accounting, secretarial and administrative services. Details of the fee arrangements for these services are given in the Report of the Directors on page 13. The total of the fees payable to Henderson under this agreement in respect of the year ended 31 October 1999 was £1,069,000, excluding VAT, (1998: £953,000) of which £354,000 was outstanding at 31 October 1999 (1998: £74,000). In addition to the above services, Henderson has provided the Company with share plan administration services. The total fees paid or payable for these services for the year ended 31 October 1999 amounted to £27,000, excluding VAT, (1998: £13,000). £29,000 (1998: £5,000) was outstanding at 31 October 1999.

# Notice of Annual General Meeting

Notice is hereby given that the fourteenth Annual General Meeting of Henderson Strata Investments plc will be held at 3 Finsbury Avenue, London EC2M 2PA on Thursday 10 February 2000 at 2.30 pm for the transaction of the following:

## Ordinary Business

- 1 To receive the report of the directors and the audited accounts for the year ended 31 October 1999.
- 2 To re-elect Mr R D H Bryce as a director of the Company.
- 3 To re-elect Mr E T Whitley as a director of the Company.
- 4 To re-appoint PricewaterhouseCoopers as the auditors of the Company and to authorise the directors to determine their remuneration.

## Special Business

To consider and, if thought fit, pass the following resolutions:

### *as an Ordinary Resolution*

- 5 THAT the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £219,654 (being 5% of the issued share capital at 25 November 1999) PROVIDED THAT this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

### *as a Special Resolution*

- 6 THAT, subject to resolution 5 being passed, the Board be and it is hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by resolution 5 as if sub-section (1) of section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited:

(a) to the allotment of equity securities whether by way of a rights issue, open offer or otherwise in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or local or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever;

(b) to the allotment (otherwise than pursuant to subparagraph (a) above) of equity securities up to an aggregate nominal value of £219,654 (being 5% of the issued ordinary share capital at 25 November 1999); and

(c) to the allotment of equity securities at a price of no less than net asset value per share;

and shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

### *as a Special Resolution*

- 7 THAT the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 25p each in the capital of the Company ("ordinary shares") provided that:

(a) the maximum number of ordinary shares which may be purchased is 2,634,095 ordinary shares representing 14.99% of the Company's issued ordinary share capital;

(b) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not exceed 105% of the average of the middle market quotations for the ordinary shares as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase; and

# Notice of Annual General Meeting

continued

(c) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 25p, being the nominal value per ordinary share; and

(d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may, before such expiry, enter into a contract to purchase ordinary shares under which such purchases will or may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

G S Rice

For and on behalf of

Henderson Secretarial Services Limited,  
Secretary

25 November 1999

## Notes

(i) A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

(ii) Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the register of members of the Company at close of business on Tuesday 8 February 2000 shall be entitled to attend and/or 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 close of business on 8 February 2000 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iii) 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.

(iv) The return of the form of proxy duly completed will not preclude a member from attending and voting at the meeting.

(v) 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 Annual General Meeting.

## Registered Office:

3 Finsbury Avenue, London EC2M 2PA

# Directors

**\*Frans ten Bos** (Chairman)

(age 62) is the former Chairman of Wace Group plc. He joined the board in 1988.

**\*Stephen Burley** (age 52)

is a director of Rio Tinto Pension Investments Limited. He joined the board in 1985.

**\*Hamish Bryce** (age 58) is

Chairman of Heywood Williams plc and Norcros plc. He joined the board in 1993.

**Edward Whitley** (age 45)

is a partner of Cazenove & Co.. He joined the board in 1990.

**Richard Smith** (age 48)

is a director of Henderson Electric and General Investment Trust plc and Lowland Investment Company plc. He joined the board in 1985.

**\*George Burnett** (age 53)

is Managing Director of Ashtead Group plc. He joined the board in 1995.

\*Independent director and a member of the audit committee and of the management engagement committee.

## Management Team

### The Management Team

The directors have appointed Henderson Investors Limited, an AMP Company, to manage the investment portfolio. The terms of the appointment are given on page 13 in the Report of the Directors.

The portfolio managers are:

**Richard Smith**

has overall responsibility for the Company's investments and specialises in the United Kingdom. He is a director of two other investment trust companies and is actively involved in the day to day management of several portfolios.

**Ann Hall**

is responsible for the North American portfolio. She also manages other US funds including the Henderson American Smaller Companies Fund.

**Simon Savill**

is responsible for the Continental European Portfolio.

**Jeremy Hall**

is responsible for the Japanese portfolio.

**Heather Manners**

is responsible for the Pacific portfolio. She also manages the Henderson Asian Enterprise Fund and the Henderson Pacific Smaller Companies Fund.

# Information about the Company

**Registered Office**

3 Finsbury Avenue  
London EC2M 2PA  
Telephone:  
BT 020 7638 5757  
Mercury 020 7410 4100  
Facsimile: 020 7377 5742

**Registered Number**

Registered as an investment company in  
England and Wales No. 1940906

**Manager**

Henderson Investors Limited,  
an AMP Company,  
regulated by IMRO and the Personal  
Investment Authority  
3 Finsbury Avenue  
London EC2M 2PA

**Secretary**

Henderson Secretarial Services Limited,  
represented by G S Rice ACIS

**Auditors**

PricewaterhouseCoopers  
32 London Bridge Street  
London SE1 9SY

**Registrar**

Computershare Services PLC  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0010

**Stockbrokers**

Cazenove & Co.  
12 Tokenhouse Yard  
London EC2R 7AN

**Solicitors**

Slaughter and May  
35 Basinghall Street  
London EC2V 5DB

**Share Price Information**

The share price is published daily in the  
Financial Times and in other leading  
newspapers.

**Internet**

Details of the Company's share price and net  
asset value can be found on the Henderson  
website. The address is [www.henderson.com](http://www.henderson.com)



Henderson Strata Investments plc is a member of the Association of Investment Trust Companies

## Nominee Code

Where shares in the Company are held by nominee companies, Henderson Strata Investments plc undertakes to:

- provide copies of shareholder communications to nominee operators, who have indicated in advance a wish to receive them, for the purpose of distribution to their customers.
- encourage nominee operators to advise investors that they will be permitted to attend general meetings and to speak when invited to do so by the Chairman.

Investors in the Henderson Investors Investment Trust Share Plan and the Henderson Investors Selection PEP and ISA receive all shareholder communications. A letter of direction is provided to facilitate voting.

## Henderson Investors Investment Trust Share Plan

The Henderson Investors Investment Trust Share Plan offers a simple and flexible way of investing in **Henderson Strata Investments plc**. The Share Plan offers the following:

- **Regular savings from £50 per month/quarter or lump sum investments from £500 and additional 'top-up' from £100**
- **A Share Exchange Service whereby you can sell existing UK company shares, unit trusts or gilts and reinvest the proceeds in the Company at a cost of £15 per holding (or class of share)**
- **An income reinvestment facility. Alternatively, you can have dividends paid to your bank or building society account**
- **All paperwork and documentation is simplified and reduced to a minimum**
- **Half yearly valuations with consolidated tax certificate and complimentary newsletters**

## PEPs

If you invest via a PEP, you need take no action following the introduction of the ISA; your PEP will remain in existence. If you have other PEPs which you would like to transfer to Henderson Strata Investments plc, please contact Henderson Investors Limited for details.

## Henderson Investors Selection ISA

You can invest directly in **Henderson Strata Investments plc** through the Henderson Investors Selection ISA. The ISA offers the following:

- **Tax free income and tax free capital growth**
- **Fixed annual management charge of £30 (+VAT)**
- **Regular savings from £100 per month or lump sum investments from £2000**
- **Quarterly income withdrawal facility**
- **Half yearly valuations, reports and complimentary newsletters**
- **Both Mini and Maxi ISAs available for investment by lump sum or regular saving**

## Further Information

Please consult our website **www.henderson.com** or write to Henderson Investors, FREEPOST, Newbury RG14 2ZZ. No stamp is required.

Alternatively, please contact your professional adviser for further information or call our Investor Services Department on freephone **0800 106 106** quoting the reference **REPORT**. Please call (44) 171 452 1315 if you are telephoning from abroad.

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 individual circumstances.

Henderson Investors is the name under which Henderson Investors Limited and Henderson Investment Funds Limited (both regulated by IMRO and the Personal Investment Authority) and Henderson Administration Limited (regulated by IMRO) provide investment products and services. 3 Finsbury Avenue, London EC2M 2PA.



Henderson Strata Investments plc  
is managed by



An **AMP** Company

HI9216/1999