

Electra Investments Limited
Annual Report and Financial Statements
30 September 2019

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Company Information

Board of Directors

Neil Johnson
Gavin Manson

Company Secretary

Frostrow Capital LLP
25 Southampton Buildings, London, United Kingdom, WC2A 1AL
Telephone +44 (0)20 3008 4910

Registered Office

Registered in England and Wales: Company No. 00021895
7th Floor, 17 Old Park Lane, London, United Kingdom, W1K 1QT

Registered Independent Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square, London, United Kingdom, EC4A 3HQ

Strategic Report

The Directors present the Strategic Report of Electra Investments Limited (the 'Company') for the year ended 30 September 2019.

Principal activities and review of the business

The principal activity of the Company throughout the year has been holding investments in private equity assets.

During the year ended 30 September 2019, the Company made a profit of £23,554,429 compared with a loss of £68,356,916 in 2018.

Total investments increased from £127,054,117 at 30 September 2018 to £168,616,246 at 30 September 2019 due to a combination of further investments into Hotter Shoes ("Hotter") and valuation increases on both TGI Fridays ("TGI") and Hotter.

Total investments decreased from £284,048,235 at 30 September 2017 to £127,054,117 at 30 September 2018 due to valuation losses and the reclassification of £105,323,111 of assets to held for sale. No assets were reclassified to the held for sale category during the year ended 30 September 2019.

As at 30 September 2019, the Company's net assets stood at £21,396,047 (2018: net liability of £2,158,994).

Key Performance Indicators ("KPI")

Net assets value (NAV) per ordinary share is one of the KPIs for the Electra Private Equity PLC (the "Group"), the Company's parent undertaking, and Directors of the Company consider changes in NAV per share to be the appropriate KPI for measuring the Company's performance.

	2019	2018
Opening NAV per share (£)	(24.8)	760.9
Closing NAV per share (£)	245.9	(24.8)
Movement in NAV per share (£)	270.7	(785.7)
Movement in NAV per share (%)	1,091.5%	(103.3)%

The increase on NAV per share is driven by improved revaluation of investments in the Company's portfolio, as discussed above.

Principal Risks and Uncertainty

Macroeconomic Risks

The performance of the Company's investment portfolio could be materially influenced by economic conditions. These may affect demand for products or services supplied by investee companies, foreign exchange rates, the price of commodities or other input costs, interest rates, debt and equity capital markets and the number of active trade and financial buyers.

There remains significant uncertainty around the likely terms of the post-Brexit arrangements between the UK and the EU, as well as possible transitional arrangements. All of these factors may have an impact on the Company's ability to realise a return from its investment portfolio and cannot be directly controlled by the Company. The Directors do not believe there will be a significant impact on the valuations or operations of its portfolio companies. However, in light of the UK's official departure from the European Union on 31 January 2020, this risk will be closely monitored.

Valuation Risk

The valuation of investments in accordance with IFRS 13 and International Private Equity and Venture Capital Valuation ("IPEV") guidelines requires considerable judgement and is explained in Note 12 to the Financial Statements. This risk has not materially changed in impact from the prior year.

Approved by the Board of Directors and signed on its behalf by:



Gavin Manson
Director
26 February 2020

Directors' Report

The Directors present their audited Annual Report and Financial Statements of the Company for the year ended 30 September 2019.

Results and Dividends

The Company's profit for the year was £23,554,429 (2018: loss of £68,356,916) and the Directors do not recommend the payment of a dividend (2018: £nil).

Officers

The Directors who served the Company during the year, and up to the date of this report, unless as otherwise noted below, were as follows:

Neil Johnson (appointed 1 March 2019)
Gavin Manson
Andrew Grimditch (resigned 1 March 2019)

Frostrow Capital LLP served as the Company Secretary during the year and remains so at the date of this report.

Going Concern

As reported at the end of 2018, shareholders of the Company's parent company, Electra Private Equity PLC, voted at a General Meeting in favour of a new investment policy which allows for the realisation of the portfolio investments and return of capital to its shareholders. The Board of Electra Private Equity PLC recommended that it was in the best interests of shareholders to conduct a managed wind-down and consequently the Company's Directors concluded that, consistent with its parent company, the Company was no longer a going concern and have continued its reporting on this basis for the year ended 30 September 2019.

As the Company and its parent company have investments in some of the same businesses, the Directors expect that the wind-down process will be performed in conjunction with, and on a timeline commensurate with that of the parent company. This is likely to be longer than 12 months from the date of signing this report although should appropriate conditions exist, the Directors may recommend the winding up of the Company sooner.

Financial Instruments

Financial instruments are used where appropriate to manage the principal risks and uncertainties (see Strategic Report) to which the Company is exposed to and details of the financial instruments are disclosed in Note 9.

Directors' Liabilities

Directors' and Officers' qualifying third party liability insurance cover has been put in place by the Company's parent company, Electra Private Equity PLC, with coverage for directors and officers of the Company and the Company's parent undertaking. In addition, the Company's Articles of Association provide, subject to the provisions of the Statutes, an indemnity for Directors in respect of actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in, or omitted in or about the execution of their duty or supposed duty in their respective offices, except such (if any) as they shall incur or sustain through their own dishonesty or wilful neglect or default respectively. This was in place throughout the financial period under review, up to and including the date of the Financial Statements.

Events After the Balance Sheet Date

There have been no events with material impact on the Company since the balance sheet date.

Disclosure of Information to Auditors

In the case of each Director in office at the date the Directors' Report is approved, each Director confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

Approved by the Board of Directors and signed on its behalf by:


Gavin Manson
Director
26 February 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Approved by the Board of Directors and signed on its behalf by:



Gavin Manson
Director
26 February 2020

Independent auditor's report to the members of Electra Investments Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Electra Investments Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared on a basis other than going concern

We draw attention to note 12 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Garrath Marshall (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

26 February 2020

Income Statement

		2019	2018
Note	For the year ended 30 September	£'000	£'000
2	Investment income	69	2,771
	Investment gains/(losses)	33,495	(45,410)
3	Income reversal	-	(26,185)
	Profit/(loss) on investments	33,564	(68,824)
4	Other (expenses)/income	(55)	16
	Profit/(loss) before tax	33,509	(68,808)
6	Tax	-	451
	Profit/(loss) after tax	33,509	(68,357)

The accompanying notes on pages 10 to 16 form an integral part of the Financial Statements.

There is no other comprehensive income for the year and therefore no Statement of Comprehensive Income has been presented.

Statement of Changes in Equity

For the year ended 30 September 2019	Called up share capital	Share premium	Translation reserve	Retained earnings /(losses)	Total equity
	£'000	£'000	£'000	£'000	£'000
As at 1 October 2018	870	157	2	(3,188)	(2,159)
Net profit during the year	-	-	(2)	33,511	33,509
At 30 September 2019	870	157	-	30,323	31,350

For the year ended 30 September 2018	Called up share capital	Share premium	Translation reserve	Retained earnings /(losses)	Total equity
	£'000	£'000	£'000	£'000	£'000
As at 1 October 2017	870	157	2	65,169	66,198
Net loss during the year	-	-	-	(68,357)	(68,357)
At 30 September 2018	870	157	2	(3,188)	(2,159)


The accompanying notes on pages 10 to 16 form an integral part of the Financial Statements.

Balance Sheet

Note	As at 30 September	2019 £'000	2018 £'000
	Non-current assets		
7	Investments held at fair value	168,616	127,054
		168,616	127,054
	Current assets		
8	Assets held for sale	-	105,323
	Current tax assets	678	1,673
		678	106,996
	Current liabilities		
10	Other payables	(137,944)	(236,209)
	Net current liabilities	(137,266)	(129,213)
	Net assets/(liabilities)	31,350	(2,159)
	Capital and reserves		
11	Called up share capital	870	870
	Share premium	157	157
	Translation reserve	-	2
	Retained earnings/(losses)	30,323	(3,188)
	Total Equity	31,350	(2,159)

The accompanying notes on pages 10 to 16 form an integral part of the Financial Statements.

The Financial Statements were approved by the Board of Directors on and signed on its behalf by:



Gavin Manson
Director
 26 February 2020

Notes to the Financial Statements**1. General information**

The Company is a private Company, limited by share capital, incorporated and domiciled in Great Britain under the Companies Act 2006, and registered in England and Wales under registration number 00021895. The Company's registered address is 7th Floor, 17 Old Park Lane, London, United Kingdom, W1K 1QT.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

The company's functional and presentational currency is pounds sterling.

2. Investment income

	2019	2018
For the year ended 30 September	£'000	£'000
Interest income	69	2,771
	69	2,771

All investment income is generated in the United Kingdom on financial assets measured at fair value through profit or loss.

3. Income reversal

Income reversal is the reversal of accrued interest on investments recognised in previous periods. There were no income reversals during the year ended 30 September 2019 and the amount recorded in the year ended 30 September 2018 related to accrued interest reversed on the Group's loan investment in TGI.

4. Other (expenses)/income

	2019	2018
For the year ended 30 September	£'000	£'000
Administrative (expenses)/income	(55)	16
	(55)	16

The administrative income in 2018 related to release of accrued professional expenses in 2017.

The Auditor's remuneration relating to the statutory audit of the Company's financial statements were £43,000 in the year (2018: £43,000) and no fees were paid in relation to any other services. Audit fees are borne by other Group entities.

5. Directors and Employees

No remuneration was payable to the Directors during the year (2018: £nil) in respect of their services to the Company. There are no employees of the Company (2018: none).

6. Tax

Tax charge/(credit)	2019	2018
For the year ended 30 September	£'000	£'000
Current tax		
UK corporation tax on profits for the period	-	(694)
Adjustment in respect of prior periods	-	243
Tax charge/(credit) for the period	-	(451)

Notes to the Financial Statements

6. Tax (continued)

The difference between the income tax expense shown above and the amount calculated by applying the effective rate of UK corporation tax, currently 19% pro-rata (2018: 19% pro-rata) to the profit before tax is as follows:

	2019 £'000	2018 £'000
For the year ended 30 September		
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before tax	33,509	(68,808)
Profit/(loss) on ordinary activities multiplied by the standard rate of:		
Corporation tax in the UK of 19% (2018: 19%)	6,367	(13,074)
Effects of:		
Adjustments in respect of prior years	-	243
Unrealised capital loss/(gain)	(6,364)	9,698
Non-taxable income	(7)	1,961
Capital Allowance	-	(21)
Disallowed expenses	-	-
Group relief not paid for	-	759
Carried back loss relieved at the higher rate	-	(17)
Excess management expenses	4	-
Tax (credit)/charge for the period	-	(451)

The Company had unrecognised losses of £14,355,584 at 30 September 2019 (2018: £2,437,005). Deferred tax assets have not been recognised in respect of these losses as there is uncertainty over the recoverability.

7. Investments held at fair value

The following tables present movement of assets measured at fair value.

	2019 £000	2018 £000
Opening valuation	127,054	284,048
Purchases	7,500	17,153
Increase/(decrease) in valuation	34,062	(68,824)
Transfer to held for sale	-	(105,323)
As at 30 September	168,616	127,054

The Company has no other investments in subsidiary undertakings, associates or joint ventures.

8. Assets held for sale

Held for sale assets recorded at 30 September 2018 related to the sale of Photobox and Knight Square, which were subsequently completed October 2018 and December 2018 respectively. These investments had been recorded as financial assets held at fair value through profit or loss previously and were disposed at the fair value as at 30 September 2018, and therefore no additional gains or losses have been recognised during the year ended 30 September 2019. No assets were classified as held for sale as at 30 September 2019.

	2019 £000	2018 £000
As at 30 September		
Buyouts	-	105,323
	-	105,323

Notes to the Financial Statements

9. Financial Instruments

The Company's financial instruments comprise fixed interest securities and equity shares in unlisted companies, and other payables, as shown in the table below:

	2019	2018
As at 30 September	£000	£000
Financial assets		
Fixed interest securities	168,616	223,108
Equity shares	-	9,269
Total financial assets	168,616	232,377
Financial liabilities		
Other payables	(137,944)	(236,209)
Total financial liabilities	(137,944)	(236,209)

Weighted average interest rate and period to maturity of the Company's fixed interest securities are as follows:

	Fixed rate financial assets weighted average interest rate		Fixed rate financial assets weighted average period until maturity	
As at 30 September	2019	2018	2019	2018
	%	%	years	years
Sterling	11	8	3	2

The Company held no floating rate financial instruments at 30 September 2019 (2018: £nil).

Fair Value Hierarchy

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The Company has adopted IFRS 13 in respect of disclosures about the degree of reliability of fair value measurements. This requires the Company to classify, for disclosure purposes, fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The levels of fair value measurement bases are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for which any significant input to the valuation is not based on observable market data (unobservable inputs).

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

All financial assets are measured at level 3, as the Company makes use of significant unobservable inputs in deriving fair value, as they trade infrequently. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. Investments classified within Level 3 consist of private equity direct investments.

The main inputs into the valuation models for the Company's financial assets are EBITDA multiples (based on the rolling 12-month EBITDA and EBITDA multiples of comparable listed companies), quality of earnings assessments, assessments of third-party external debt, comparability difference adjustments, cost of capital adjustments and probabilities of default.

Notes to the Financial Statements

9. Financial Instruments (continued)

Fair Value Hierarchy (continued)

In accordance with the Company's valuation policy, appropriate comparable public companies based on industry, size, developmental stage, revenue generation and strategy are determined and a trading multiple for each comparable company identified is then calculated. The multiple is calculated by dividing the enterprise value of the comparable group by its EBITDA. The trading multiple is then adjusted for considerations such as illiquidity, other differences, advantages and disadvantages.

The main risk arising from the Company's financial assets are fluctuations in market price as the comparable multiples and comparability difference adjustments used in the valuation model may change, resulting in fluctuations of valuations. The tables below show the Company's financial assets whose fair values are recognised in whole or in part using valuation techniques based on assumptions that are not supported by prices or other inputs from observable current market transactions in the same instrument, and the effect of changing one or more of those assumptions behind the valuation techniques adopted based on reasonable possible alternative assumptions.

2019	Fair value £000	Valuation Technique	Unobservable Inputs	Weighted Average Input	Reasonable possible shift +/-	Change in Valuation (+/-) £000
Consumer goods, leisure and hospitality	168,616	Comparable trading multiples	EBITDA multiple	10.6x	1x	19,312/(19,312)
			Comparability difference adjustment	32%	5%	(14,688)/14,688
	168,616					
2018	Fair value £000	Valuation Technique	Unobservable Inputs	Weighted Average Input	Reasonable possible shift +/-	Change in Valuation (+/-) £000
Consumer goods, leisure and hospitality	223,108	Comparable trading multiples	EBITDA multiple	10.3x	1x	19,265/(19,265)
			Comparability difference adjustment	32%	5%	(14,576)/14,576
Business services	9,269	Comparable trading multiples	EBITDA multiple	n/a	n/a	-
			Comparability difference adjustment	n/a	n/a	-
	232,377					

All investments above are based in the United Kingdom.

No inter-relationships between unobservable inputs used in the Company's valuation of its Level 3 equity investments have been identified.

There has been no transfer between fair value hierarchy levels for assets held by the Company during the year ended 30 September 2019 (2018: £nil).

10. Other Payables

	2019 £000	2018 £000
As at 30 September		
Amounts owed to group undertakings	137,944	236,209
	137,944	236,209

Amounts owed to group undertakings are unsecured, interest free and payable on demand to the Company's parent undertaking, Electra Private Equity PLC, and the carrying value is considered to be materially equal to the fair value.

Notes to the Financial Statements

11. Share Capital

	2019	2018
As at 30 September	£000	£000
Allotted, called-up and fully paid 87,000 (2018: 87,000) ordinary shares of £10 each	870	870

12. Basis of Accounting and Significant Accounting Policies

The financial statements for the year ended 30 September 2019 have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101").

In preparing these financial statements, the Company applies recognition, measurement and disclosure requirements of FRS 101 and the following disclosure exemptions have been applied:

- Cash Flow Statement and related notes;
- Related party disclosures in respect of transactions with wholly owned subsidiaries; and
- The effects of new but not yet effective IFRSs.

The following accounting policies have been applied consistently throughout the financial statements.

Going Concern

Consistent with basis of preparation for the financial statements for the year ended 30 September 2018, the Company's financial statements for the year ended 30 September 2019 have been prepared on a basis other than that of a going concern.

However, there have been no changes to the basis of recognition, which remains as historical cost basis of accounting, modified to include the revaluation of certain assets at fair value, as disclosed in the Principles of Valuations of Investments. The Company continues to value its financial assets on the basis disclosed in this Note. The timeframe envisaged for the managed wind-down of the portfolio does not affect the valuation of assets or liabilities on the Company's balance sheet.

As at 30 September 2019, no contractual commitments had become onerous and no commitments for further wind-down costs have been made. Therefore, no provisions have been recorded in the financial statements for the future costs of terminating the business of the entity. Any future costs relating to terminating the business of the entity will be provided for when the entity becomes obligated to make such payment.

Changes in Accounting Policy

During the year ended 30 September 2019, the Company has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, which became effective for the accounting period commencing on or after 1 January 2018.

There have been no changes to the measurement and classification of the Company's financial assets and liabilities, which respectively continue to be measured at fair value through profit or loss, and at amortised cost under IFRS 9 *Financial Instruments*.

The revenue generating assets held by the Company are classified as financial assets under the scope of IFRS 9 *Financial Instruments* and therefore outside the scope of IFRS 15 *Revenue from Contracts with Customers*. The Company has no other financial assets as at 30 September 2019.

Investments

Purchases and sales of listed investments are recognised on the trade date where a contract exists whose terms require delivery within a time frame determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional. Investments are designated at fair value through profit or loss and are subsequently measured at reporting dates at fair value. The fair value of direct unquoted investments is calculated in accordance with the Principles of Valuation of Investments on page 15.

Notes to the Financial Statements

12. Basis of Accounting and Significant Accounting Policies (continued)

Principles of Valuation of Investments

General

The Company estimates the fair value of each investment at the reporting date in accordance with IFRS 13 and the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines.

Fair value is the price for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. In estimating fair value, the Company applies a valuation technique which is appropriate in light of the nature, facts and circumstances of the investment and uses reasonable current market data and inputs combined with judgement and assumptions. Valuation techniques are applied consistently from one reporting date to another except where a change in technique results in a better estimate of fair value.

The Company tests its valuation techniques using a tool known as "calibration". This compares the inputs and assumptions used in estimating fair value on the reporting date to those used on previous reporting dates and to those underlying the initial entry price of an investment in order to ensure that the inputs and assumptions used on the reporting date are consistent with those used previously.

In general, the Company will determine the enterprise value of the investee Company in question using one of a range of valuation techniques; adjust the enterprise value for factors that would normally be taken into account such as surplus assets, excess liabilities or other contingencies or relevant factors; and apportion the resulting amount between the investee company's relevant financial instruments according to their ranking and taking into account the effect of any instrument that may dilute the economic entitlement of a given instrument.

Multiple

Typically, the Company uses an earnings multiple technique. This involves the application of an appropriate and reasonable multiple to the maintainable earnings of an investee company.

The Company usually derives a multiple by reference to current market-based multiples, reflected in the market valuations of quoted comparable companies or the price at which comparable companies have changed ownership. Differences between these market-based multiples and the investee company being valued are reflected by adjusting the multiple for points of difference which might affect the risk and earnings growth prospects which underpin the earnings multiple. Such points of difference might include the relative size and diversity of the entities, rate of earnings growth, reliance on a small number of key employees, diversity of product ranges, diversity and quality of customer base, level of borrowing, any other reason the quality of earnings may differ.

In respect of maintainable earnings, the Company usually uses earnings for the most recent 12-month period, adjusted if necessary, to represent a reasonable estimate of maintainable earnings. Such adjustments might include exceptional or non-recurring items, the impact of discontinued activities and acquisitions, or forecast material changes in earnings.

Accrued Income

Accrued income is recognised when the value of the investment is greater than the value of any loan note associated with the investment.

Investment Income

Fixed returns on debt securities are recognised on a time apportionment basis so as to reflect the effective yield when it is probable that economic benefit will flow to the Company. Where income accruals previously recognised, but not received, are no longer considered to be reasonably expected to be received, either through investee company restructuring or doubt over its receipt, then these amounts are reversed through expenses.

Taxation

The tax effect of different items of income/gain and expense/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting year.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

12. Basis of Accounting and Significant Accounting Policies (continued)

Other payables

Payables are typically settled in a short time frame and are carried at the amount due to be settled. As a result, the fair value of these balances is considered to be materially equal to the carrying value. Intercompany loans are included in other payables and are held at amortised cost.

Share Capital

Ordinary shares issued by the Company are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs, net of tax, are deducted from equity.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical accounting judgements and key sources of estimation uncertainty used in preparing the financial information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting judgements and estimates will, by definition, seldom equal the related actual results. In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty in the reporting year, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value measurements and valuation processes

Unquoted assets are measured at fair value in accordance with IFRS 13 and the IPEV Guidelines for financial reporting purposes. Judgement is required in order to determine the appropriate valuation methodology and subsequently in determining the inputs into the valuation model used. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and adjustments to comparable multiples. The Board of Directors of the Group has set up a Valuation Committee to determine the appropriate valuation techniques and inputs for fair value measurements, including the Company's.

In estimating the fair value of an asset, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company applies internal valuation techniques and methodologies to perform the valuation. Determining the appropriate valuation methodology and the inputs into the valuation models involves judgements, which include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and adjustments to comparable multiples.

The valuation process for the Company's investments is overseen by the Valuation Committee (the "Committee"), set up, at the group level, by the Board of the Company's parent undertaking Electra Private Equity PLC (the "Group"). The Committee is chaired by a Non-Executive Director of the Group and works closely with the Group's Alternative Investment Fund Manager ("AIFM"), in establishing the appropriate valuation techniques and inputs for fair value measurement. The Chairman of the Committee reports its findings to the Group's Board of Directors every six months to explain the cause of fluctuations in the fair value of the investments.

Sensitivity analysis on key sources of estimation has been disclosed in Note 9. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above in this Note.

13. Parent and Ultimate Parent Undertaking

The immediate and ultimate parent undertaking and controlling party is Electra Private Equity PLC, which is registered in England and Wales with registered address of 7th Floor, 17 Old Park Lane, London, UK, W1K 1QT.

As at 30 September 2019, Electra Private Equity PLC was the smallest and largest group undertaking for which group financial statements are prepared and of which the Company is a member. Copies of the financial statements for Electra Private Equity PLC are publicly available and can be obtained from www.electraequity.com and Frostrow Capital LLP, 25 Southampton Buildings, London, WC2A 1AL.