



Margin of Safety Fund Limited

Chairman's report and
financial statements

Year ended 31 December 2000



Margin of Safety Fund Limited

Financial statements

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Margin of Safety Fund Limited

Management and administration

Directors

John Mills
Philip Boylan
Eric Freymond (appointed 11/12/00)

Auditor

KPMG
Chartered Accountants
5 George's Dock
IFSC
Dublin 1
Ireland

Registered agent

Midocean Management and Trust
Services (BVI) Limited
9 Columbus Centre
Pelican Town
Road Drive
Tortola
British Virgin Islands

Custodian and bankers

Fortis Bank Luxembourg S. A.
12-16 Avenue Monterey
L-2163 Luxembourg

Investment manager

MS Investment Management Limited
9 Columbus Centre
Pelican Drive
Road Town
Tortola
British Virgin Islands

Investment Advisor

Pastel et Associes S.A.
10 Rue de Colisée
75008
Paris
France

Accounting administrator

BDO Simpson Xavier Fund Administration Services
20/23 Merchants Quay
Dublin 8
Ireland

Chairman's report to the shareholders of Margin of Safety Fund Limited

Investment performance

As illustrated by the performance table below, the Fund has beaten its stated benchmark of 15% p.a. both on an annual as well as a cumulative basis:

	1 year	2 years	Since inception (February 2, 1998)
USD	15.1%	63.4%	67.6%
EUR	22.9%	104.4%	93.8%
15% p.a. benchmark	15.0%	32.2%	52.1%

In 2000, the Fund's investment return resulted from the portfolio's exposure to a selected group of stocks, in line with the investment methodology developed by our financial advisors, **Pastel & Associés SA**. One must single out the following companies as key contributors to the performance achieved:

- Markel (US) whose stock price moved up by 17% over the year
- Nike (US) whose stock price moved up by 13% over the year
- Progressive Corp. (US) whose stock price moved up by 42% over the year

Review of operations

In 2000, the most significant moves made by the Fund were:

- The disposal of the entire Arrow Electronics (US), Devro (UK), Harveys Furnishing (UK) and Walt Disney (US) stakes.
- The purchase of shares in Allstate (US) during the first half followed by their sale in October after a sharp run up in the stock price.
- The reinforcement of existing positions in Charles Baynes (UK), Fairfax (Canada), Markel Corp. (US) and Progressive Corp. (US).
- The downsizing of the Premier Farnell (UK) stake.

All the companies currently present in the portfolio share some common features: they are cash generative and generally enjoy high rates of return on capital and equity. Moreover, their management and/or their board of directors tend to be significant shareholders.

Chairman's report to the shareholders of Margin of Safety Fund Limited (continued)

Portfolio structure

At year end, the equity portion of the portfolio was made up of:

- 64% invested in North American securities,
- 35% invested in British securities,
- 1% invested in French securities.

The ratio of cash to the Fund's total assets at December 29, 2000 stood at 8.7%.

Outlook

As stated in previous years, we won't indulge, here, in making market or economic forecasts as we do not consider these to be either reliable or useful with regard to the investment process implemented by the Margin of Safety Fund. However, even though we have no opinion about the level of returns the Fund will achieve in 2001, we believe that it will again, over the next three years, generate a superior rate of return without taking any undue risk of permanent loss of principal. It should do so by keeping to the investment methodology developed by our financial advisors, **Pastel & Associés SA**, whose core principles are:

- To focus on a few, carefully screened and researched companies that tend to share some common features such as a good and historically profitable business and a competent and honest management;
- To demand that a significant margin of safety be present, at the time of purchase, in every investment;
- To stay the course and not dispose of or increase some holdings because of changes in macro-economic or financial market expectations.

As the Fund's long term approach to investing starts bearing fruits, please let me thank, on your behalf, our managers at **MS Investment management Ltd.** as well as our advisors at **Pastel & Associés SA**, for their hard work and dedication that helped make these last three years' performance a reality.

No dividend will be declared for the year under review.

Eric Freymond
Chairman
31 January 2001



Chartered Accountants

5 George's Dock
IFSC
Dublin 1
Ireland

Auditors' report to the shareholders of Margin of Safety Fund Limited

We have audited the accompanying statement of net assets of Margin of Safety Fund Limited as of December 31, 2000 and the related income statement, statements of changes in shareholders' equity and cashflows for the period ended December 31, 2000. These financial statements are the responsibility of the Fund's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements give a true and fair view of the financial position of Margin of Safety Fund Limited as of December 31, 2000 and the results of its operations and changes in its shareholders' equity for the period then ended in accordance with International Accounting Standards as promulgated by the International Accounting Standards Committee.

KPMG
Registered auditors
Chartered Accountants

February 21, 2001





Margin of Safety Fund Limited

Statement of net assets

as at December 31, 2000

		December 31, 2000 US\$	December 31, 1999 US\$
Assets			
Investments	4	40,529,919	31,992,720
Cash at bank		3,846,428	1,852,777
Accrued dividends		51,563	32,330
Deferred formation expenses		-	10,453
Accrued interest		52,879	47,442
Prepaid fees		127	150
		<hr/>	<hr/>
Total assets		44,480,916	33,935,872
		<hr/>	<hr/>
Liabilities			
Accruals	3	371,286	1,448,575
		<hr/>	<hr/>
Total liabilities		371,286	1,448,575
		<hr/>	<hr/>
Net assets		44,109,630	32,487,297
		<hr/>	<hr/>
Shareholders' equity			
Class 'A' preference shares of US\$0.01 each issued and fully paid up		263	223
Share premium		30,791,299	24,018,459
Redemption reserve	8	(1,178,366)	(282,202)
Retained earnings		14,496,434	8,750,817
		<hr/>	<hr/>
Total shareholders' equity		44,109,630	32,487,297
		<hr/>	<hr/>

The notes on pages 10 to 13 form an integral part of the financial statements.

On behalf of the board

John Mills
Director

Philip Boylan
Director



Margin of Safety Fund Limited

Income statement

for the year ended December 31, 2000

		December 31, 2000 US\$	December 31, 1999 US\$
Income			
Deposit interest		128,721	262,513
Dividend income		950,193	761,585
Unrealised gain on investments		3,107,462	7,321,380
Realised gain on investments		2,387,800	1,899,371
		<hr/>	<hr/>
		6,574,176	10,244,849
		<hr/>	<hr/>
Operating expenses			
Manager's fees	3	659,341	1,647,075
Directors fees		7,390	7,033
Custody fees		23,305	17,048
Accounting and administration fees		53,641	38,061
Withholding tax and operating expenses		52,319	47,107
Formation expenses amortised		10,453	19,790
Audit fees		6,120	6,012
Legal fees		849	2,000
Foreign exchange loss		15,141	18,744
		<hr/>	<hr/>
		828,559	1,802,870
		<hr/>	<hr/>
Net income for the period		5,745,617	8,441,979
Retained earnings at beginning of period		8,750,817	308,838
		<hr/>	<hr/>
Retained earnings at end of period		14,496,434	8,750,817
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 10 to 13 form an integral part of the financial statements.



Margin of Safety Fund Limited

Statement of changes in shareholders' equity for the year ended December 31, 2000

	December 31, 2000 US\$	December 31, 1999 US\$
Shareholders' equity - beginning of year	32,487,297	13,590,823
Shares issued during the year	6,772,881	10,736,697
Shares redeemed during the year	(896,164)	(282,202)
	<hr/>	<hr/>
Capital	38,364,014	24,045,318
Net income for the year	5,745,617	8,441,979
	<hr/>	<hr/>
Shareholders' equity - end of year	44,109,631	32,487,297
	<hr/> <hr/>	<hr/> <hr/>
Outstanding class 'A' preference shares	26,322.91	22,313.11
	<hr/> <hr/>	<hr/> <hr/>
Net asset value per share at end of year	1,675.71	1,455.97
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 10 to 13 form an integral part of the financial statements.

Margin of Safety Fund Limited

Statement of cashflows

for the year ended December 31, 2000

	December 31, 2000 US\$	December 31, 1999 US\$
Cash flow from operating activities		
Net income for the period	5,745,617	8,441,979
Adjustment for:		
Unrealised gain on investments	(3,107,462)	(7,321,380)
Realised gain on investments	(2,387,800)	(1,899,371)
Formation expenses amortised	10,453	19,790
Add/(deduct)		
Purchase of investments	(12,010,800)	(17,718,507)
Proceeds from sale of investments	8,968,862	6,784,040
Increase in accrued dividends	(19,233)	(27,857)
Increase in accrued interest	(5,437)	(47,442)
Decrease in prepaid fees	23	(150)
Increase in management fees due	36,578	48,082
Increase in accruals	3,260	10,956
Decrease in incentive fees due	(1,117,127)	1,334,377
	<hr/>	<hr/>
Cash flow from financing activities	(3,883,066)	(10,375,483)
Proceeds from the issue of share capital	6,772,881	9,736,697
Redemption of share capital	(896,164)	-
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	1,993,651	(638,786)
	<hr/> <hr/>	<hr/> <hr/>



Margin of Safety Fund Limited

Schedule of Investments as at December 31, 2000

Quantity or principal	Description	Market value (US\$)	% of total assets
Equities (all listed)			
134,270	Nike Inc - B Shares (US\$)	7,493,944	16.85%
682,200	Premier Farnell (GBP)	4,478,814	10.07%
856,033	DFS Furniture Company (GBP)	4,539,535	10.21%
134,500	Manpower Inc (US\$)	5,111,000	11.49%
5,995	Thermador (Euro)	253,235	0.57%
290,200	Carpetright (GBP)	2,232,529	5.02%
16,685	Markel (US\$)	3,019,985	6.79%
1,925,000	Charles Baynes (GBP)	1,409,027	3.17%
12,865	Fairfax Financial Holdings (CAD)	1,957,159	4.40%
296,500	Renold (GBP)	414,122	0.93%
304,500	Safeway (GBP)	1,360,038	3.06%
63,500	Leucadia (US\$)	2,250,281	5.06%
58,000	Progressive Corp. (US\$)	6,010,250	13.51%
		<hr/>	<hr/>
		40,529,919	91.13%
		<hr/>	<hr/>
	Other assets	3,950,997	8.87%
		<hr/>	<hr/>
		44,480,916	100%
		<hr/> <hr/>	<hr/> <hr/>

Margin of Safety Fund Limited

Notes

forming part of the financial statements

1 Organisation and nature of business

Margin of Safety Fund Limited ("the Company"), an open ended limited liability company, was incorporated as an international business company on January 19, 1998 under the laws of the British Virgin Islands.

The Class 'A' preference shares of the Company were admitted to the official list of the Irish Stock Exchange on January 28, 1998.

The company was established to achieve capital appreciation through investments primarily in equity securities.

2 Summary of significant accounting policies

These financial statements are prepared in accordance with International Accounting Standards and are expressed in United States dollars, "US\$".

Use of estimates

The preparation of the financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Investments

USD and CAD Investments are valued at last sale price, GBP and EUR Investments are valued at closing mid price.

Unrealised gains or losses on investments represents the annual appreciation or depreciation in the holdings of those investments. Any movements in unrealised gains and losses are recorded in the income statement. Losses realised on original cost are recorded in the income statement in the period of sale.

Income taxes

Under current British Virgin Islands legislation, the fund is not subject to income tax.

Margin of Safety Fund Limited

Notes (continued)

2 Summary of significant accounting policies (continued)

Income

Dividends, net of foreign withholding taxes, where applicable, are included as income when the security is declared to be ex-dividend. Interest is recorded on the accruals basis.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into United States dollars at exchange rates prevailing at the period end date. Transactions in foreign currencies are translated at the rate ruling on the date of the transaction. Gains and losses on foreign currency translation are included in the income statement as part of the net realised and unrealised gain/(loss) on investment.

Formation expenses

Formation expenses were written off on a pro-rata basis to June 30, 2000.

3 Incentive and management fees, administrative and custodian fees

The Fund's investment manager is MS Investment Management Limited (the "Manager"), a company licensed in the British Virgin Islands. The manager receives a monthly fixed fee of 1.25% per annum of the net assets of the Class 'A' preference shares. The manager also receives a performance (incentive) fee of 20% of the annual increase in the aggregate net asset value of Class 'A' preference shares over a 15% annual benchmark as defined in the prospectus. The management fee for the year amounted to US\$441,082 (1999 US\$311,689) and the incentive fee to US\$218,259 (1999 US\$1,335,386). Management fees payable at year end were US\$125,428 (1999 US\$88,850) and incentive fees payable were US\$218,259 (1999 US\$1,335,386).

The accounting administrator is paid a fixed fee of 0.15% p.a. on the average net asset value of the fund per Class 'A' preference shares before management and performance fees subject to a minimum of US\$6,000. The custodian is paid a fixed fee of 0.08% pa, on the average net assets valuation of the class 'A' preference shares held over the calendar year by the custodian.

4 Investments

Investments held at year end are valued at US\$40,529,919 (1999 US\$31,992,720) compared with a cost of US\$30,010,348 (1999 US\$24,580,611). Investments are comprised of equities. (See schedule of listed investments)

Margin of Safety Fund Limited

Notes (continued)

5 Shareholders' equity

Investments in the Fund are made monthly by subscription agreement subject to acceptance by the Fund, at the net asset value per share at the end of the month. A shareholder may request and receive redemption of Class "A" preference shares on any dealing day upon 15 days notice.

Authorised	2000 US\$	1999 US\$
1,000,000 ordinary shares of US\$0.01 each	10,000	10,000
1,000,000 preference 'A' shares of US\$0.01 each	10,000	10,000
1,000,000 preference 'B' shares of US\$0.01 each	10,000	10,000
1,000,000 preference 'C' shares of US\$0.01 each	10,000	10,000
	<u>40,000</u>	<u>40,000</u>
	<u><u>40,000</u></u>	<u><u>40,000</u></u>
Issued and fully paid up		
2 ordinary shares of US\$0.01 each	-	-
Class 'A' preference shares of US\$0.01 each	263	223
	<u>263</u>	<u>223</u>
	<u><u>263</u></u>	<u><u>223</u></u>
Share premium		
Class A preference shares	30,791,299	24,018,459
	<u><u>30,791,299</u></u>	<u><u>24,018,459</u></u>

Ordinary shares carry the right to vote and will participate upon a winding up of the company only in the surplus remaining after the payment to the preference shareholders and only to the extent of the par value of the ordinary shares.

Preference shareholders shall in the event of a winding up of the company, have a preferred claim in respect of the assets of the company and shall have divided between them the surplus remaining after the payment to the ordinary shareholders. Preference shareholders have restricted voting rights.

Margin of Safety Fund Limited

Notes *(continued)*

6 Fair values and financial instruments

Substantially all of the Company's financial instruments are carried at market value or at amounts which, because of their short-term nature, approximate current fair value.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risk is the risk that one party to a financial instrument will fail to discharge on obligation and cause the other party to incur financial loss. The company invests mainly in blue chip equities. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company invests in denominations of US dollars, Sterling pounds Canadian Dollars and Euros. However, whilst using its best endeavours to attain the investment objective as stated in note 1, the Board of directors cannot guarantee the extent to which this objective can be achieved. The investments of the fund are subject to normal market fluctuations and other inherent risks and there can be no assurance than any appreciation in value will occur.

7 Related party transactions

One of the directors of the company is a partner in an international law firm who were retained in the formation of the company.

One of the directors of the Company is a manager at the accounting administrator. Details of fees paid are disclosed in note 3.

The investment advisor, Pastel et Associes S. A., holds 261 shares in the Company.

No further material contracts or contracts for provisions of services existed during the period under review to which the Company is a party and in which any director was materially interested.

8 Redemption reserve

The redemption reserve arises on the redemption of class 'A' preference shares by the shareholders. This reserve relates to the difference between the amount of share premium a shareholder pays on subscription and the amount that is repaid when that same subscription is redeemed.

9 Approval of financial statements

The board of directors approved these financial statements on February 19, 2001.