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# CHELVERTON GROWTH TRUST PLC

## **Annual Report**

for the year ended 31 August 2005

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## Investment objective

The Company's objective is to provide capital growth through investment in companies listed on the Official List and traded on the Alternative Investment Market with a market capitalisation at the time of investment of up to £50 million, which are believed to be at a "point of change". The Company will also invest in unquoted investments where it is believed that there is a likelihood of the shares becoming listed or traded on the Alternative Investment Market or the investee company being sold. Its investment objective is to increase net asset value per share at a higher rate than other quoted smaller company trusts and the FTSE All-Share Index.

It is the Company's policy not to invest in any listed investment companies (including listed investment trusts).

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## Company summary

Policy and objectives	Presented opposite
Benchmark	FTSE All-Share Index
Management Company	Chelverton Asset Management Limited See page 14 for further details.
Total net assets	£7,274,000 as at 31 August 2005
Market capitalisation	£6,168,000 as at 31 August 2005
Capital structure	18,141,939 Ordinary 1p shares
Wind-up date	November 2009
PEP/ISA status	The Company is fully eligible for inclusion in PEPs and ISAs

### Bank Facility

The Company has a £1.5million overdraft facility with Lloyds TSB Bank plc, which is renewable on 30 September each year. The facility bears interest at 1% over the Bank's base rate and is secured by a floating charge over the Company's investment portfolio.

Draw-down of the facility is restricted to 25% of the value of the Company's investment portfolio, after excluding unquoted stocks and the excess of any holdings over 10%.

An investment company as defined under Section 266 of the Companies Act 1985.

REGISTERED IN ENGLAND No. 2989519

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## Performance statistics

	<b>Year ended 31 August 2005</b>	Year ended 31 August 2004	% change
Net assets	<b>£7,274,000</b>	£6,821,000	6.64%
Net asset value per share	<b>40.10p</b>	37.55p	6.79%
FTSE All-Share Index	<b>2,659.21</b>	2,214.19	20.10%
Share price	<b>34.00p</b>	28.50p	19.30%
Discount to net asset value	<b>(15.21)%</b>	(24.10)%	
Revenue return after taxation	<b>(£206,000)</b>	(£134,000)	
Revenue return per share	<b>(1.14)p</b>	(0.73)p	
Capital return per share	<b>3.67p</b>	5.21p	

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## Chairman's statement

The revival of investor interest in the FTSE 100 companies, and the takeover speculation around a number of companies in the FTSE 350, have distracted investors from the progress being made in many smaller companies. The development seen in the first six months has, therefore, not continued to the end-of-year accounts. Since the fund was launched, however, it has outperformed its benchmark, the FTSE All-Share Index, and since the merger in August 2001 the net asset value per share has increased by 16.8% compared to a rise of 2.7% in the benchmark index.

Chelverton's net asset value per share has increased this year from 37.55p to 40.10p – an increase of 6.8%. In the same period the Company's benchmark index rose by 20.1%, and the FTSE 100, which makes up over 90% of the FTSE All-Share Index, rose 18.8%. While it is disappointing not to have outperformed the benchmark index during the year, it is not surprising that periodically a portfolio of smaller companies will perform less well than the larger market.

The discount of the share price to the net asset value per share has narrowed in the last year from 24.1% to 15.2%, and your Board and the Manager continue to work on reducing it further. The Manager will be introducing a Monthly Savings Scheme across all of the funds managed by Chelverton Asset Management Limited, and it is anticipated that a build up of regular monthly purchasing will improve our market position.

During the year the Company purchased 21,875 shares from a number of shareholders who took advantage of our free share dealing proposal. The purchase of these shares at the mid-market price was marginally asset-enhancing but was primarily designed to provide a simple exit for shareholders with relatively small holdings. It is intended to renew these buy-back powers at the forthcoming Annual General Meeting.

David Horner, the Manager, has increased his personal holding to 1,250,000 (6.9%) with the purchase of an additional 243,632 shares through the year and has stated his intention, when not restricted by close periods, to continue to acquire shares.

The political/economic situation remains uncertain at home and abroad, and that uncertainty is compounded by challenges from natural phenomena. The price of energy impacts on virtually every aspect of daily life, and if the oil price remains at historically high levels, it will act as a drag on the world economy. Closer to home, spending by the Government may have to be reined in as the UK economy is proving to be less resilient than the Government's projections.

Notwithstanding these uncertainties, the portfolio is in good shape with investments in some very interesting companies that would appear, given conventional yardsticks, to be undervalued.

This Annual Report will be the last for which accounts are prepared on the basis of existing UK Generally Accepted Accounting Practice ("UK GAAP"). For the financial year to 31 August 2006 our accounts will be prepared under the requirements of the revised version of UK GAAP which is converging with International Financial Reporting Standards ("IFRS"). The main difference resulting from this change will be that the portfolio will be valued at bid prices rather than at mid-market prices. If the new standards had been applied at 31 August 2005, the resulting reduction in value of the portfolio would have been in the order of 1.66p per Ordinary share.

**Pratt Thompson**

Chairman

*19 October 2005*

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## Manager's overview

### Market review

After the rise in smaller companies' shares in the first six months, the second half of the year was one of consolidation. The recent rise in the FTSE 100 and FTSE 350 has re-awakened interest in larger companies at the expense of smaller companies.

Most of the companies in the portfolio have reported improved results and, with the prospect of further improvement in the current year, these shares will become progressively and relatively better value. The recent research work of Professor Elroy and Professor Dimson of the London School of Economics has reconfirmed their original findings in respect of the "Small Companies Effect". Their conclusion is that, over the long term, small companies outperform their larger brethren.

As ever the past year has had its share of significant international events which periodically buffet market sentiment. The serious ongoing situation in Iraq has been one of the catalysts for the massive rise in the oil price. The following rise in many input and transport costs has resulted in some good, well-run companies announcing that profits will not match expectations. As Lord Browne, chief executive of BP, has recently announced, the current oil price is unsustainable and he believes that the price will tend to fall to \$40 per barrel, which will bring some respite to all areas of the economy.

The tragic events, caused by natural powers beyond man's control: the tsunami and the hurricanes Katrina and Rita that have recently lashed the southern states of the United States; and the man made events, being the bombings in Central London and Bali, have left people feeling threatened and powerless.

The foregone conclusion of the third term for New Labour was of significant concern as the spending by central government, not matched by tax receipts even under their optimistic projections, remains an issue for tax rates in the near future. The other point, on which there is little political will to address, is the public sector provision for future index-linked pensions and the exact opposite case in the private sector of under-provision. This will be a problem in the future and will last for many years given increases in life expectancy.

Whilst interest rates were held at 4.75% for the year the recent cut by one quarter of one percent indicates that the recent interest rate cycle appears to have been less vicious than in recent history and we can expect further moves down in the course of the next year.

Low interest rates and steadily rising earnings will, in time, lead to the significant funds invested in private equity and hedge funds seeking transactions. Whilst we are keen to back management teams in the development of their companies, when a price is offered that discounts the future earnings stream then we are happy to accept that price and to reapply the resources, as in the case of Merrydown during the period.

### Portfolio review

Over the last twelve months holdings in four companies have been sold – Merrydown, Raymarine, Hamworthy and Chelverton Asset Management Limited. Partially anticipating the receipt of the proceeds from the takeover of Merrydown, new investments were made in nine companies: Sanderson, Petards, Concateno, Intermodal Resources, Elevation Events, Foseco, Tristel, Chromogenex and Mavinwood.

We were delighted by the excellent price obtained by the management team on the takeover of Merrydown. This was one of the first investments made by the fund when it participated in a refinancing of the business, without which the company would have gone into receivership. We backed a new management team who proceeded to firstly turn the company round and then to develop the Vintage cider and the Schloer adult soft drinks brands. As is often the case in these sorts of situations the success of the team really only became clear to external parties after about three years and the shares started to advance reflecting this progress. Typically for a small company, the brands were worth much more as part of a larger group and the company was taken over for £1.70 per share, against a cost price of 38p.

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## Manager's overview (continued)

The shares in Foseco were acquired on its flotation in May at £1 per share and we sold these some four months later for £1.57. In the past year there have been some excellent opportunities where venture capital owned companies have been listed and the market has driven the price up very rapidly for what appear to be very attractive businesses. Raymarine and Hamworthy were two other examples of this type of realisation in the year.

The shareholding in Chelverton Asset Management Limited was sold in the year under the terms of a pre-agreed formula. Further details of this transaction are set out in notes 9 and 21.

Tristel is a small company involved in supplying liquid chemical sterilising solutions to UK hospitals by way of patented delivery systems. It has a current market capitalisation of £11m and has produced growing profits for the past three years. The company markets a proprietary chlorine dioxide chemistry that is highly effective in destroying all types of bacteria (including bacterial spores, tuberculosis and MRSA), fungi and viruses. Having been accepted by some 375 NHS and private hospitals for instrument decontamination the company is now looking to sell into Europe.

We have continued to sell into market demand part of the shareholding in Bioquell, Brandon Hire and Stanley Gibbons. Locker Group has continued with the sale of its assets and has made another interim payment on the disposal of three of its subsidiaries and further payments are expected.

Additional investments have been made in Gourmet Holdings, Alliance Pharma, Clipper Ventures, Belgravium, Smallbone, Hartest and CEPS (formerly Dinkie Heel). It is pleasing to note that in the case of all but Hartest, these companies have made very interesting acquisitions some of which will make a material difference to the business. In particular Belgravium has very recently acquired a business twice its size having spent the past three years looking for the right transaction. Hopefully their patience will be our reward!

### Outlook

The portfolio is invested in a large number of quality smaller companies which will at times be buffeted by events beyond their control but that, in the main, are making good progress.

We have been surprised, and pleased, at the quality of recent investment opportunities and we believe that these will significantly contribute to the growth in the value of the shares over the next few years.

As mentioned last year, some £500m of new money was raised for Venture Capital Trusts ("VCTs") and it is expected that this number could be significantly exceeded in the current year. As a large proportion of these funds will be invested in AIM companies there is a concern that as "time runs down" (VCTs have to invest 70% of their funds in qualifying investments within three years) the pressure to invest will not be matched by quality investment opportunities. As your Company, without the restrictions of the VCTs, is able to invest in primary or secondary shares it is often in an advantageous position in terms of allocation of investment.

Despite the problems, many of an international nature, most of the companies are making good progress at their trading level and, while inflation and interest rates remain low and employment at record levels, we expect this to continue in the medium term.

### David Horner

Chelverton Asset Management Ltd

19 October 2005

## Portfolio review

The Company's portfolio as at 31 August 2005 is set out below in chronological order by date of investment.

Investment	Sector	Valuation £'000	% of total
<i>Quoted</i>			
<b>Bioquell</b> Manufacture of specialist filtration equipment and containment technology, sterilisation/sanitisation equipment for pharmaceutical, healthcare and other industries	Health	291	4.1
<b>CEPS</b> (previously Dinkie Heel) Production and supply of components for the footwear industry, personal protection equipment and production of printed lycra fabric	Household Goods & Textiles	209	2.9
<b>Howle Holdings</b> Manufacture of engineers' cutting tools and hard-wearing tungsten carbide products	Engineering & Machinery	40	0.6
<b>Metrodome Group</b> Purchase and supply of film, music and video rights to cinema, TV and video distribution industries	Media & Entertainment	23	0.3
<b>Newmark Security</b> Distribution of electronic access control products and asset tagging products	Support Services	201	2.8
<b>LPA Group</b> Design, manufacture and marketing of industrial electrical accessories	Electronic & Electrical Equipment	55	0.8
<b>Hartest Holdings</b> Manufacture and sale of specialist healthcare equipment and supplies to users of electron microscopes	Engineering & Machinery	206	2.8
<b>Clipper Ventures</b> The running of round-the-world yacht races	Leisure & Hotels	188	2.6
<b>Hartford Group</b> Owner and operator of premium bars and restaurants in London	Leisure & Hotels	146	2.0
<b>AI Claims Solutions</b> (previously Auto Indemnity) The provision of non-fault accident management services	Support Services	506	7.0
<b>Pennant International Group</b> Supplier of technology solutions to the defence and industrial sectors	Software & Computer Services	111	1.5
<b>Oasis Healthcare</b> Dental practices group	Health	228	3.2
<b>Gourmet Holdings</b> Owner and operator of the Richoux and Bel and the Dragon restaurant brands	Leisure & Hotels	227	3.2
<b>Universe Group</b> Provision of credit card fraud prevention system, loyalty systems, retail systems and Bureau de Change operations	Support Services	170	2.4

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## Portfolio review (continued)

as at 31 August 2005

Investment	Sector	Valuation £'000	% of total
<i>Quoted</i>			
<b>Conder Environmental</b> Supply of oil spill recovery equipment, industrial pollution control equipment and provision of glass reinforced plastic oil/water separators	Engineering & Machinery	94	1.3
<b>Transport Systems</b> Supply of traffic management services	Transport	177	2.5
<b>Belgravium Technologies</b> Software systems for warehousing and distribution	Information Technology Hardware	245	3.4
<b>Stanley Gibbons Group</b> Operates the stamp collecting business of Stanley Gibbons, through retail, mail-order and the internet	General Retailers	250	3.5
<b>Capcon Holdings</b> The provision of audit and stocktaking, and commercial investigation services	Speciality & Other Finance	73	1.0
<b>IDOX</b> Software company specialising in the development of products for document and information management	Software & Computer Services	441	6.1
<b>Brandon Hire</b> Hire of tools and equipment	Support Services	180	2.5
<b>ukbetting</b> On-line gaming and associated activities	Leisure & Hotels	281	3.9
<b>Alliance Pharma</b> Acquisition of the manufacturing, sales and distribution rights to pharmaceutical products	Pharmaceuticals & Biotechnology	112	1.6
<b>Cobra Bio-Manufacturing</b> Bio-pharmaceuticals	Pharmaceuticals & Biotechnology	38	0.5
<b>Titan Europe</b> Manufacture of big wheels for construction, mining and agricultural vehicles	Engineering & Machinery	228	3.2
<b>BBI Holdings</b> Development and manufacture of rapid test diagnostic products	Pharmaceuticals & Biotechnology	194	2.7
<b>Interactive Digital Solutions</b> Developer of an advanced system for providing interactive digital business and entertainment services to multiple users within a network	Software & Computer Services	84	1.2
<b>Smallbone</b> The design and manufacture of bespoke kitchens, bathrooms, bathroom furniture and suppliers of high quality flooring	Household Goods & Textiles	252	3.5
<b>Sanderson Group</b> Provides software and IT services	Software & Computer Services	113	1.6

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## Portfolio review (continued)

as at 31 August 2005

Investment	Sector	Valuation £'000	% of total
<i>Quoted</i>			
<b>Petards Group</b>	Support Services	306	4.3
Development, provision and maintenance of advanced security systems and related services			
<b>Concateno</b>	Speciality & Other Finance	183	2.5
Acquiring and managing water businesses in the UK and international markets			
<b>Intermodal Resources</b>	Engineering & Machinery	127	1.8
Equipment rental business that services the transport and logistics industries in Germany, the UK and other European countries			
<b>Elevation Events Group</b>	Media & Entertainment	350	4.9
Event management and corporate hospitality			
<b>Foseco</b>	Engineering & Machinery	168	2.3
Supply of consumables and services to the foundry and steelmaking industries			
<b>Tristel</b>	Health	208	2.9
Healthcare business specialising in infection control in hospitals			
<b>Chromogenex</b>	Health	157	2.2
Design, manufacture and distribution of aesthetic and therapeutic laser and aesthetic light based technology devices			
<b>Mavinwood</b>	Support services	257	3.6
Document storage and repair and insurance work for emergency water leaks			
<i>Unquoted</i>			
<b>Locker Group</b>	Engineering & Machinery	51	0.7
Cash shell			
<b>Wineworld</b>	Leisure & Hotels	9	0.1
Management of Vinopolis, a London-based venue encompassing wine tasting, retail stores, restaurants and corporate hospitality			
<b>Portfolio valuation</b>		<b>7,179</b>	<b>100.0</b>

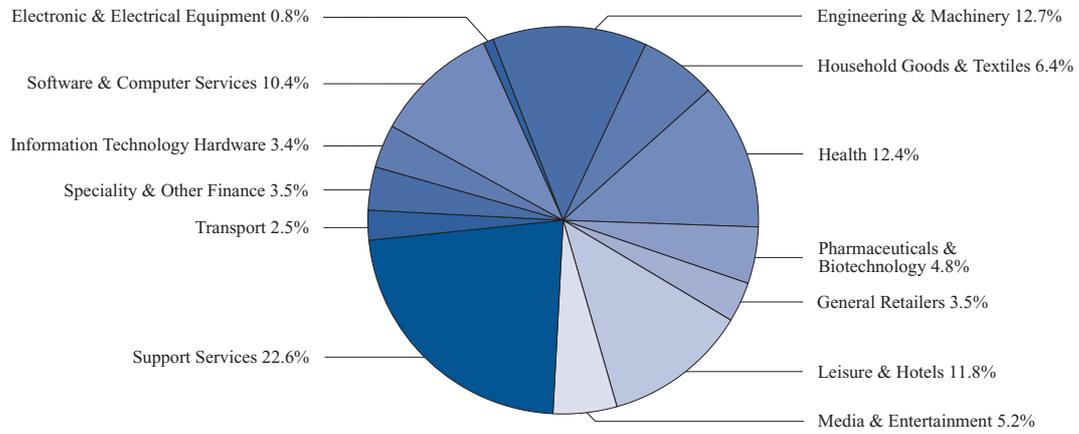
All the above investments are in ordinary shares which are on the main list, or traded on the Alternative Investment Market, except Locker and Wineworld, which are unquoted.

During this period the shareholdings in Hamworthy, Raymarine, Merrydown and Chelverton Asset Management have been sold.

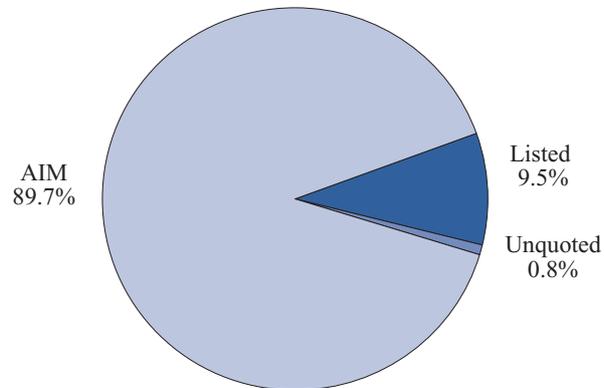
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## Portfolio breakdown by sector and by index

### Percentage of Portfolio by Sector



### Percentage of Portfolio by Index



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## Directors

The Directors are:

**Pratt Thompson** (Chairman) aged 72, was educated at Princeton and Columbia Universities and obtained an MBA at Geneva. He was Vice-President of AMF Incorporated from 1959 to 1973 and then spent five years at Bowthorpe Holdings PLC where he was Deputy Managing Director. From 1978 to 1981 he was Chairman of BL International Limited and Managing Director of Jaguar Rover Triumph. Subsequent to those appointments he was Chairman of AIDCOM International PLC from 1982 to 1986 and from 1986 to 1993 was Managing Director of Unitech PLC. He was appointed non-executive Chairman of the Brockbank Group PLC in 1995, and has continued to be a director following its acquisition by Mid Ocean Limited in 1997.

**Kevin Allen** aged 50, is a chartered accountant. After qualifying with Coopers & Lybrand, he joined Overseas Containers (part of P&O Group) where he spent five years, latterly as Chief Accountant. In 1986 he joined Volvo Car UK as Financial Controller before joining Kellock Limited, the factoring and invoice discounting arm of Bank of Scotland Group, as Finance and Operations Director. He became Finance Director of Brockbank Group PLC in 1993, serving on the boards of Brockbank Syndicate Management, Admiral Insurance Services and Brockbank Insurance Services Inc. He is currently a director of Transport Systems PLC.

**Sir Terence Harrison** aged 72, is an engineer by profession. After serving an engineering apprenticeship, he graduated from Durham University and, subsequent to commissioned Army service, has spent most of his working career based on Tyneside. He was Chairman of Northern Engineering Industries at the time of its merger with Rolls-Royce in 1989. He was appointed Chief Executive of Rolls-Royce PLC in 1992 and retired from that position in 1996. Sir Terence is a Fellow of the Royal Academy of Engineering and was knighted in 1995. He was formerly non-executive Chairman of Alfred McAlpine PLC.

**Bryan Lenygon** aged 73, is a chartered accountant and a barrister. After a number of years with T&N PLC and British Petroleum PLC, he joined Gartmore Investment Limited as a director in 1971, retiring as a director from Gartmore in 1988. He has considerable experience of the investment trust market and is currently a director of several other investment trusts.

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## Manager, Secretary and Advisers

### Investment Manager

Chelverton Asset Management Limited  
11 George Street, Bath BA1 2EH  
Tel: 01225 483 030  
www.chelvertonam.com

Chelverton Asset Management Limited was formed in 1997. The executive director of Chelverton Asset Management Limited, David Horner, has considerable experience of companies in the smaller quoted market sector.

### Secretary and Registered Office

Sinclair Henderson Limited  
23 Cathedral Yard, Exeter EX1 1HB  
Tel: 01392 412 122  
www.sinclairhenderson.co.uk

Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a number of other investment trusts. Sinclair Henderson Limited is a subsidiary undertaking of iimia Investment Group PLC.

### Registrar and Transfer Office

(To 30 November 2005)  
Capita Registrars  
The Registry  
34 Beckenham Road  
Kent BR3 4TU  
Tel: 0870 162 3100  
www.capitaregistrars.com

(From 1 December 2005)  
Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA  
Tel: 0870 600 3970  
www.shareview.co.uk

### Custodian

HSBC Bank PLC  
Mariner House  
Pepys Street  
London EC3N 4DA

### Bankers

Lloyds TSB Bank PLC  
25 Gresham Street  
London EC2V 7HN

### Auditors

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

### Solicitors

Maclay Murray & Spens  
5 Old Bailey  
London EC4M 7JX

(From 12 December 2005)  
12th Floor, One London Wall  
London EC2Y 5AB

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## Report of the Directors

The Directors present their report and audited accounts for the year ended 31 August 2005.

### Status and principal activity

The principal activity of the Company is to carry on business as an investment trust. The Company has been approved by the Inland Revenue as an authorised investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 August 2004. It has subsequently directed its affairs so as to enable it to continue to receive such approval. In accordance with the provisions of Section 266 of the Companies Act 1985, the Company is an investment company. The Directors do not envisage any change in this activity in the future. A description of activities during the year under review is given in the Chairman's statement on page 3 and the Manager's overview on pages 4 and 5.

The Articles of Association provide for the Shareholders to consider the winding up of the Company at an Extraordinary General Meeting to be held in November 2009, unless the Directors shall have previously been released from their obligation to do so.

### Results and dividend

The results for the year and the proposed transfer from revenue reserves are set out in the statement of total return on page 25.

The Directors do not recommend a dividend for the year.

### Purchase of own shares

Under the Company's authority to purchase its own shares a total of 21,875 Ordinary shares with a nominal value of £219 were bought back and cancelled. There remained an unused authority to purchase a 2,700,880 shares at the year-end and at the date of this report.

### Directors

The Directors in office during the year, all of whom are non-executive, are shown below:

	Date of appointment
W P Thompson (Chairman)	2 August 2001
K J Allen	8 November 1994
Sir Terence Harrison	2 August 2001
B N Lenygon	2 August 2001

In accordance with the Company's Articles of Association and the Combined Code, Mr Allen will retire at the Annual General Meeting and, being eligible, shall offer himself for re-election.

The Board, in its capacity as the Nomination Committee, has fully considered Mr Allen's re-election, with Mr Allen abstaining from deliberations, and the continuing directors recommend that shareholders vote in favour of his re-election.

Mr Allen is a founding director of the Company. He is a chartered accountant and has held a number of financial management positions within varied sectors where he has gained a thorough knowledge of smaller companies managerial issues. His financial experience enables him to contribute significantly on accounting and reporting matters. Mr Allen is deemed wholly independent by the other Board members notwithstanding his length of service.

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## Report of the Directors (continued)

None of the Directors has a contract of service with the Company nor, save as disclosed below, has there been any other contract or arrangement between the Company and any Director at any time during the year. None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year. Kevin Allen is a director and employee of Transport Systems PLC, in which the Company has an investment.

### Directors' beneficial and family interests

The interests of the Directors and their families in the Ordinary shares of the Company are set out below:

	At 31 August 2005	At 31 August 2004
W P Thompson	100,000	100,000
K J Allen	221,762	221,762
Sir Terence Harrison	136,167	136,167
B N Lenygon	62,411	62,411

There have been no changes to any of the above holdings between 31 August 2005 and the date of this Report.

### Substantial shareholdings

The Directors had been notified of the following substantial interests at the date of this Report:

	Number of shares	% of issued share capital
M E Brockbank	2,189,427	12.07
G E Stevens	1,778,110	9.80
M M Brooks	1,312,500	7.23
J D Abell and Family	1,285,000	7.08
D A Horner*	1,250,000	6.89
Wallbrook Trustees (Jersey) Ltd	1,205,570	6.65

\* Mr Horner is the executive director of Chelverton Asset Management Limited, the Company's Investment Manager.

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## Report of the Directors (continued)

### Management and administration agreements

The Company's investments are managed by Chelverton Asset Management Limited ("CAM") under an agreement dated 28 June 2001.

The Company pays CAM, in respect of its services as Investment Manager, a monthly fee (exclusive of VAT) payable in arrears as follows:

- (i) for the first £15 million of funds under management at the rate of  $\frac{1}{6}\%$  per month of the gross value of funds under management ("the Value");
- (ii) for the next £15 million of funds under management, at the rate of  $\frac{1}{8}\%$  per month of the amount by which the Value exceeds £15 million; and
- (iii) for funds under management above £30 million, at the rate of  $\frac{1}{12}\%$  per month.

The appointment of CAM as Investment Manager is subject to termination by either party giving to the other not less than twelve months notice of such termination. There are no specific provisions contained within the Investment Management Agreement relating to the compensation payable in the event of termination of the agreement other than entitlement to fees, which would be payable within any notice period.

Under an agreement dated 26 June 2001, company secretarial services and the general administration of the Company are undertaken by Sinclair Henderson Limited for an annual fee of £40,149. This fee is subject to annual review based on the UK Retail Price Index. In the event that there is an increase in the issued share capital of the Company, the fee will be adjusted upwards by agreement between the Company and Sinclair Henderson Limited. The agreement may be terminated by either party giving to the other not less than twelve months' notice at any time.

### Appointment of Chelverton Asset Management ("CAM") as the Investment Manager

The Board continually reviews the performance of the Investment Manager. In the opinion of the Directors the continuing appointment of CAM, as Investment Manager, on the terms outlined in the Management Agreement dated 28 June 2001, is in the best interests of the shareholders as a whole. The reason for this view is that the investment performance of the Company is satisfactory relative to the markets in which the Company invests. Further, the Board is satisfied that CAM has the required skill and expertise to continue to manage the Company's portfolio and charges fees that are reasonable when compared with managers of comparable investment trusts.

### Payment of suppliers

The Company does not follow any code or standard on payment practice. However it is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will be transacted, and it is the Company's policy to abide by those terms. At 31 August 2005 all suppliers' invoices received had been settled.

### Corporate Governance – Statement of Compliance

The Board considers that throughout the year the Company has, insofar as they are relevant to the Company's business, been in compliance with the principles of the Combined Code ("Combined Code"). Additional procedures have been adopted to ensure the Company's current practices are consistent with the recommendation of the Combined Code in all material respects.

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## Report of the Directors (continued)

### *Board of Directors*

All the Directors are deemed by the Board to be fully independent of the Investment Manager. The continuing independence of Mr Allen has been fully considered in light of having served for more than nine years on the Board since his first election. The Company experienced a significant change in structure and Board composition in August 2001 to the effect that Mr Allen is the only founding Board member. The other Board members are therefore of the view that he remains independent in character and judgement notwithstanding his length of service. Given the size and nature of the Board, it is not considered appropriate to appoint a Senior Independent Director. This is a breach of code provision A.3.3. The Company does not have a chief executive officer, but by appointing a management company the roles of chairman and chief executive officer are effectively separated. Brief biographical details of the Directors can be found on page 10.

The Board has formal arrangements under which Directors, in the furtherance of their duties, may take independent professional advice. The Company has Directors' and Officers' liability insurance in place to cover legal defence costs.

The Board also has direct access to the advice of the Company Secretary, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with.

Under the Articles of Association, one-third of the Board is required to retire by rotation each year. Additionally, Directors are required to retire by rotation at least every three years.

### *Directors attendance*

During the year the Directors' attendance at meetings has been recorded as follows.

	Board meetings	Audit Committee	Nomination Committee	Management Engagement Committee
W P Thompson	6 of 6	1 of 1	1 of 1	2 of 2
K J Allen	6 of 6	1 of 1	1 of 1	2 of 2
Sir Terence Harrison	5 of 6	1 of 1	1 of 1	2 of 2
B N Lenygon	6 of 6	1 of 1	1 of 1	2 of 2

### *Board operation*

The Board consists entirely of non-executive Directors who are responsible for the implementation of the Company's investment policy. The Directors review at each Board meeting the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs. The Board is responsible for the investment policy and strategic and operational decisions of the Company. A formal schedule of matters specifically reserved for the Board's approval was adopted in November 2001. The management of the Company's assets is delegated to CAM, which has discretion to manage the assets of the Company in accordance with the Company's objectives and policies subject to the following:

- All proposed unquoted investments are put to the Board for approval;
- Quoted Investments of over £100,000 in any single situation are referred to the Board;
- Opportunistic top-up investments of £50,000 are permitted in any investment on the basis that the Board is informed.

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## Report of the Directors (continued)

To enable the Directors to fulfil their role, they have timely access to all relevant management and financial information. The full Board meets regularly, every two months, and maintains contact with the Investment Manager between formal meetings.

### *Committees*

The Company also uses a number of committees to control its operations. All these committees comprise the full Board and are chaired by Pratt Thompson. Each committee's delegated responsibilities are clearly defined in formal terms of reference, copies of which are available from the Company's Registered Office.

The Audit Committee provides a forum through which the Company's external Auditors report to the Board of Directors. The Committee meets at least once a year.

The Company does not have an internal audit function. All of the Company's management functions are delegated to independent third parties and, as a result, this function is not felt appropriate. However the need for one is reviewed annually.

The Management Engagement Committee is responsible for reviewing the terms of the Investment Manager's contract, and those of other service providers. The Committee meets at least once a year.

The Nomination Committee considers the appointment and re-appointment of Directors and meets as and when required. The Committee meets at least once a year to consider the re-election of Directors at the Annual General Meeting.

The Board as a whole fulfils the function of a Remuneration Committee. Remuneration details are given in the Directors' remuneration report on pages 20 and 21. At 31 August 2005 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company.

### *Performance Evaluation*

In accordance with corporate governance best practice, formal performance evaluation of the Board, its committees and individual Directors was undertaken following the year end by verbal consultation. It was concluded that the Board represented an effective combination of skill and expertise and continued to operate successfully as a small, proficient unit. The performance of each Director continues to be effective and demonstrates commitment to the role.

### *Relations with Shareholders*

Communications with shareholders are given a high priority by both the Board and the Investment Manager. All Directors are available to enter into dialogue with shareholders and shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board and Investment Manager are available to discuss issues affecting the Company.

### *Going Concern*

After due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

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## Report of the Directors (continued)

### *Internal Controls*

The Directors acknowledge that they are responsible for the Company's systems of internal control and for reviewing their effectiveness.

An ongoing process in accordance with the guidance of the Turnbull Committee on internal control has been established for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and up to the date the annual report and accounts were approved and is regularly reviewed by the Board.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

### *Internal Control Assessment Process*

Risk assessment and the review of internal controls are undertaken by the Board in the context of the Company's overall investment objective. The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

- The nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- The threat of such risks becoming a reality;
- The Company's ability to reduce the incidence and impact of risk on its performance; and
- The cost and benefits to the Company of third parties operating the relevant controls.

Against this background, the Board has split the review of risk and associated controls into four sections reflecting the nature of the risks being addressed. These sections are as follows:

- Corporate strategy;
- Published information, compliance with laws and regulations;
- Relationship with service providers; and
- Investment and business activities.

Given the nature of the Company's activities and the fact that most functions are subcontracted, the Directors have obtained information from key third party suppliers regarding the controls operated. To enable the Board to make an appropriate risk and control assessment the information and assurances sought from third party suppliers include the following:

- Details of the control environment operated by the third party suppliers;

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## Report of the Directors (continued)

- Identification and evaluation of risks and control objectives by third party suppliers;
- Assessment of the communication procedures with third party suppliers; and
- Assessment of the control procedures operated by third party suppliers.

The key procedures which have been established to provide internal financial controls are as follows:

- Investment management is provided by Chelverton Asset Management Limited. The Board is responsible for setting the overall investment policy and monitors the action of the Investment Manager at regular Board meetings;
- Administration and company secretarial duties for the Company are performed by Sinclair Henderson Limited;
- Custody of assets is undertaken by HSBC Investment Bank PLC;
- The duties of investment management, accounting and the custody of assets are segregated. The procedures of the individual parties are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements;
- Mandates for authorisation of investment transactions and expense payments are set by the Board; and
- The Board reviews financial information produced by the Investment Manager and the Company Secretary in detail on a regular basis.

In accordance with guidance issued to directors of listed companies, the Directors have carried out a review of the effectiveness of the system of internal control as it has operated over the year.

### Annual General Meeting

The Notice of Annual General Meeting is set out on pages 42 and 43. In addition to the ordinary business of the meeting, the Directors are putting forward resolutions to allot shares and disapply pre-emption rights, which will allow the Company to issue new shares or sell repurchased shares out of treasury equivalent to 10% of its existing issued share capital.

The Directors are also seeking a new authority to allot shares previously held in treasury at a discount to net asset value.

It is also proposed that at the Annual General Meeting the Company be given renewed authority to buy back its own shares, which may be cancelled or held in treasury.

Any decision regarding placing into treasury, or issuing shares from treasury will only be taken if, in the opinion of the Directors, the decision would be in the interest of shareholders as a whole.

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## **Report of the Directors** (continued)

### **Re-appointment of Auditor**

A resolution will be put to the shareholders at the Annual General Meeting proposing the re-appointment of Ernst & Young LLP as Auditors to the Company.

By order of the Board

**Sinclair Henderson Limited**

Secretary

*19 October 2005*

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## Directors' remuneration report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's Auditors to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 23 and 24.

### Remuneration Committee

The Company has four non-executive directors. The Board as a whole fulfils the function of a Remuneration Committee.

### Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be fair and comparable to similar organisations and appointments. It is intended that this policy will continue for the year ending 31 August 2006.

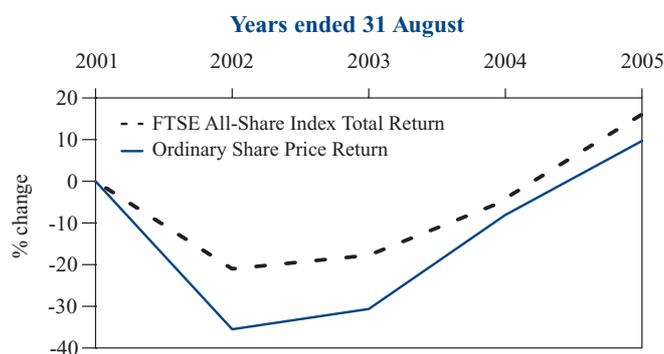
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

### Directors' service contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first annual general meeting after his appointment, and at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

### Your Company's share price performance

The graph below compares the return to Ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. The index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



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## Directors' remuneration report (continued)

### Directors' emoluments for the year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	2005	2004
W P Thompson	25,000	25,000
K J Allen	20,000	20,000
Sir Terence Harrison	20,000	20,000
B N Lenygon	20,000	20,000
	<u>85,000</u>	<u>85,000</u>

### Approval

The Directors' remuneration report on pages 20 and 21 was approved by the Board of Directors on 19 October 2005.

### Pratt Thompson

Chairman

*19 October 2005*

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## Statement of Directors' responsibilities in respect of the accounts

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the net revenue 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

The accounts are published on [www.sinclairhenderson.co.uk](http://www.sinclairhenderson.co.uk), which is a website maintained by the Company Secretary. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Foreign visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their own jurisdiction.

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## **Independent Auditors' report**

To the members of Chelverton Growth Trust PLC

We have audited the Company's accounts for the year ended 31 August 2005 which comprise Statement of total return, Balance sheet, Statement of cash flows and the related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

### **Respective responsibilities of directors and auditors**

The Directors are responsible for preparing the Annual Report including the accounts which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' responsibilities in relation to the accounts. The Directors are also responsible for preparing the Directors' remuneration report

Our responsibility is to audit the accounts and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Company summary, Performance statistics, Chairman's statement and the Manager's overview, Portfolio review and breakdown, Directors, Manager, Secretary and Advisers, Report of the Directors, unaudited part of the Directors' remuneration report, shareholder information and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

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## **Independent Auditors' report** (continued)

To the members of Chelverton Growth Trust PLC

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts and the parts of the Directors' remuneration report to be audited 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 accounts and the part of the Directors' remuneration report to be audited.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 August 2005 and of the return of the Company for the year then ended and the accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

### **Ernst & Young LLP**

Registered Auditor, London

*19 October 2005*

## Statement of total return

(incorporating the revenue account\*) of the Company

for the year ended 31 August 2005

	Notes	2005			2004		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	8	–	826	826	–	1,104	1,104
Income	2	57	–	57	130	–	130
Investment management fee	3	(44)	(134)	(178)	(43)	(128)	(171)
Other expenses	4	(211)	–	(211)	(213)	–	(213)
<b>Net return before finance costs and taxation</b>		<b>(198)</b>	<b>692</b>	<b>494</b>	<b>(126)</b>	<b>976</b>	<b>850</b>
Interest payable	5	(8)	(26)	(34)	(8)	(24)	(32)
<b>Return on ordinary activities before taxation</b>		<b>(206)</b>	<b>666</b>	<b>460</b>	<b>(134)</b>	<b>952</b>	<b>818</b>
Taxation on ordinary activities	6	–	–	–	–	–	–
<b>Return on ordinary activities after taxation</b>		<b>(206)</b>	<b>666</b>	<b>460</b>	<b>(134)</b>	<b>952</b>	<b>818</b>
<b>Transfer (from)/to reserves</b>		<b>(206)</b>	<b>666</b>	<b>460</b>	<b>(134)</b>	<b>952</b>	<b>818</b>
		<b>Revenue pence</b>	<b>Capital pence</b>	<b>Total pence</b>	<b>Revenue pence</b>	<b>Capital pence</b>	<b>Total pence</b>
<b>Return per Ordinary share</b>	7	<b>(1.14)</b>	<b>3.67</b>	<b>2.53</b>	<b>(0.73)</b>	<b>5.21</b>	<b>4.48</b>

\* The Revenue column of this statement is the revenue account of the Company.

No operations were acquired or discontinued during the year.

The notes on pages 28 to 40 form part of these accounts.

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## Balance sheet

as at 31 August 2005

	Notes	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Investments	8	7,179	7,711
<b>Current assets</b>			
Debtors	10	364	33
Cash at bank		41	–
		<u>405</u>	<u>33</u>
<b>Creditors – amounts falling due within one year</b>			
Creditors	11	<u>310</u>	<u>923</u>
<b>Net current assets/(liabilities)</b>			
		<u>95</u>	<u>(890)</u>
<b>Net assets</b>			
		<u>7,274</u>	<u>6,821</u>
<b>Share capital and reserves</b>			
Called up share capital	12	182	182
Share premium account	13	2,674	2,674
Capital reserve – realised	13	1,537	(611)
– unrealised	13	(1,137)	352
– capital redemption reserve	13	7	7
Revenue reserve	13	<u>4,011</u>	<u>4,217</u>
<b>Equity shareholders' funds</b>			
	14	<u>7,274</u>	<u>6,821</u>
<b>Net asset value per Ordinary share</b>			
	18	<u>40.10p</u>	<u>37.55p</u>

The notes on pages 28 to 40 form part of these accounts.

These accounts were approved and signed by on behalf of the Board of Directors on 19 October 2005.

**Pratt Thompson**

*Chairman*

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## Statement of cash flows

for the year ended 31 August 2005

	Notes	2005 £'000	2004 £'000
<b>Operating activities</b>			
Investment income received		69	100
Deposit interest received		5	3
Investment management fees paid		(178)	(170)
Secretarial fees paid		(47)	(45)
Other cash payments		(160)	(167)
<b>Net cash outflow from operating activities</b>	15	<u>(311)</u>	<u>(279)</u>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(42)	(28)
Final distribution from subsidiary undertaking		–	27
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(42)</u>	<u>(1)</u>
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(2,271)	(1,811)
Sales of investments		3,302	2,168
<b>Net cash inflow from capital expenditure and financial investment</b>		<u>1,031</u>	<u>357</u>
<b>Financing</b>			
Share repurchase		(7)	(133)
<b>Net cash inflow/(outflow)</b>		<u>671</u>	<u>(56)</u>
<b>Increase/(decrease) in cash</b>	16	<u>671</u>	<u>(56)</u>

The notes on pages 28 to 40 form part of these accounts.

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## Notes to the accounts

as at 31 August 2005

### 1 ACCOUNTING POLICIES

#### Accounting convention

The accounts are prepared under the historical cost convention as modified by the revaluation of fixed asset investments, and in accordance with applicable accounting standards and with the 2003 Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies. All the Company's activities are continuing.

#### Income recognition

Dividends receivable on quoted equity shares are included in the accounts when the investments concerned are quoted 'ex-dividend'. UK dividends are disclosed excluding the associated tax credit. Dividends receivable on equity and non-equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. All other income is included on an accruals basis.

#### Expenses

All expenses are accounted for on an accruals basis and charged through the revenue account in the statement of total return except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Management fees and bank interest have been allocated 75% to capital reserve (realised) and 25% to revenue reserve in the statement of total return, being in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

#### Investments

Listed investments are included in the balance sheet at mid-market value at the close of business at the year end or, in the case of unlisted investments, at Directors' valuation.

Any unrealised profits and losses are taken directly to the capital reserve. Any realised profits and losses arising on the disposal of investments are also taken directly to the capital reserve.

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## Notes to the accounts (continued)

as at 31 August 2005

### 1 ACCOUNTING POLICIES (continued)

#### Capital reserves

##### *Capital reserve (realised)*

The following are accounted for in this reserve:

- gains and losses on the realisation of investments.
- realised exchange differences of a capital nature.
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

##### *Capital reserve (unrealised)*

The following are accounted for in this reserve:

- increases and decreases in the valuation of the investments held at the year end.

#### Taxation

The charge for taxation, where relevant, is based on the revenue before taxation for the year. Tax deferred or accelerated can arise due to timing differences between the treatment of certain items for accounting and taxation purposes.

Full provision is made for deferred taxation under the liability method, on all timing differences not reversed by the Balance sheet date, in accordance with Financial Reporting Standard No. 19: Deferred tax.

The tax effect of different items of income/gain and expenditure/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 period.

## Notes to the accounts (continued)

as at 31 August 2005

<b>2 INCOME</b>	<b>2005</b>	2004
	<b>£'000</b>	£'000
<b>Income from investments</b>		
Dividends from UK companies	52	121
Dividends reinvested	—	6
	<u>52</u>	<u>127</u>
<b>Other income</b>		
Bank interest receivable	5	3
	<u>5</u>	<u>3</u>
<b>Total income</b>	<b><u>57</u></b>	<b><u>130</u></b>
Total income comprises:		
Dividends	52	127
Interest	5	3
	<u>57</u>	<u>130</u>

<b>3 INVESTMENT MANAGEMENT FEE</b>	2005			2004		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	38	114	152	37	109	146
Irrecoverable VAT thereon	6	20	26	6	19	25
	<u>44</u>	<u>134</u>	<u>178</u>	<u>43</u>	<u>128</u>	<u>171</u>

The investment management fee is calculated at the rate of 1/6% per month of the gross value of funds under management and is payable monthly in arrears. At 31 August 2005 there was £15,000 outstanding (2004: £15,000).

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## Notes to the accounts (continued)

as at 31 August 2005

### 4 OTHER EXPENSES

	2005			2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administrative and secretarial services	47	–	47	45	–	45
Directors' remuneration	85	–	85	85	–	85
Auditors' remuneration:						
audit services	14	–	14	13	–	13
non audit services	–	–	–	–	–	–
Other expenses	65	–	65	70	–	70
	<b>211</b>	<b>–</b>	<b>211</b>	<b>213</b>	<b>–</b>	<b>213</b>

### 5 INTEREST PAYABLE

	2005			2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
On bank overdraft	8	26	34	8	24	32

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## Notes to the accounts (continued)

as at 31 August 2005

<b>6 TAXATION</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Analysis of charge in period</b>		
Current tax:		
Corporation tax	—	—
	<u>—</u>	<u>—</u>
	—	—
	<u>—</u>	<u>—</u>

### Factors affecting current tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK for a medium or large company (30%). The differences are explained below:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Loss on ordinary activities before taxation	<b>(206)</b>	<b>(134)</b>
Corporation tax at 30%	<b>(62)</b>	<b>(40)</b>
UK dividend income not taxable	<b>(15)</b>	<b>(38)</b>
Deductible expenses charged to capital	<b>(48)</b>	<b>(46)</b>
Excess expenses for the period	<b>125</b>	<b>124</b>
Current tax charge for the period	<u>—</u>	<u>—</u>

At 31 August 2005 the Company had surplus management expenses of £1,900,000 (2004: £1,483,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

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## Notes to the accounts (continued)

as at 31 August 2005

### 7 RETURN PER ORDINARY SHARE

	2005			2004		
	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Basic	<b>(1.14)</b>	<b>3.67</b>	<b>2.53</b>	(0.73)	5.21	4.48

Revenue return per Ordinary share is based on the net revenue loss on ordinary activities after taxation attributable of £206,000 (2004: £134,000) and on 18,158,461 (2004: 18,280,414) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on the net capital gains of £666,000 (2004: £952,000) and on 18,158,461 (2004: 18,280,414) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

### 8 INVESTMENTS

	2005	2004
	£'000	£'000
Listed	<b>679</b>	2,257
AIM	<b>6,440</b>	5,033
Unlisted	<b>60</b>	421
	<b>7,179</b>	7,711

## Notes to the accounts (continued)

as at 31 August 2005

<b>8 INVESTMENTS (continued)</b>	<b>Listed</b>	<b>AIM</b>	<b>Unlisted</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening book cost	1,674	5,248	437	7,359
Opening unrealised appreciation/(depreciation)	583	(215)	(16)	352
	<b>2,257</b>	<b>5,033</b>	<b>421</b>	<b>7,711</b>
Movements in the year:				
Purchases at cost	115	2,179	–	2,294
Sales:				
Proceeds	(2,484)	(712)	(456)	(3,652)
Realised gains on sales	1,622	277	416	2,315
Increase in unrealised depreciation	(831)	(337)	(321)	(1,489)
Closing valuation	<b>679</b>	<b>6,440</b>	<b>60</b>	<b>7,179</b>
Closing book cost	927	6,992	397	8,316
Closing unrealised depreciation	(248)	(552)	(337)	(1,137)
	<b>679</b>	<b>6,440</b>	<b>60</b>	<b>7,179</b>

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Realised gains on sales	<b>2,315</b>	1,223
Increase in unrealised depreciation	<b>(1,489)</b>	(119)
	<b>826</b>	1,104

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## Notes to the accounts (continued)

as at 31 August 2005

### 9 SIGNIFICANT INTERESTS

The Company had an interest exceeding 20% in the nominal value of the allotted shares of that class in Chelverton Asset Management Limited. The cost of acquisition to the Company was £12,500. A 'put and call' option was in place between the Company and Colinette Holdings Limited, the 67.5% shareholder of Chelverton Asset Management Limited, in respect of the 12,500 shares in Chelverton Asset Management Limited. On 25 April 2005 Colinette Holdings Limited exercised the option to purchase the 12,500 shares from the Company. The proceeds on disposal of these shares was £350,000 (see note 21).

The Company has a holding of 3% or more of the issued class of share that is material in the context of the accounts in the following investments:

Security	Number of shares held	Percentage of Issued Share Capital	Issued Share Capital
Transport Systems, Ord 5p	2,140,000	11.551	18,526,961
Elevation Events Group, Ord 2p	2,500,000	5.078	49,233,358
Howle Holdings, Ord 5p	1,470,000	5.064	29,025,759
CEPS, Ord 0.1p	8,792,823	4.935	178,167,714
Clipper Ventures, Ord 1p	1,123,295	4.241	26,486,532
Petards Group, Ord 1p	25,000,000	4.017	622,420,709
Concateno, Ord 10p	200,000	4.000	5,000,000
Hartest Holdings, Ord 0.1p	33,477,444	3.920	854,122,974
Interactive Digital Solutions, Ord 1p	7,500,000	3.578	209,633,000
AI Claims Solutions, Ord 10p	2,129,979	3.476	61,277,022
Capcon Holdings, Ord 1p	337,500	3.323	10,156,776
Newmark Security, Ord 1p	11,000,000	3.041	361,755,016

### 10 DEBTORS – amounts falling due within one year

	2005	2004
	£'000	£'000
Amounts due from brokers	350	–
Prepayments and other debtors	6	7
Dividends receivable	8	26
	<hr/>	<hr/>
	364	33
	<hr/>	<hr/>

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## Notes to the accounts (continued)

as at 31 August 2005

<b>11 CREDITORS – amounts falling due within one year</b>	<b>2005</b>	2004
	<b>£'000</b>	£'000
Amounts due to brokers	<b>23</b>	–
Other creditors	<b>52</b>	58
Bank overdraft	<b>235</b>	865
	<b>310</b>	923

The bank overdraft is secured by a floating charge over the Company's investment portfolio.

<b>12 CALLED UP SHARE CAPITAL</b>	<b>2005</b>	2004
	<b>£'000</b>	£'000
Authorised:		
27,000,000 Ordinary shares of 1p each	<b>270</b>	270
Allotted, called up and fully paid:		
18,163,814 (2004: 18,883,045) Ordinary shares of 1p each	<b>182</b>	189
21,875 (2004: 712,231) Ordinary shares of 1p each repurchased	–	(7)
18,141,939 (2004: 18,163,841) Ordinary shares of 1p each	<b>182</b>	182

During the year the Company purchased for cancellation 21,875 (2004: 719,231) Ordinary shares for a total cost of £7,000.

Of the shareholder authority granted at the Annual General Meeting on 14 December 2004, there remained an authority to purchase 2,700,880 Ordinary shares at the year end.

### Duration

The Articles of Association provide that the Directors shall convene an Extraordinary General Meeting of the Company on 30 November 2009, or if that day is not a business day, on the immediately preceding business day, at which proposals for the voluntary liquidation, unitisation or other reorganisation of the Company shall be put to the members ("Winding-up Resolution") unless the Directors shall have been previously released from their obligation to do so by a special resolution of the Company duly passed at the Annual General Meeting of the Company to be held in 2008 resolving to continue to operate as an investment trust company. If the Directors are released from their obligation, they shall be obliged to convene an Extraordinary General Meeting to be held on 30 November 2014, or if that is not a business day, on the immediately preceding business day and every fifth year thereafter, proposing a similar Winding-up Resolution which shall be proposed as a special resolution and the vote shall be taken on a poll.

## Notes to the accounts (continued)

as at 31 August 2005

### 13 RESERVES

	Share premium £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Capital redemption reserve £'000	Revenue reserve £'000
At 1 September 2004	2,674	(611)	352	7	4,217
Cost of shares repurchased	–	(7)	–	–	–
Cancellation of repurchased shares	–	–	–	–	–
Net gains on realisation of investments	–	1,223	–	–	–
Transfer on disposal of investments	–	1,092	(1,092)	–	–
Increase in unrealised depreciation	–	–	(397)	–	–
Costs charged to capital	–	(160)	–	–	–
Retained net loss for the year	–	–	–	–	(206)
	<b>2,674</b>	<b>1,537</b>	<b>(1,137)</b>	<b>7</b>	<b>4,011</b>
At 31 August 2005					

### 14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000
Loss attributable to Ordinary shareholders	(206)	(134)
Recognised gains for the year	666	952
Share repurchase	(7)	(133)
Net addition to shareholders' funds	453	685
Opening shareholders' funds	6,821	6,136
Closing shareholders' funds	7,274	6,821

### 15 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005 £'000	2004 £'000
Net loss before finance costs and taxation	(198)	(126)
Dividends reinvested	–	(6)
Expenses charged to capital	(134)	(128)
Increase in creditors and accruals	2	–
Decrease/(increase) in prepayments and accrued income	19	(19)
	<b>(311)</b>	<b>(279)</b>

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## Notes to the accounts (continued)

as at 31 August 2005

<b>16 RECONCILIATION OF NET CASH FLOW TO NET DEBT</b>	<b>2005</b>	2004
	<b>£'000</b>	<b>£'000</b>
Net debt at 1 September 2004	<b>(865)</b>	(809)
Net cash inflow/(outflow)	<b>671</b>	(56)
Net debt at 31 August 2005	<b>(194)</b>	(865)

## 17 ANALYSIS OF CHANGES IN NET DEBT

	At 1 September 2004	Cash flows	At 31 August 2005
Cash at bank	–	41	<b>41</b>
Bank overdraft	(865)	630	<b>(235)</b>
	<b>(865)</b>	<b>671</b>	<b>(194)</b>

## 18 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per Ordinary share is based on net assets of £7,274,000 (2004: £6,821,000) and on 18,141,939 (2004: 18,163,814) Ordinary shares, being the number of shares in issue at the year end.

## 19 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 August 2005 there were no contingent liabilities (2004: £nil).

## 20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The Company's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The Company has little exposure to credit and cash flow risk and no direct exposure to foreign currency risk.

The Company finances its operations through its issued capital, existing reserves and a bank overdraft.

The principal risks the Company faces in its investment portfolio management activities are:

- market price risk, i.e. movements in the value of investment holdings caused by factors other than interest rate movement
- liquidity risk
- interest rate risk

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## Notes to the accounts (continued)

as at 31 August 2005

### 20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

The Manager's policies for managing these risks are summarised below and have been applied throughout the year:

#### Policy

##### (i) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Manager.

The Directors are conscious of the fact that the nature of AIM investments is such that prices can be volatile. Investors should be aware that the Company is exposed to a higher rate of risk than exists within a fund which holds traditional blue chip securities.

Adherence to the investment objectives and the internal control limits on investments set by the Company mitigates the risk of excessive exposure to any one particular type of security or issuer.

##### (ii) Liquidity risk

The Company's investments are in small companies which are less liquid than larger companies. As at 31 August 2005, the Company had an overdraft of £235,000 drawn down against an available overdraft facility of £1,500,000. The overdraft facility available is considered to be sufficient to meet any funding commitments that might arise.

##### (iii) Interest rate risk

As at 31 August 2005 the Company had an overdraft facility with Lloyds TSB Bank plc of £1,500,000 bearing interest at 1% over the Bank's base rate (at 31 August 2005 4.75% per annum). At the year end the Company had drawn down £235,000.

As required by Financial Reporting Standard No.13: Derivatives and other financial instruments, an analysis of financial assets and liabilities, which identifies the risk of holding such items, is given below:

#### Financial assets

The Company holds fixed asset investments which are traded on AIM, listed on the London Stock Exchange or are unlisted. These assets are discussed in the Manager's overview on pages 4 and 5 and are listed on pages 6 to 8. All of the Company's assets are in sterling and accordingly the Company has no direct currency exposure.

The interest rate profile of the Company's financial assets is:

	Financial assets		Floating rate
	Total	on which no	financial
	£'000	interest is paid	assets
At 31 August 2005	£'000	£'000	£'000
Equity shares	7,179	7,179	—
Cash and debtors	405	364	41
	<u>7,584</u>	<u>7,543</u>	<u>41</u>

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## Notes to the accounts (continued)

as at 31 August 2005

### 20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Total	Financial assets on which no interest is paid	Floating rate financial assets
At 31 August 2004	£'000	£'000	£'000
Equity shares	7,711	7,711	—
Debtors	33	33	—
	<u>7,744</u>	<u>7,744</u>	<u>—</u>

#### Financial liabilities

Primarily the Company finances its operations through its issued capital and existing reserves. The only financial liabilities of the Company are creditors which are due within one year, as disclosed in note 11. The only interest paid on these liabilities, which are all in sterling, is on the Lloyds TSB overdraft facility which incurs interest at 1% over the Bank's base rate (at 31 August 2005 4.75% per annum).

#### Fair values of financial assets and financial liabilities

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

### 21 RELATED PARTY TRANSACTIONS

Under the terms of an agreement the Company has appointed Chelverton Asset Management Limited to be the Investment Manager. The fee arrangements for these services and fees payable are set out in the report of the Directors on page 14 and in note 3 to the accounts. During the year Colinette Holdings Limited, a company wholly owned by David Horner's family, exercised an option to purchase the Company's holding of 12,500 shares in Chelverton Asset Management Limited, in accordance with the Shareholder Agreement dated 1 April 1998, as amended on 7 May 1999. The Option Price paid for the shares was £350,000. Following discussion with the Financial Services Authority, the transaction was deemed not to be a Related Party Transaction as defined in chapter 11 of the Listing Rules (see note 9).

Kevin Allen, a Director of the Company is a director and employee of Transport Systems PLC, in which the Company has an investment (see note 9).

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## Shareholder information

Shareholders wishing to communicate directly with the Board should contact the Company Secretary who will pass on shareholder details to the relevant Board member.

### Contact details

Company Secretary:	Sinclair Henderson Limited	Tel: 01392 412122 Fax: 01392 253282 <a href="http://www.sinclairhenderson.co.uk">www.sinclairhenderson.co.uk</a>
Registrar:	Capita Registrars (To 30 November 2005)	Tel: 0870 162 3100 Fax: 020 8658 3430 <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a>
	Lloyds TSB Registrars (From 1 December 2005)	Tel: 01903 502 541 Fax: 0870 600 3970 <a href="http://www.shareview.com">www.shareview.com</a>
Investment Manager:	Chelverton Asset Management Limited	Tel: 01225 483 030 Fax: 01225 338 046 <a href="http://www.chelvertonam.com">www.chelvertonam.com</a>

Postal address details are shown on page 11.

### Sources of further information

The Company's share price is listed in the Financial Times under "Investment Companies".

### Key dates

August	Company year end
October	Annual results
December	AGM
April	Interim results

### Frequency of NAV Publication

The Company's net asset value is released to the Stock Exchange monthly.

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## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Chelverton Growth Trust PLC will be held at the offices of Maclay Murray & Spens, 12th Floor, One London Wall, London EC2Y 5AB at 12 noon on Tuesday 13 December 2005 for the following purposes:

### Ordinary business

1. To receive and adopt the accounts for the year ended 31 August 2005, together with the Reports of the Directors and Independent Auditors thereon.
2. To receive and if thought fit, to accept the Directors' remuneration report for the year ended 31 August 2005.
3. To re-elect Mr K J Allen as a Director of the Company.
4. To re-appoint Ernst & Young LLP as Auditors to the Company, to hold office from the conclusion of this Meeting until the next Annual General Meeting, and to authorise the Directors to determine their remuneration.

### Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions.

5. THAT the Directors be empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) pursuant to the authority granted at the Annual General Meeting held on 14 December 2004 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power be limited to the allotment of equity securities (including any issue (other than to an employee share scheme) of shares for cash out of treasury) up to an aggregate nominal amount of £18,141 and shall expire on the date which is fifteen months after the date of passing of this resolution or the conclusion of the next Annual General Meeting of the Company, whichever is the earlier, save that the Company may, before the expiry of such power, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.
6. THAT, subject to the passing of Resolution 5 above, the Company be authorised, for the purposes of paragraph 21.21 of the Listing Rules of the United Kingdom Listing Authority, to issue Ordinary shares of 1p each in the Capital of the Company at a price below net asset value per share of the existing Ordinary shares in issue provided always that such issue shall be limited to:
  - i) up to an aggregate nominal amount of £18,141.
  - ii) the sale of shares which, immediately before such sale, were held by the Company as treasury shares.

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## Notice of Annual General Meeting (continued)

7. THAT the Company is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 (“the Act”) to renew its authority to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary shares of 1p each in the capital of the Company (“Ordinary shares”), provided that:
- (i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 2,719,476 (or, if less, 14.99% of the issued Ordinary share capital immediately following the passing of this resolution);
  - (ii) the minimum price which may be paid for each Ordinary share is 1p;
  - (iii) the maximum price which may be paid for each Ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105 per cent. of the average of the middle market quotations for Ordinary shares taken from London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the contract of purchase is made;
  - (iv) this authority will (unless renewed) expire at the conclusion of the next Annual General Meeting of the Company held after the date on which this resolution is passed or, if earlier, fifteen months after that date; and
  - (v) the Company may make a contract to purchase Ordinary shares under the authority conferred by this resolution before this authority expires, such contract which will or may be executed wholly or partly after the expiry of this authority.

Registered Office:  
23 Cathedral Yard  
Exeter EX1 1HB

By Order of the Board  
**Sinclair Henderson Limited**  
Secretary  
19 October 2005

### NOTES:

1. *A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.*
2. *A form of proxy is attached for use in connection with the business set out above. This form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, to reach the Registrars at the address printed on the form of proxy not later than 6 pm on 11 December 2005.*
3. *The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 11 December 2005 shall be entitled to attend or vote at the aforesaid 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 6 pm on 11 December 2005 ('the specified time') shall be disregarded in determining the rights of any person to attend or vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned Meeting, or if the Company gives notice of the adjourned Meeting, at the time specified in that notice.*
4. *Shareholders (and any parties or representatives they appoint) agree, by attending this Meeting, that they are expressly requesting that they are willing to receive any communications (including communications relating to the Company's securities) made at the meeting.*
5. *The Articles of Association and register of Directors' interests in the Ordinary Shares of the Company will be available for inspection at the Registered Office of the Company during normal business hours (Saturdays and Public Holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting.*

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## Notes





## Form of proxy

For use at the Annual General Meeting of Chelverton Growth Trust PLC

I/We (Block Capitals please) .....

a member/members of Chelverton Growth Trust PLC (“the Company”), hereby appoint the Chairman of the Meeting/

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Maclay Murray & Spens, 12th Floor, One London Wall, London EC2Y 5AB at 12 noon on Tuesday 13 December 2005, and at any adjournment thereof.

Signature .....

Date ..... 2005

Please indicate with an X in the spaces below how you wish your votes to be cast.

		FOR	AGAINST
<b>RESOLUTION 1</b>	To adopt the accounts for the year ended 31 August 2005, together with the Reports of the Directors and Independent Auditors thereon.		
<b>RESOLUTION 2</b>	To receive and accept the Directors’ remuneration report.		
<b>RESOLUTION 3</b>	To re-elect Mr K J Allen as a Director of the Company.		
<b>RESOLUTION 4</b>	To re-appoint Ernst & Young LLP as Auditors to the Company, and to authorise the Directors to determine their remuneration.		
<b>RESOLUTION 5</b>	To authorise the Directors to allot shares other than in accordance with statutory pre-emption rights.		
<b>RESOLUTION 6</b>	To authorise the Directors to issue shares previously held in treasury at a discount to net asset value.		
<b>RESOLUTION 7</b>	To authorise the Company to renew its authority to make market purchases of its Ordinary shares.		

**NOTES:**

1. A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words ‘the Chairman of the Meeting’ and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, the Chairman will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company’s Registrars on the proxy form not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.

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Proxy Department  
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