

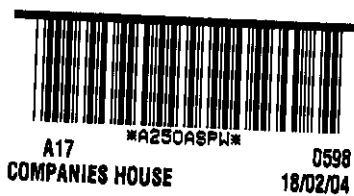
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# CHELVERTON GROWTH TRUST PLC

## Annual Report

for the year ended 31 August 2003



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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 13 for further details.
Total net assets	£6,136,000 as at 31 August 2003
Market capitalisation	£4,060,000 as at 31 August 2003
Capital structure	18,883,045 Ordinary 1p shares
Wind-up date	November 2009
PEP/ISA status	The Company is fully eligible for inclusion in PEPs and ISAs
AITC	The Company is a member of the Association of Investment Trust Companies

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## Performance statistics

	Year ended 31 August 2003	Year ended 31 August 2002
Net assets	£6,136,000	£5,151,000
Net asset value per share	32.49p	27.28p
FTSE All-Share Index	2,064.74	2,046.21
Share price	21.50p	20.00p
Discount to net asset value	(33.83)%	(26.69)%
Revenue return after taxation	(£188,000)	(£166,000)
Revenue return per share	(0.99)p	(0.88)p
Capital return per share	6.21p	(6.24)p
Cost of running the trust	5.79%	6.43%

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## **Chairman's statement**

As indicated in the Manager's overview on page 4, this has been a tumultuous year. During the first seven months to the end of March this year, the net asset value fell from an opening value of 27.28p to 20.45p, a decline of 25%. Over the following five months to the year-end of August 2003 it rose to 32.49p an increase of 58.9%. Over the twelve months to the year-end the net asset value rose 19.1% and over the same period the FTSE All-Share Index, your Company's benchmark, rose 0.9%.

Since the year-end your Company's net asset value has risen to 33.68p at 30 September 2003 – a further 3.7% rise as compared to a decline of 1.8% in the FTSE All-Share Index.

Over the last five years the global equity markets have been exceptionally unsettled. As outlined above, this was clearly evidenced with the extreme volatility within the last year. The war in Afghanistan in 2002 and the threat of a worldwide recession, compounded in 2002/2003 both by the threat and then the actual war with Iraq, caused considerable international uncertainty. This produced a downward spiral in investor confidence and resulted in falling equity markets, particularly in the USA and Europe.

The FTSE 100 Index stood at 6,930.2 on 30 December 1999 and by the end of March 2003 it had fallen to 3,613.3 with many "experts" expecting the 3,000 level to be tested. This, however, proved to be the bottom of the trading range and with the positive news on the outcome of hostilities in Iraq, signalled a return of investors to equity markets. The recovery, encouragingly, has been most notable in the smaller companies sector.

The high discount of the share price to the net asset value per share remains a concern to the Board and the Manager. The Company continues to seek opportunities to exercise its share buy-back powers, and will renew this authority at the forthcoming Annual General Meeting. The Company may cancel these shares or hold them in treasury when the appropriate legislation becomes effective.

During the year the Directors purchased 20,000 shares in the Company and David Horner, the Manager, increased his holding to 681,368 (3.6%) with the purchase of an additional 40,000 shares.

With the apparent recovery in the United States and the avoidance of world-wide deflation there is an expectation for a return to growth in the coming year. This will be of great benefit to quality small companies, and while we cannot rule out volatility, we look forward to another year of progress.

**Pratt Thompson**

Chairman

*28 October 2003*

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## **Manager's overview**

### **Market review**

The past twelve months could be likened to a football match – a game of two halves: the first period, one of doom and gloom with prices seemingly in freefall, economic uncertainty and the prospect of recession leading to the lowest interest rates seen for decades. The second period, following the resolution of the Iraq conflict – one of returning confidence, rising markets, talk of interest rate rises and the possible re-emergence of inflationary pressures.

The rise in the markets over the past six months has been led by the smaller companies sector as it dawned on institutional and private investors alike that tremendous potential was available in this area of the market. Further investigation will reveal to such investors that there are also excellent growth opportunities in smaller companies which should, in a period of low inflation and low growth, exceed the growth potential of the larger companies.

Surprisingly there has been relatively little corporate activity, with the venture capital funds remaining on the sidelines through this period of significantly low values. In time, as confidence hardens, it is likely that the small quoted sector will recover and move forward as profitability is highly responsive to changes in economic activity.

Although markets have risen considerably, it is to be hoped, and expected, that there will not be a return to the excesses seen during the TMT bubble period. However, it is interesting to note that some technology shares have shown very large percentage increases over the past six months, as some investors appear to have forgotten the lessons of the past three years.

### **Portfolio review**

Over the past year, entire shareholdings have been disposed of in: Ennstone; Genus; Hot Group; Protec; and Austin Reed. Jamies Bars was subject to an all share offer by Hartford Group and remains in a recovery situation. Our investment in Music Minutes of £50,000 was written off, as the company was unable to convert considerable interest in the product to a firm contract.

As ever, opportunities were taken to sell shares into market demand and we consequently reduced our holdings in Bioquell, Howle Holdings, LPA Group, Stanley Gibbons and GX Networks.

GX Networks is one of our newest investments and is an alternative provider of telecom services to small and medium enterprises. The first investment was made in October 2002, backing a management team whose objective is to act as a consolidator of companies that lack critical mass. The strategy is to acquire a customer base and to eliminate all possible overhead costs and achieve greater utilisation of its own hardware. Since the initial transaction, five more acquisitions have been made thus considerably increasing the size of the company. Chelverton made a further investment to finance the first of these additional acquisitions. With an average cost price of 2.04p disposals have been made at between 5p and 6.85p per share.

Additional investments were made in Dinkie Heel, Locker Group, Clipper Ventures, Oasis Healthcare, Transport Systems, Capcon and i-document systems. These are situations where the shares have fallen back but we consider that the opportunity remains extremely interesting.

Oasis Healthcare is a "buy and build" dental practice group in whom we acquired a small shareholding on flotation at 25p. After a strong rise in the shares we reduced our holding at 46p. After two strategically important acquisitions, which propelled Oasis to be the largest operator in the sector, the shares sank remorselessly to 12p. Chelverton then acquired almost double the number of shares it had originally sold and we have been pleased to see the shares rise to 30p at the year-end.

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## **Manager's overview** (continued)

Our larger investments continue to do well with Merrydown, the producer of *Schloer* and *Merrydown Vintage Cider*, continuing its strong development and, at 72.5p at the year-end, representing our largest investment. Given that the directors intend to buy-back up to 10% of the shares and the company is still only capitalised at £18m, there remains considerable potential. Auto Indemnity, a supplier of non-fault accident management services, has made significant progress in the year and has positioned itself for some significant growth in the next few years. Bioquell, a supplier of bio-decontamination services and equipment, has been developing its products so that they can be easily supplied to hospitals, pharmaceutical companies and food processing plants. The growing concern about the progress of *MRSA* and *VRSA*, the so-called Super Bugs, is creating a significant market opportunity.

### **Outlook**

The recent strong recovery in the stock market led by the small company sector is most encouraging. Given the fact that it is highly leveraged to economic performance, the anticipated upturn in World business confidence and, of greater importance, UK economic growth should act as a significant boost to our investments.

The continuing low inflation, low interest rate and high employment environment coupled with large increases in consumer and public expenditure should ensure that the low growth of the past few years is improved upon in the future.

It is also becoming evident that investors and legislators are attempting to address the issues of small quoted companies: to assist these companies in improving the liquidity of their markets and to make the best companies more accessible to all investors.

**David Horner**

Chelverton Asset Management Ltd

28 October 2003

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## Portfolio review

The Group's portfolio as at 31 August 2003 is set out below in chronological order by date of investment.

Investment	Sector	Valuation £'000	% of total
<i>Quoted</i>			
<b>Merrydown</b> Maker of Schloer fruit drinks and Merrydown cider	Beverages	921	13.2
<b>Bioquell</b> Manufacture and supply of healthcare equipment and related products and services	Health	508	7.3
<b>Dinkie Heel</b> Manufacture and supply of components to the footwear industry and specialist rubber components for personal protection	Household Goods & Textiles	82	1.2
<b>Howle Holdings</b> Manufacture of engineers' cutting tools and hard-wearing tungsten carbide products	Engineering & Machinery	133	1.9
<b>Metrodome</b> DVD and video distributor, specialising in the family entertainment arena	Media & Entertainment	35	0.5
<b>Newmark Security Group</b> Electronic access control products and asset tagging products	Support Services	92	1.3
<b>Springhealth Leisure</b> Management of health clubs and related businesses in the leisure sector	Leisure & Hotels	108	1.6
<b>LPA Group</b> Design, manufacture and marketing of industrial electrical accessories	Electronic & Electrical Equipment	43	0.6
<b>Hartest Holdings</b> Manufacture and sale of specialist healthcare equipment and supplies to users of electron microscopes	Engineering & Machinery	239	3.4
<b>Clipper Ventures</b> The running of round-the-world yacht races	Leisure & Hotels	123	1.8
<b>Hartford Group</b> Owner and operator of bars and restaurants in London	Leisure & Hotels	261	3.8
<b>Auto Indemnity</b> The provision of non-fault accident management services	Support Services	724	10.4
<b>Pennant International</b> Delivery of integrated logistic support solutions	Support Services	96	1.4
<b>Oasis Healthcare</b> Dental practices group	Health	390	5.6
<b>Madisons Coffee</b> Owner and operator of speciality coffee bars and the Richoux restaurants	Food & Drug Retailers	80	1.1

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**Portfolio review** (continued)

as at 31 August 2003

<b>Investment</b>	<b>Sector</b>	<b>Valuation £'000</b>	<b>% of total</b>
<i>Quoted</i>			
<b>Universe</b> Provision of credit card fraud prevention system, money exchange and money transfer	Support Services	188	2.7
<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	207	3.0
<b>AWG Services</b> Cash shell	Leisure & Hotels	55	0.8
<b>Transport Systems</b> Supply of traffic management services	Transport	385	5.5
<b>Belgravium Technologies</b> Software systems for warehousing and distribution	Information Technology Hardware	173	2.5
<b>Stanley Gibbons</b> Operates the stamp collecting business of Stanley Gibbons, through retail, mail order and the internet	General Retailers	193	2.8
<b>Capcon</b> The provision of audit and stocktaking, and commercial investigation services	Speciality & Other Finance	171	2.5
<b>I-document Systems</b> Software company specialising in the development of products for document and information management	Software & Computer Services	342	4.9
<b>K3 Business Technology</b> Supply and maintenance of software systems	Software & Computer Services	79	1.1
<b>GX Networks</b> Supply of telecommunication services	Telecommunication Services	817	11.7

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**Portfolio review** (continued)

as at 31 August 2003

<b>Investment</b>	<b>Sector</b>	<b>Valuation £'000</b>	<b>% of total</b>
<i>Unquoted</i>			
<b>Locker Holdings</b> Manufacturer of specialised mechanical handling equipment, filtration equipment, woven wire, wire products and perforated metal products	Engineering & Machinery	293	4.3
<b>Chelverton Asset Management</b> Manager of Chelverton Growth Trust, Small Companies Dividend Trust and Premier UK Smaller Companies Unit Trust	Fund Management	211	3.0
<b>Wineworld</b> Management of Vinopolis, a London based venue encompassing wine tasting, retail stores, restaurants and corporate hospitality	Leisure & Hotels	9	0.1
<b>Portfolio valuation</b>		<b>6,958</b>	<b>100.0</b>

All the above investments are in Ordinary shares which are listed, or traded on the Alternative Investment Market, except Locker, Chelverton Asset Management and Wineworld, which are unquoted. Locker is in the portfolio top ten by market value and its cost to the Group was £274,000. Locker was incorporated this year and is due to file its results in 2004.

During this period the shareholdings in Ennstone, Protec, Hot Group, Austin Reed and Genus have been sold and the investment in Music Minutes has been written off.

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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) 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** 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** 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 recently retired as non-executive Chairman of Alfred McAlpine PLC.

**Bryan Lenygon** 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 Chairman of Finsbury Technology Trust PLC. He is also 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

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

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 Exeter Investment Group plc.

### **Registrar and Transfer Office**

Capita Registrars  
The Registry  
34 Beckenham Road  
Kent BR3 4TU

### **Stockbrokers**

Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London EC4N 8EL

### **Bankers**

Lloyds TSB Bank Plc 25 Gresham Street London EC2V 7HN	HSBC Bank Plc Mariner House, Pepys Street, London EC3N 4DA
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### **Auditors**

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

### **Solicitors**

The City Law Partnership  
99 Charterhouse Street  
London EC1M 6NQ

A member of the Association of Investment Trust Companies. An investment company as defined under Sections 265 and 266 of the Companies Act 1985.

REGISTERED IN ENGLAND No. 2989519

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## Report of the Directors

The Directors present their report and audited financial statements for the year ended 31 August 2003.

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.

### 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 2002. It has subsequently directed its affairs so as to enable it to continue to receive such approval. In accordance with the provisions of Section 265 and 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 in the year under review is given in the Chairman's statement on page 3 and the Manager's overview on pages 4 to 5.

### Results and dividend

The results for the year and the proposed transfer from revenue reserves are set out in the consolidated statement of total return on page 23.

The Directors do not recommend a dividend for the year.

### Directors

The Directors in office during the year are shown below:

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

Sir Terence Harrison will retire at the Annual General Meeting in accordance with the terms of the Articles of Association and, being eligible, will offer himself for re-election.

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.

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## Report of the Directors (continued)

### 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 2003	At 31 August 2002
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	42,411

There have been no changes to any of the above holdings between 31 August 2003 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	11.59
G E Stevens	1,768,110	9.36
M M Brooks	1,312,500	6.95
Wallbrook Trustees (Jersey) Ltd	1,205,570	6.38
MJD Abell and Family	950,000	5.03
Geared Income Investment Trust	699,231	3.70
D A Homer	681,368	3.61

### Management and administration agreements

The Company's investments are managed by Chelverton Asset Management Limited ("CAM") under an agreement dated 31 August 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 1/6% per month of the gross value of funds under management ("the Value");
- (ii) for the next £15 million of funds under management above £15 million, at the rate of 1/6% 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 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.

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## Report of the Directors (continued)

Under an agreement dated 31 August 2001, company secretarial services and the general administration of the Company are undertaken by Sinclair Henderson Limited. Its 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 the Secretary. The agreement may be terminated by either party giving to the other not less than twelve months' notice at any time.

### **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 2003 all suppliers' invoices received had been settled.

### **Corporate Governance – Statement of Compliance with the Combined Code (“Code”)**

The Directors have reviewed the principles outlined in the Code and believe that, insofar as they are relevant to the Company's business, they have complied with the provisions of the Code during the year ended 31 August 2003, subject to the exceptions explained below and its special status as an investment trust.

The Board has noted the contents of the revised Combined Code on Corporate Governance issued by The Financial Reporting Council in July 2003. The Board will be taking steps to ensure it is in an appropriate position to report on compliance with the revised Combined Code following the effective date, for accounting periods on or after 1 November 2003.

As an investment trust, the Company has also noted The AITC Code on Corporate Governance recently published by the Association of Investment Trust Companies and intends to report on compliance in its Annual Report for the year ended 31 August 2004.

### *Board of Directors*

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. All the Directors are fully independent of the Investment Manager. 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.2.1 but it is felt to be appropriate given the size and nature of the Company. 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 Board also has direct access to the advice of the Company Secretary, which is responsible for ensuring the 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 in each year. In order to comply with the Code, the Directors have adopted a policy providing for each Director to be put forward for election by shareholders at least every three years.

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

### *Supply of information*

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. Frequent contact is maintained with the Investment Manager between formal meetings. The Board is responsible for the investment policy and operations of the Company and a formal schedule of matters specifically reserved for the Board's approval was adopted in November 2001.

### *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.

The Audit Committee operates within clearly defined terms of reference and 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 periodically.

The Management Engagement Committee is responsible for reviewing the terms of the Investment Manager's contract and meets when required.

The Nomination Committee considers the appointment and re-appointment of Directors and meets as and when required.

The Board has not appointed a Remuneration Committee as recommended by the Code because the Company has no executive Directors or senior executives as the management of the Company is carried out by CAM under the management agreement.

Remuneration details are given in note 5 to the financial statements. At 31 August 2003 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company.

### *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.

### *Internal Controls*

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

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## Report of the Directors (continued)

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;
- 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.

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## Report of the Directors (continued)

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.

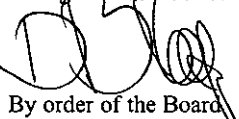
### Annual General Meeting

The Notice of Annual General Meeting is set out on pages 43 and 44. 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.

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 when the appropriate legislation becomes effective. This power will be exercised only if, in the opinion of the Directors, a purchase would be in the interests of shareholders as a whole.

### 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 Auditor to the Company.



By order of the Board

**Sinclair Henderson Limited**

Secretary

28 October 2003

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## **Directors' remuneration report**

The Board has prepared this report, in accordance with the requirements of the Schedule 7A to the Companies Act 1985, which applies for the first time for this financial year. 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 21 and 22.

### **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. It is intended that this policy will continue for the year ended 31 August 2004.

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 performance**

The graph below compares the return to Ordinary shareholders compared to the 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)

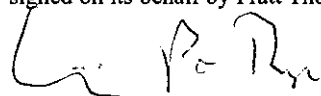
### Directors' emoluments for the year (audited)

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

	2003	2002
W P Thompson	25,000	22,000
K J Allen	20,000	17,000
Sir Terence Harrison	20,000	17,000
B N Lenygon	20,000	17,000

### Approval

The Directors' remuneration report on pages 18 to 19 was approved by the Board of Directors on 28 October 2003 and signed on its behalf by Pratt Thompson (Chairman).



**Pratt Thompson**

Chairman

28 October 2003

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

Company law requires the Directors to prepare financial statements 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 financial statements, 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 financial statements.

The Directors have confirmed that the financial statements comply with the above requirements.

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 financial statements 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 financial statements are published on [www.exeter.co.uk](http://www.exeter.co.uk), which is a website maintained by the Group's 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 financial statements 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 financial statements 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 Group's accounts for the year ended 31 August 2003 which comprise Consolidated statement of total return, Consolidated balance sheet, Company balance sheet, Consolidated statement of cash flows and the related notes 1 to 24. 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 and 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 respect of the accounts.

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 Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 Group'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 Report of the Directors, unaudited part of the Directors' remuneration report, Chairman's statement and the Manager's overview. 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.

### **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 Group's circumstances, consistently applied and adequately disclosed.

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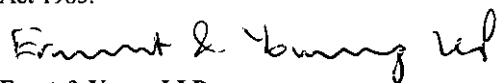
## **Independent Auditors' report** (continued)

To the members of Chelverton Growth Trust PLC

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 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 and of the Group as at 31 August 2003 and of the net revenue and total return of the Group 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

28 October 2003

## Consolidated statement of total return

(incorporating the revenue account\*) of the Group

for the year ended 31 August 2003

	Notes	2003			2002		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	10	–	1,315	1,315	–	(1,017)	(1,017)
Income	2	65	–	65	85	–	85
Investment management fee	3	(32)	(95)	(127)	(32)	(95)	(127)
Other expenses	4	(211)	(17)	(228)	(200)	(4)	(204)
<b>Net return before finance costs and taxation</b>		<b>(178)</b>	<b>1,203</b>	<b>1,025</b>	<b>(147)</b>	<b>(1,116)</b>	<b>(1,263)</b>
Interest payable	6	(10)	(30)	(40)	(19)	(58)	(77)
<b>Return on ordinary activities before taxation</b>		<b>(188)</b>	<b>1,173</b>	<b>985</b>	<b>(166)</b>	<b>(1,174)</b>	<b>(1,340)</b>
Taxation on ordinary activities	7	–	–	–	–	–	–
<b>Return on ordinary activities after taxation</b>		<b>(188)</b>	<b>1,173</b>	<b>985</b>	<b>(166)</b>	<b>(1,174)</b>	<b>(1,340)</b>
Dividends in respect of equity shares		–	–	–	–	–	–
<b>Transfer (from)/to reserves</b>		<b>(188)</b>	<b>1,173</b>	<b>985</b>	<b>(166)</b>	<b>(1,174)</b>	<b>(1,340)</b>
		<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
		<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
<b>Return per Ordinary share</b>	9	<b>(0.99)</b>	<b>6.21</b>	<b>5.22</b>	<b>(0.88)</b>	<b>(6.24)</b>	<b>(7.12)</b>

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

The notes on pages 27 to 41 form part of these financial statements.



## Company balance sheet

as at 31 August 2003

	Notes	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Investments	10	6,958	5,755
Investment in subsidiary undertakings	12	<u>27</u>	<u>320</u>
		6,985	6,075
<b>Current assets</b>			
Debtors	13	14	127
Cash at bank		<u>103</u>	<u>61</u>
		<u>117</u>	<u>188</u>
<b>Creditors – amounts falling due within one year</b>			
Creditors	14	<u>966</u>	<u>1,112</u>
<b>Net current liabilities</b>		<u>(849)</u>	<u>(924)</u>
<b>Net assets</b>		<u>6,136</u>	<u>5,151</u>
<b>Share capital and reserves</b>			
Called up share capital	15	189	189
Share premium account	16	2,674	2,674
Capital reserve – realised	16	(913)	(357)
– unrealised	16	(165)	(1,889)
Revenue reserve	16	<u>4,351</u>	<u>4,534</u>
<b>Shareholders' funds</b>	17	<u>6,136</u>	<u>5,151</u>

The notes on pages 27 to 41 form part of these financial statements.

These accounts were approved and signed by the Board of Directors on 28 October 2003.



**Pratt Thompson**  
*Chairman*

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## Consolidated statement of cash flows

for the year ended 31 August 2003

	Notes	2003 £'000	2002 £'000
<b>Operating activities</b>			
Investment income received		65	76
Deposit interest received		2	5
Investment management fees paid		(138)	(117)
Secretarial fees paid		(44)	(44)
Other cash payments		<u>(183)</u>	<u>(226)</u>
<b>Net cash outflow from operating activities</b>	18	<u>(298)</u>	<u>(306)</u>
<b>Servicing of finance</b>			
Interest paid		<u>(40)</u>	<u>(78)</u>
<b>Net cash outflow from servicing of finance</b>		<u>(40)</u>	<u>(78)</u>
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(944)	(768)
Sales of investments		1,056	1,750
Acquisition costs		<u>—</u>	<u>(274)</u>
<b>Net cash inflow from capital expenditure and financial investment</b>		<u>112</u>	<u>708</u>
<b>Net cash (outflow)/inflow</b>		<u>(226)</u>	<u>324</u>
<b>(Decrease)/increase in cash</b>	19	<u>(226)</u>	<u>324</u>

The notes on pages 27 to 41 form part of these financial statements.

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## Notes to the accounts

as at 31 August 2003

### 1 ACCOUNTING POLICIES

#### Accounting convention

The financial statements 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 1995 Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies. All the Company's activities are continuing.

#### Basis of consolidation

The financial statements comprise the audited financial statements of the Company and its subsidiary drawn up to the same accounting date. No revenue account is presented for the parent company as permitted by Section 230 of the Companies Act 1985.

#### Income recognition

Dividends receivable on quoted equity shares are included in the financial statements 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. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. 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 2003

### 1 ACCOUNTING POLICIES (continued)

#### Investment in subsidiary

The Company's investment in its subsidiary undertaking, The Micro Quoted Growth Trust plc ("MQGT") is shown in the balance sheet of the Company at net asset value. The difference between the net asset value of MQGT, before the write-off of amounts owed to and from its subsidiary, and the original cost of the investment is treated as unrealised depreciation and is taken to the unrealised capital reserve of the Company.

#### 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 2003

2 INCOME	2003	2002
	£'000	£'000
<b>Income from investments</b>		
Dividends from UK companies	65	78
Unfranked investment income	(2)	2
	<u>63</u>	<u>80</u>
<b>Other income</b>		
Bank interest receivable	2	5
	<u>2</u>	<u>5</u>
<b>Total income</b>	<u>65</u>	<u>85</u>
Total income comprises:		
Dividends	65	78
Interest	-	7
	<u>65</u>	<u>85</u>

3 INVESTMENT MANAGEMENT FEE	2003			2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	27	81	108	27	81	108
Irrecoverable VAT thereon	5	14	19	5	14	19
	<u>32</u>	<u>95</u>	<u>127</u>	<u>32</u>	<u>95</u>	<u>127</u>

The investment management fee is calculated at the rate of 1/8% per month of the gross asset value of the Group and is payable monthly in arrears. At 31 August 2003 there was £13,000 outstanding (2002: £24,000).

## Notes to the accounts (continued)

as at 31 August 2003

### 4 OTHER EXPENSES

	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Administrative and secretarial services	44	–	44	40	–	40
Directors' remuneration	85	–	85	73	–	73
Auditors' remuneration:						
audit services	12	–	12	14	–	14
non audit services	–	–	–	–	–	–
Reorganisation expenses	–	(2)	(2)	–	4	4
Liquidators fees	–	19	19	–	–	–
Other expenses	70	–	70	73	–	73
	<u>211</u>	<u>17</u>	<u>228</u>	<u>200</u>	<u>4</u>	<u>204</u>

### 5 DIRECTORS' REMUNERATION

	2003	2002
	£'000	£'000
Remuneration to Directors:		
W P Thompson (Chairman)	25	22
K J Allen	20	17
Sir Terence Harrison	20	17
B N Lenygon	20	17
Total remuneration	<u>85</u>	<u>73</u>

### 6 INTEREST PAYABLE

	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
On bank overdraft	10	30	40	19	58	77

## Notes to the accounts (continued)

as at 31 August 2003

7 TAXATION	2003	2002
	£'000	£'000
<b>Analysis of charge in period</b>		
Current tax:		
Corporation tax	—	—
	—	—

### 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:

	2003	2002
	£'000	£'000
Loss on ordinary activities before taxation	(188)	(166)
Corporation tax at 30%	(56)	(50)
UK dividend income not taxable	(19)	(23)
Deductible expenses charged to capital	(38)	(46)
Excess expenses for the period	113	119
Current tax charge for the period	—	—

At 31 August 2003 the Company had surplus management expenses of £1,247,000 (2002: £869,000) 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.

## 8 NET REVENUE FOR THE YEAR

The net revenue of the year dealt with in the accounts of the parent company was a deficit of £183,000 (2002: £177,000).

## Notes to the accounts (continued)

as at 31 August 2003

### 9 RETURN PER ORDINARY SHARE

	2003			2002		
	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Basic	<b>(0.99)</b>	<b>6.21</b>	<b>5.22</b>	<b>(0.88)</b>	<b>(6.24)</b>	<b>(7.12)</b>

Revenue return per Ordinary share is based on the net revenue loss on ordinary activities after taxation attributable to members of the parent company of £188,000 (2002: £166,000) and on 18,883,045 (2002: 18,825,093) 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 attributable to members of the parent company of £1,173,000 (2002: capital losses of £1,174,000) and on 18,883,045 (2002: 18,825,093) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

### 10 INVESTMENTS

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Listed	<b>1,604</b>	<b>1,604</b>	1,930	1,930
AIM	<b>4,841</b>	<b>4,841</b>	3,385	3,385
Unlisted	<b>513</b>	<b>513</b>	440	440
	<b>6,958</b>	<b>6,958</b>	5,755	5,755
<b>Group</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	2,494	4,023	1,094	7,611
Opening unrealised depreciation	(564)	(638)	(654)	(1,856)
	1,930	3,385	440	5,755
Movements in the year:				
Purchases at cost	150	1,060	88	1,298
Sales:				
Proceeds	(789)	(572)	(49)	(1,410)
Realised gains/(losses) on sales	54	(119)	(450)	(515)
Decrease in unrealised depreciation	217	1,129	484	1,830
Closing valuation	<b>1,562</b>	<b>4,883</b>	<b>513</b>	<b>6,958</b>
Closing book cost	1,909	4,392	683	6,984
Closing unrealised (depreciation)/appreciation	(347)	491	(170)	(26)
	<b>1,562</b>	<b>4,883</b>	<b>513</b>	<b>6,958</b>

## Notes to the accounts (continued)

as at 31 August 2003

### 10 INVESTMENTS (continued)

Company	Listed	AIM	Unlisted	Total
	£'000	£'000	£'000	£'000
Opening book cost	2,230	3,815	985	7,030
Opening unrealised depreciation	(300)	(430)	(545)	(1,275)
	1,930	3,385	440	5,755
Movements in the year:				
Purchases at cost	150	1,003	39	1,192
Sales:				
Proceeds	(789)	(515)	–	(1,304)
Realised gains/(losses) on sales	41	(22)	(450)	(431)
Decrease in unrealised depreciation	230	1,032	484	1,746
Closing valuation	1,562	4,883	513	6,958
Closing book cost	1,632	4,281	574	6,487
Closing unrealised (depreciation)/appreciation	(70)	602	(61)	471
	1,562	4,883	513	6,958
		2003		2002
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Realised losses on sales	(515)	(431)	(114)	(64)
Decrease/(increase) in unrealised depreciation	1,830	1,746	(903)	(933)
Increase in unrealised depreciation of subsidiary (see note 12)	–	(22)	–	(29)
	1,315	1,293	(1,017)	(1,026)

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## Notes to the accounts (continued)

as at 31 August 2003

### 11 SIGNIFICANT INTERESTS

The Group has 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 Group was £12,500.

Security	Aggregate capital and reserves £	Profit after tax for the year £	Earnings per share pence	Dividend per share pence	Class of share	% held
Chelverton Asset Management	195,441	108,207	216.41	44.00	Ordinary £1	25

A 'put and call' option is 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.

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

Security	Number of shares held	Percentage of Issued Share Capital	Issued Share Capital
Transport Systems, Ord 5p	2,140,000	11.629	18,401,961
Dinkie Heel, Ord 5p	1,570,600	10.000	15,706,056
Locker Holdings, Ord 5p	3,911,982	8.174	47,857,311
Clipper Ventures, Ord 1p	1,073,294	6.246	17,184,724
Merrydown, Ord 25p	1,270,000	5.606	22,652,514
Howle Holdings, Ord 5p	1,470,000	5.064	29,025,759
Auto Indemnity Group, Ord 10p	2,129,979	3.487	61,088,684
Newmark Security Group, Ord 1p	6,666,666	3.159	211,055,018
Capcon Holdings, Ord 1p	287,500	3.114	9,233,776

## Notes to the accounts (continued)

as at 31 August 2003

<b>12 INVESTMENT IN SUBSIDIARY UNDERTAKING</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Opening book cost	934	5,697
Opening unrealised depreciation	(614)	(585)
	<u>320</u>	<u>5,112</u>
Additions at cost	–	54
In specie distributions	–	(4,817)
	<u>320</u>	<u>349</u>
Write-off amounts owed by subsidiary undertaking	(384)	–
Write-off amounts owed to subsidiary undertaking	113	–
Increase in unrealised depreciation	(22)	(29)
	<u>27</u>	<u>320</u>
Valuation at 31 August 2003	<u>27</u>	<u>320</u>
Closing book cost	934	934
Write-off amounts owed by subsidiary undertaking	(384)	–
Write-off amounts owed to subsidiary undertaking	113	–
Closing unrealised depreciation	(636)	(614)
	<u>27</u>	<u>320</u>

Details of the investments in which the Group or Company holds more than 50% of the nominal value of any class of share capital are as follows:

Name of Company	Country of registration	Holding	Proportion of voting rights	Nature of business
MAH Investments Limited†	England & Wales	Ordinary shares	100%	Investment holding company
The Micro Quoted Growth Trust plc†	England & Wales	Ordinary shares	100%	Investment Trust

† In liquidation.

Subsequent to the year end £27,000 was received on 24 October 2003 in relation to the final liquidation of The Micro Quoted Growth Trust plc.

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**Notes to the accounts** (continued)

as at 31 August 2003

	2003		2002	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Accrued income	–	–	3	3
Prepayments and other debtors	10	10	7	7
Dividends receivable	4	4	4	4
Amounts owed by subsidiary undertakings	–	–	–	113
	<b>14</b>	<b>14</b>	<b>14</b>	<b>127</b>

	2003		2002	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Other creditors	54	54	62	59
Bank overdraft	912	912	669	669
Amounts owed to subsidiary undertakings	–	–	–	384
	<b>966</b>	<b>966</b>	<b>731</b>	<b>1,112</b>

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

15 CALLED UP SHARE CAPITAL	2003	2002
	£'000	£'000
Authorised:		
27,000,000 Ordinary shares of 1p each	<b>270</b>	<b>270</b>
Allotted, called up and fully paid:		
18,883,045 Ordinary shares of 1p each	<b>189</b>	<b>189</b>

## Notes to the accounts (continued)

as at 31 August 2003

### 15 CALLED UP SHARE CAPITAL (continued)

#### 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.

Of the shareholder authority granted at the Annual General Meeting on 18 December 2002, there remained an authority to purchase 2,830,568 Ordinary shares at the year end.

### 16 RESERVES

	Share premium £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
<b>Group</b>				
1 September 2002	2,674	(429)	(1,856)	4,573
Net gains on realisation of investments	–	147	–	–
Transfer on disposal of investments	–	(662)	662	–
Decrease in unrealised depreciation	–	–	1,168	–
Costs charged to capital	–	(142)	–	–
Retained net loss for the year	–	–	–	(188)
at 31 August 2003	<b>2,674</b>	<b>(1,086)</b>	<b>(26)</b>	<b>4,385</b>
<b>Company</b>				
1 September 2002	2,674	(357)	(1,889)	4,534
Net gains on realisation of investments	–	91	–	–
Transfer on disposal of investments	–	(522)	522	–
Decrease in unrealised depreciation	–	–	1,202	–
Costs charged to capital	–	(125)	–	–
Retained net loss for the year	–	–	–	(183)
at 31 August 2003	<b>2,674</b>	<b>(913)</b>	<b>(165)</b>	<b>4,351</b>

## Notes to the accounts (continued)

as at 31 August 2003

### 17 RECONCILIATION OF MOVEMENTS

IN SHAREHOLDERS' FUNDS	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Revenue reserve</b>				
Loss attributable to Ordinary shareholders	(188)	(183)	(166)	(176)
Recognised gains/(losses) for the year	1,173	1,168	(1,174)	(1,164)
Issue of share capital	-	-	7	7
Premium on issue of share capital	-	-	236	236
Net addition/(depletion) to shareholders funds	985	985	(1,097)	(1,097)
Opening shareholders' funds	5,151	5,151	6,248	6,248
Closing shareholders' funds	6,136	6,136	5,151	5,151

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

	2003 £'000	2002 £'000
Net loss before finance costs and taxation	(178)	(147)
Expenses charged to capital	(112)	(99)
Decrease in creditors and accruals	(8)	(48)
Increase in prepayments and accrued income	-	(12)
	<u>(298)</u>	<u>(306)</u>

### 19 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	2003 £'000	2002 £'000
Net debt at 1 September 2002	(556)	(880)
Net cash (outflow)/inflow	<u>(226)</u>	<u>324</u>
Net debt at 31 August 2003	<u>(782)</u>	<u>(556)</u>

### 20 RECONCILIATION OF NET CASH FLOW TO NET DEBT

	At 1 September 2002	Cash flows	At 31 August 2003
Cash at bank	113	17	130
Bank overdraft	(669)	(243)	(912)
	<u>(556)</u>	<u>(226)</u>	<u>(782)</u>

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## Notes to the accounts (continued)

as at 31 August 2003

### 21 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per Ordinary share is based on net assets of £6,136,000 (2002: £5,151,000) and on 18,883,045 (2002: 18,883,045) Ordinary shares, being the number of shares in issue at the year end.

### 22 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 August 2003 there were no contingent liabilities (2002: £nil).

### 23 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 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

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 2003, the Company had an overdraft of £912,000 and an available overdraft facility of £2,500,000. At 30 September 2003 the Company's available overdraft facility was reduced to £1,500,000 at the option of the Manager. The overdraft facility available would be sufficient to meet any funding commitments that might arise.

## Notes to the accounts (continued)

as at 31 August 2003

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

#### (iii) Interest rate risk

As at 31 August 2003 the Company had an overdraft facility with Lloyds TSB Bank plc of £2,500,000 bearing interest at 1% over the Bank's base rate (currently 4.5% per annum). At the year end the Company had drawn-down £912,000. At 30 September 2003 the Company's available overdraft facility was reduced to £1,500,000 at the option of the Manager.

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 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 Group's financial assets is:

	Financial assets on which no		Floating rate financial
	Total	interest is paid	assets
31 August 2003	£'000	£'000	£'000
Equity shares	6,958	6,958	–
Cash and debtors	144	14	130
	<u>7,102</u>	<u>6,972</u>	<u>130</u>

	Financial assets on which no		Floating rate financial	Fixed rate financial	Interest	Years
	Total	interest is paid	assets	assets	rate	to
31 August 2002	£'000	£'000	£'000	£'000	%	maturity
Equity shares	5,730	5,730	–	–	–	–
Loan stock	25	–	–	25	10	0.25
Cash and debtors	127	14	113	–	–	–
	<u>5,882</u>	<u>5,744</u>	<u>113</u>	<u>25</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 14. 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 (currently 4.5% per annum).

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**Notes to the accounts** (continued)

as at 31 August 2003

**23 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES** (continued)**Fair values of financial assets and financial liabilities**

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

**24 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 13 and in note 3 to the financial statements. 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 11).

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## Shareholder information

### Contact details

Company Secretary:	Sinclair Henderson Limited	Tel: 01392 412122 Fax: 01392 253282
Registrar:	Capita Registrars	Tel: 0870 162 3100 Fax: 020 8658 3430 E-mail: <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a>
Investment Manager:	Chelverton Asset Management Limited	Tel: 01225 483 030 Fax: 01225 338 046 E-mail: <a href="mailto:chelverton@fastnet.co.uk">chelverton@fastnet.co.uk</a>

### 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 The City Law Partnership, 99 Charterhouse Street, London EC1M 6NQ at 12 noon on 16 December 2003 for the following purposes:

### Ordinary business

1. To receive and adopt the accounts for the year ended 31 August 2003, 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 2003.
3. To re-elect Sir Terence Harrison 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 of which Resolution 5 will be proposed as an ordinary resolution and Resolutions 6 and 7 will be proposed as special resolutions.

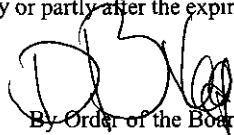
5. THAT the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregated nominal amount of £18,183 such authority to expire on 16 December 2008, save that the Company may, before the expiry of such authority, make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.
6. THAT subject to the passing of resolution 5 set out in the notice convening this meeting ("the Resolution") 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 conferred by resolution 5 above 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 £18,183, at a price not less than the Net Asset Value per share 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.
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 2,725,753 (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;

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## Notice of Annual General Meeting (continued)

- (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 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  
28 October 2003

### 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 14 December 2003.*
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 14 December 2003 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 14 December 2003 ('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.*

## 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 The City Law Partnership, 99 Charterhouse Street, London EC1M 6NQ at 12 noon on 16 December 2003, and at any adjournment thereof.

Signature .....

Date ..... 2003

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 2003, 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 Sir Terence Harrison a Director.		
<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 in accordance with resolution 5 set out in the notice of meeting.		
<b>RESOLUTION 6</b>	To authorise the Directors to allot shares in accordance with resolution 6 set out in the notice of meeting.		
<b>RESOLUTION 7</b>	To authorise the Company to renew its authority to make market purchases of up to 2,725,753 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 not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.

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Capita Registrars  
Proxy Department  
PO Box 25  
Beckenham  
Kent BR3 4BR

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