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# **CHELVERTON GROWTH TRUST PLC**

## **Annual Report**

for the year ended 31 August 2010

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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

Benchmark	FTSE All-Share Index
Investment Manager	Chelverton Asset Management Limited See page 9 for further details.
Total net assets	£3,630,000 as at 31 August 2010
Market capitalisation	£2,539,000 as at 31 August 2010
Capital structure	14,864,827 Ordinary 1p shares carrying one vote each (including 145,000 shares held in Treasury), there are 14,719,827 voting rights in the Company.
PEP/ISA status	The Company's Ordinary shares are fully eligible for inclusion in ISAs.

## Performance statistics

	Year ended 31 August 2010	Year ended 31 August 2009	% change
Net assets	<b>£3,630,000</b>	£2,895,000	25.39
Net asset value per share	<b>24.66p</b>	19.47p	26.66
FTSE All-Share Index	<b>2,696.72</b>	2,520.66	6.98
Share price	<b>17.25p</b>	14.50p	18.97
Discount to net asset value	<b>(30.05)%</b>	(25.53)%	
Revenue loss after taxation	<b>(£75,000)</b>	(£59,000)	
Revenue loss per share	<b>(0.50)p</b>	(0.40)p	
Capital gain/(loss) per share	<b>5.62p</b>	(13.33)p	

An investment company as defined under Section 833 of the Companies Act 2006.

REGISTERED IN ENGLAND No. 2989519

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## Chairman's statement

I am pleased to announce that the progress that we highlighted at the half-year stage has continued in the second half of the year and resulted in a strong positive performance.

The Company's net asset value per share has increased this year from 19.47p to 24.66p – an increase of 26.7%. In the same period the Company's benchmark index, the FTSE All-Share, rose by 7.0%; the FTSE 100, which makes up over 90% of the All-Share Index rose by 6.4%; and the AIM Index rose 15.8%. Since the year end the net asset value per share has increased to 26.04p as at 31 October 2010, an increase of a further 5.6%.

The year was again dominated by the world recovery from the banking crisis of 2008/09 and the attempts by Western governments to steer their economies through the consequences of the economic slow-down within the constraints of excessive personal and government debt. Despite mixed signals at the macro level, the corporate sector has proved to be extremely resilient and continues to generate cash and rebuild balance sheets at rates in excess of expectation.

In the UK, the election, and subsequent change of government, has dominated all aspects of business life, with the Coalition being obliged to find an appropriate balance between reducing the Public Sector, and sustaining levels of demand within the economy that will be adversely affected by tax rises and increasing unemployment.

Anecdotal evidence from the companies in our portfolio suggests that there is still an ongoing lack of liquidity in the banking system. The banks appear to be in an invidious position whereby they are reluctant to lend to the indebted companies that are most in need, whilst the companies they would like to lend to are in fact generating cash and reducing their debts. Until this is resolved the economy will struggle to make a full recovery.

On a case by case basis we are seeing improvements in the underlying businesses in the portfolio. However, these have largely been achieved by cost cutting and debt reduction rather than by steady sustainable growth. As turnover does eventually improve, we will benefit from the positive effects of operational gearing as the increases are put through lower cost bases. Whilst the immediate economic outlook remains uncertain, we expect the domestic economy to gradually improve over the next few years providing a favourable environment for UK small company performance.

The current intention of the Board is to make further tender offers ("Future Tender Offers") in each subsequent calendar year, of up to 10% of the Ordinary shares in issue at such times, on terms substantially similar to those applying to the Tender Offer to be issued to shareholders on 24 November 2010. It is envisaged that such Future Tender Offers will be implemented on or around the date of the Company's AGM in the relevant year, and each such Future Tender Offer will be subject or pursuant to the approval by shareholders at a general meeting. Although the above sets out the Board's current intentions, the Board will of course exercise its discretion as to whether any Future Tender Offer should be implemented and the terms thereof. In the event that a Future Tender Offer is made the terms attaching to this Tender Offer may also apply (but subject to such modifications as set out in the communication relating to the same) by incorporation.

**George Stevens**

Chairman

*19 November 2010*

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## Investment Manager's overview

On basic fundamentals many small companies continue to be undervalued, notwithstanding the general rise in the small companies sector. As ever, these companies are overlooked on the Alternative Investment Market ("AIM") for the latest fashion in the market. Currently, the fashionable natural resource sector represents 42% of the total value of AIM. These resource companies, where the returns might be a manifold increase in value or more likely might be a total loss, are a major distraction.

Over the past two years the shareholders and directors of many solid, profitable and well run companies have become disillusioned with owning shares in these companies and also having their companies on a highly illiquid and dysfunctional market.

### Portfolio review

The patient process that was started last year in realising shareholdings at full value has continued in the current year. An example of this is the shareholding in Hartest where an offer was received and turned down at 25p, further offers were received from a private company at 50p, 55p and 59p, all turned down by the Board. Finally, a cash offer of 90p was accepted.

In the same vein, the offer by the management team for the business of Forest Support Services was supported and encouraged through a difficult funding process so that a full offer was made in cash.

The major success over the last year has been Alliance Pharma where we added to the holding earlier in the year at 12.5p. As a result of the very strong profits growth the shares have increased to 37p.

Whilst last year our portfolio companies were relieved to have come through the "credit crunch" in this last year they have been reducing debt and, where possible, continuing to cut costs and grow their businesses, although trading still remains very difficult.

### Outlook

The portfolio companies are looking much stronger than for some time and it is our objective over the next year to continue the realisation of fully valued holdings, reinvesting the proceeds in the large number of attractive companies which are currently significantly undervalued.

### David Horner

Chelverton Asset Management Limited

19 November 2010

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## Portfolio review

as at 31 August 2010

The Company's portfolio as at 31 August 2010 is set out below.

Investment	Sector	Valuation £'000	% of total
<i>AIM traded</i>			
<b>AI Claims Solutions</b> The provision of non-fault accident management services	Travel & Leisure	479	13.3
<b>Alliance Pharma</b> Acquisition of the manufacturing, sales and distribution rights to pharmaceutical products	Pharmaceuticals & Biotechnology	345	9.6
<b>Belgravium Technologies</b> Software systems for warehousing and distribution	Technology Hardware & Equipment	113	3.2
<b>CEPS</b> Production and supply of components for the footwear industry; personal protection equipment; production of printed lycra fabric; and services to the direct mail industry	Support Services	175	4.9
<b>Datong Electronics</b> Develops, manages and supplies covert tracking and surveillance systems	Electronic & Electrical Equipment	76	2.1
<b>Hartest Holdings</b> Manufacture and sale of specialist healthcare equipment and supplies to users of electron microscopes	Industrial Engineering	299	8.3
<b>IDOX</b> Software company specialising in the development of products for document and information management	Software & Computer Services	596	16.6
<b>LPA Group</b> Design, manufacture and marketing of industrial electrical accessories	Electronic & Electrical Equipment	73	2.0
<b>MTI Wireless Edge</b> Developer and manufacturer of sophisticated antennas and antenna systems	Technology Hardware & Equipment	84	2.4
<b>Northbridge Industrial Services</b> Consolidation vehicle for specialist industrial services in the UK	Industrial Engineering	85	2.4
<b>Pennant International Group</b> Supplier of technology solutions to the defence and industrial sectors	Software & Computer Services	59	1.7
<b>Petards Group</b> Development, provision and maintenance of advanced security systems and related services	Support Services	27	0.8
<b>PSG Solutions</b> Leading provider of Local Authority residential property searches; provision of packaging solutions	Support Services	44	1.2
<b>Richoux Group</b> Owner and operator of <i>Richoux</i> Restaurants	Travel & Leisure	33	0.9

## Portfolio review (continued)

as at 31 August 2010

Investment	Sector	Valuation £'000	% of total
<i>AIM traded (continued)</i>			
<b>Sanderson Group</b> Provides software and IT services	Software & Computer Services	66	1.8
<b>Titan Europe</b> Manufacture of big wheels for construction, mining and agricultural vehicles	Industrial Engineering	68	1.9
<b>Tristel</b> Healthcare business specialising in infection control in hospitals	Health Care Equipment & Services	188	5.3
<b>Universe Group</b> Provision of credit card fraud prevention system, loyalty systems and retail systems	Support Services	17	0.5
<i>Delisted</i>			
<b>Forest Support Services</b> (in members voluntary liquidation) Supply of traffic management services	Industrial Transportation	182	5.1
<b>Satcom Group</b> Provider of mobile satellite communications equipment and airtime	Mobile Telecommunications	31	0.9
<i>Unquoted</i>			
<b>Closed Loop Recycling</b> <i>Loanstock</i>	Support Services	252	7.0
<b>Ordinary B shares</b> Operation of a plastic recycling plant		0	0.0
<b>Locker Group</b> (in members voluntary liquidation) Cash Shell	Industrial Engineering	0	0.0
<b>Parmenion Capital Partners LLP</b> Provides fund-based discretionary fund management services to Independent Financial Advisors	Support Services	291	8.1
<b>Portfolio valuation</b>		<b>3,583</b>	<b>100.0</b>

The following companies in which the Company is invested are in liquidation or administration and no value is applied to these holdings as no realisations are anticipated from the insolvency process.

AT Communication Group  
Chromogenex  
Conder Environmental  
Minorplanet Systems  
Smallbone

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## Top Twenty Investments

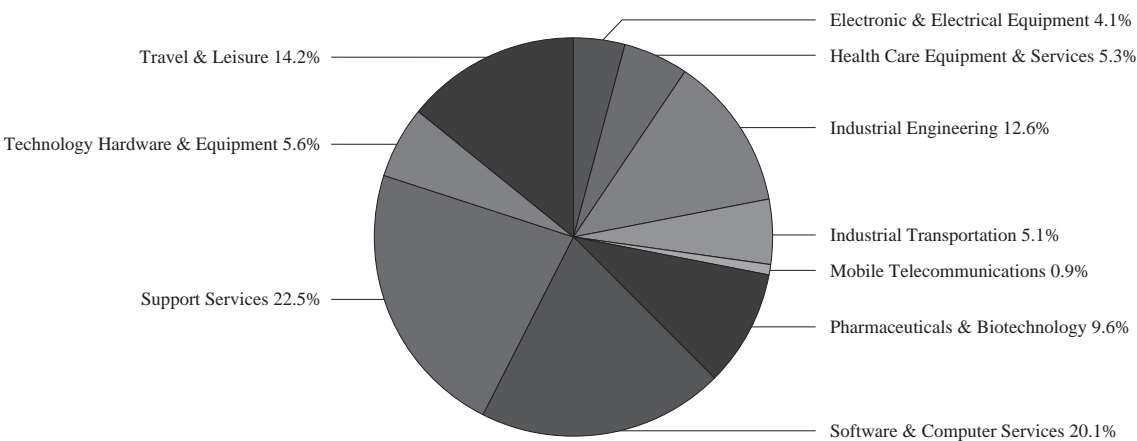
Investment	31 August 2010		31 August 2009	
	Valuation £'000	% of total	Valuation £'000	% of total
IDOX	596	16.6	530	18.2
AI Claims Solutions	479	13.3	294	10.1
Alliance Pharma	345	9.6	157	5.4
Hartest Holdings	299	8.3	71	2.4
Parmenion Capital Partners LLP	291	8.1	115	4.0
Closed Loop Recycling	252	7.0	357	12.3
Tristel	188	5.3	216	7.4
Forest Support Services	182	5.1	139	4.8
CEPS	175	4.9	106	3.6
Belgravium Technologies	113	3.2	137	4.7
Northbridge Industrial Services	85	2.4	61	2.1
MTI Wireless Edge	84	2.4	115	4.0
Datong Electronics	76	2.1	64	2.2
LPA Group	73	2.0	83	2.9
Titan Europe	68	1.9	31	1.1
Sanderson Group	66	1.8	45	1.5
Pennant International Group	59	1.7	46	1.6
PSG Solutions	44	1.2	38	1.3
Richoux Group	33	0.9	50	1.7
Satcom Group	31	0.9	47	1.6
<b>Total</b>	<b>3,539</b>	<b>98.7</b>	<b>2,702</b>	<b>92.9</b>



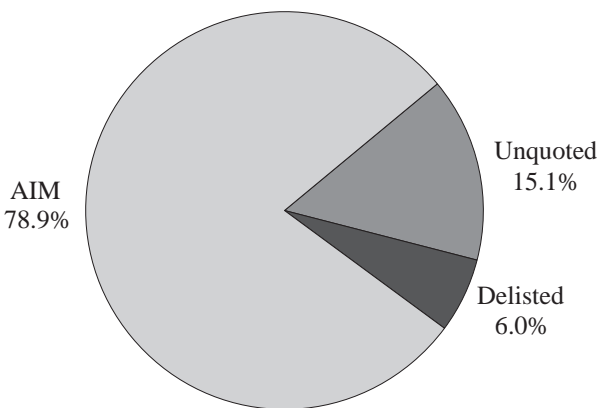
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# Portfolio breakdown by sector and by index

## Percentage of Portfolio by Sector



## Percentage of Portfolio by Index



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## Directors

The Directors are:

**George Stevens** (Chairman) qualified as a member of the Institute of Taxation in 1969, and as a chartered accountant in 1970, but has spent most of his working career in the Insurance Industry. In 1978 he moved to Lloyd's and in a management buyout co-founded The Brockbank Group in 1985, for which he served as group managing director. Mr Stevens was also instrumental in establishing the motor underwriter Admiral Insurance Services and served as its first chairman. He retired from both these positions in 1995.

**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 Forest Support Services 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 a director of several other investment companies, including Small Companies Dividend Trust PLC.

**David Horner** is managing director of Chelverton Asset Management Limited and a director of CEPS PLC. He is a chartered accountant and has considerable experience of analysing and working with smaller companies.

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## Investment Manager, Secretary and Advisers

### Investment Manager

Chelverton Asset Management Limited  
11 George Street  
Bath BA1 2EH  
Tel: 01225 483 030

Chelverton Asset Management Limited was formed in 1997. The investment team consists of David Horner and David Taylor who have considerable experience of companies in the smaller quoted market sector.

The Company website is maintained by the Investment Manager and can be found at [www.chelvertonam.com](http://www.chelvertonam.com).

### Secretary and Registered Office

Capita Sinclair Henderson Limited  
(trading as Capita Financial Group –  
Specialist Fund Services)  
Beaufort House  
51 New North Road  
Exeter EX4 4EP  
Tel: 01392 412 122

### Auditors

Hazlewoods LLP  
Windsor House  
Bayshill Road  
Cheltenham GL50 3AT

### Registrar and Transfer Office

Share Registrars Limited  
Suite E  
First Floor  
9 Lion and Lamb Yard  
Farnham  
Surrey GU9 7LL  
Tel: 01252 821 390  
[www.shareregistrars.uk.com](http://www.shareregistrars.uk.com)

### Bankers

Lloyds TSB Bank PLC  
25 Gresham Street  
London EC2V 7HN

### Custodian

HSBC Investment Bank plc  
Level 29  
8 Canada Square  
London E14 5HQ

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## Report of the Directors

The Directors present their report, which incorporates the Business Review, and audited accounts for the year ended 31 August 2010. The registered company number for Chelverton Growth Trust PLC is 2989519.

### **Status, objective and review**

The principal activity of the Company is to carry on business as an investment trust. The Company has been granted approval from HM Revenue & Customs as an authorised investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 August 2009. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 August 2010 so as to be able to continue to obtain approval as an authorised investment trust under Section 1158 of the Corporation Tax Act 2010, which has replaced Section 842. The Company is an investment company as defined in Section 833 of the Companies Act 2006.

### **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 also to increase net asset value per share at a higher rate than other quoted smaller company trusts and the FTSE All-Share Index.

### **Investment policy**

The Company invests principally in securities of publicly quoted UK companies, though it may invest in unquoted securities. The concentrated UK portfolio comprises between 30 to 45 securities. The performance of the Company's investments is compared to the FTSE All-Share Index.

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.

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

To comply with Listing Rules the Company's investment policy is detailed above and should be read in conjunction with the subsequent sections entitled investment strategy and the performance analysis.

It is intended from time to time, when deemed appropriate, that the Company will borrow for investment purposes. The Company, however, does not currently have any borrowing facilities.

The investment objective and policy stated are intended to distinguish the Company from other investment vehicles which have relatively narrow investment objectives and which are constrained in their decision making and asset allocation. The investment objective and policy allow the Company to be constrained in its investment selection only by valuation and to be pragmatic in portfolio construction by only investing in securities which the Investment Manager considers to be undervalued on an absolute basis. Portfolio risk is managed by investing in a diversified spread of investments.

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## Report of the Directors (continued)

### Investment strategy

Investments are selected for the portfolio only after extensive research which the Investment Manager believes to be key. The whole process through which equity must pass in order to be included in the portfolio is very rigorous. Only a security where the Investment Manager believes that the price will be significantly higher in the future will pass the selection process. The Company's Investment Manager believes the key to successful stock selection is to identify the long-term value of a company's shares and to have the patience to hold the shares until that value is appreciated by other investors. Identifying long term value involves detailed analysis of a company's earning prospects over a five year time horizon.

The Company's Investment Manager is Chelverton Asset Management Limited, an independent investment manager focusing exclusively on achieving returns for investors based on UK investment analysis of the highest quality. The founders and employee owners of Chelverton include experienced investment professionals with strong investment performance records who believe rigorous fundamental research allied to patience is the basis of long term investment success.

The Chairman's statement on page 2 and the Investment Manager's overview on page 3 give details of the Company's activities during the year under review.

### Performance analysis using key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives, for example: the NAV, the movement in the Company share price, the discount of the share price in relation to the NAV and the total expenses ratio.

The Company's income statement is set out on page 28.

The movement of the NAV is compared to the FTSE All-Share Index, the Company's benchmark. The NAV per Ordinary share at 31 August 2010 was 24.66p (2009: 19.47p).

The Company's share price at the year end was 17.25p (2009: 14.50p).

### Principal risks

The Board considers the following as the principal risks facing the Company. Mitigation of these risks is sought and achieved in a number of ways:

#### Market risk

The Company is exposed to market risk due to fluctuations in the market prices of its investments.

The Investment Manager actively monitors economic and company performance and reports regularly to the Board on a formal and informal basis. The Board formally meets with the Investment Manager quarterly when portfolio transactions and performance are reviewed. The Management Engagement Committee meets as required to review the performance of the Investment Manager. Further details regarding the Company's various Committees and their duties are given on pages 18 and 19 of the statement on corporate governance.

The Company is substantially dependent on the services of the Investment Manager's investment team for the implementation of its investment policy.

The Company may hold a proportion of the portfolio in cash or cash equivalent investments from time to time. Whilst during positive stock market movements the portfolio may forego notional gains, during negative market movements this may provide protection.

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## Report of the Directors (continued)

### Discount volatility

As with many investment trust companies, discounts can significantly fluctuate.

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. The Board does not intend to adopt a precise discount target at which shares will be bought back. However Ordinary shares will not be bought back for cancellation or into Treasury at a discount to NAV of less than 7.5%.

### Regulatory risks

Relevant legislation and regulations which apply to the Company include the Companies Act 2006, the Corporation Tax Act 2010 (“CTA”) and the Listing Rules of the Financial Services Authority (“FSA”). The Company has noted the recommendations of the Combined Code on Corporate Governance and its statement of compliance appears on page 17. A breach of the CTA could result in the Company losing its status as an investment company and becoming subject to capital gains tax, whilst a breach of the Listing Rules might result in censure by the FSA. At each Board meeting the status of the Company is considered and discussed, so as to ensure that all regulations are being adhered to by the Company and its service providers.

The Board is not aware of any breaches of laws or regulations during the period under review and up to the date of this report.

### Financial risk

The financial situation of the Company is reviewed in detail at each Board meeting. The content of the Company’s annual report and accounts is monitored and approved both by the Board and the Audit Committee.

Inappropriate accounting policies or failure to comply with current or new accounting standards may lead to a breach of regulations.

### Liquidity risk

The Board monitors the liquidity of the portfolio at each Board meeting and regularly reviews the investments with the Investment Manager.

A more detailed explanation of the investment management risks facing the Company are given in note 19 to the accounts on pages 42 to 47.

### Financial instruments

As part of its normal operations, the Company holds financial assets and financial liabilities. Full details of the role of financial instruments in the Company’s operations are set out in note 19 to the accounts.

### Current and future developments

A review of the main features of the year is contained in the Chairman’s statement and the Investment Manager’s overview on pages 2 and 3.

The marketing and promotion of the Company will continue to involve the Board, led by the Investment Manager, with a proactive communications programme either directly or through its website, with existing and potential new shareholders and other external parties.

The Directors are seeking to renew the appropriate powers at the next Annual General Meeting to enable the issue and purchase of its own shares, when it is in the interests of shareholders as a whole.

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## Report of the Directors (continued)

### Social, environmental and employee issues

The Company does not have any employees and the Board consists entirely of non-executive directors. As the Company is an investment trust, which invests in other companies, it has no direct impact on the community or the environment, and as such has no policies in this area.

### Results and dividend

The results for the year and the proposed transfer from revenue reserves are set out in the income statement on page 28.

The Directors do not recommend the payment of a dividend for the year.

### Directors

The Directors in office during the year and at the date of this report, all of whom are non-executive, are shown below:

	Date of appointment
K J Allen	8 November 1994
B N Lenygon	2 August 2001
D A Horner	1 May 2006
G E Stevens (Chairman)	20 December 2006

Mr Horner will offer himself for re-election in accordance with the Listing Rules, which stipulate that a director who is also a director of the investment manager should be subject to annual re-election.

In accordance with the Combined Code, that non-executive directors who have served on a board for more than nine years should be subject to annual re-election, Mr Allen will retire at the Annual General Meeting and, being eligible, will offer himself for re-election.

Mr Lenygon will also offer himself for re-election, in accordance with the Listing Rules where he stands for annual re-election as he is also a director of another company with the same investment manager.

The Board as a whole believes that Messrs Horner, Allen and Lenygon, collectively and individually, make active and effective contributions in their roles as Directors of the Company and that shareholders should vote in favour of their re-election, respectively, for the following reasons:

Mr Horner is managing director of Chelverton Asset Management Limited, the Company's Investment Manager. He is a chartered accountant and has considerable experience of analysing and working with smaller companies.

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.

Mr Lenygon has considerable experience in the investment trust market and his knowledge of the sector is considered by the other Directors to be extremely beneficial to the Company, along with his professional expertise as a chartered accountant and a barrister.

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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. Mr Allen is a director and employee of Forest Support Services PLC (in members' voluntary liquidation), in which the Company has an investment. Mr Horner is the managing director of Chelverton Asset Management Limited, the Company's Investment Manager and is also a director of CEPS PLC in which the Company has an investment, as well as being a Director of the Company.

### 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 2010	At 31 August 2009
K J Allen	221,762	221,762
B N Lenygon	62,411	62,411
D A Horner	698,163	698,163
G E Stevens	1,221,315	1,221,315

There have been no changes to any of the above holdings between 31 August 2010 and the date of this Report.

None of the Directors has any non-beneficial interests to disclose.

### 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.

From 1 December 2006 the Investment Manager agreed to waive half its fee during the currency of this agreement.

The appointment of CAM as Investment Manager may be terminated 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 Capita Sinclair Henderson Limited for an annual fee of £45,625. 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 Capita Sinclair Henderson Limited. The agreement may be terminated by either party giving to the other not less than six months' notice at any time.



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## Report of the Directors (continued)

### **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 independent Directors the continuing appointment of CAM, as Investment Manager, on the terms outlined in the Investment Management Agreement dated 28 June 2001 and amended on 1 December 2006, 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 having regard to the exceptional circumstances of the past couple of year. 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 those of similar 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 2010 all suppliers’ invoices received had been settled.

### **Annual General Meeting**

The Notice of Annual General Meeting is set out on pages 49 and 50. In addition to the ordinary business of the meeting, the Directors are putting forward resolutions to allot shares, which will allow the Company to issue new shares or sell shares out of treasury equivalent to 10% of its existing issued share capital.

The Directors are also seeking to renew the authority to allot Ordinary shares held in treasury at a discount to NAV.

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

As at 18 November 2010, being the latest practicable date before the publication of this Annual Report, there are no outstanding warrants or options to subscribe for any Ordinary shares of the Company.

Resolution 10 if passed authorised the Company to purchase its Ordinary shares in accordance with the terms and conditions contained in a Tender Offer Circular dated 24 November 2010.

Resolution 11, as set out in the notice of meeting, if passed will adopt New Articles of Association. The changes in the new Articles primarily reflect the final implementation of the 2006 Companies Act. A summary of the principle differences brought about by the proposed adoption of the New Articles is set out in the Appendix on page 53 of this document. The proposed new Articles of Association are available for inspection at the offices of Capita Company Secretarial Services Ltd, 42-47 Minories, London EC3N 1DX and at the AGM for 15 minutes before and until the conclusion of the meeting.

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

### **Disclosure of information to Auditors**

The Directors who held office at the date of approval of the Report of Directors' confirm that so far as they are aware:

- there is no relevant audit information of which the Company's Auditors are unaware; and
- they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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

A resolution will be put to the shareholders at the Annual General Meeting proposing the re-appointment of Hazlewoods LLP as Auditors to the Company. Hazlewoods LLP have indicated their willingness to continue in office.

On behalf of the Board

**George Stevens**

Chairman

*19 November 2010*

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## Statement on corporate governance

### Corporate Governance – Statement of Compliance

The Board considers that throughout the year the Company has been in compliance with the principles of the Combined of Corporate Governance (“the Code”), insofar as they are relevant to the Company’s business, except where stated. Additional procedures have been adopted to ensure the Company’s current practices are consistent with the recommendations of the Code in all material respects. The Code can be viewed at [www.frc.org.uk](http://www.frc.org.uk) This Statement forms part of the Report of the Directors as set out on pages 10 to 16.

### Board of Directors

Mr Stevens, Mr Allen and Mr Lenygon are deemed by the Board to be independent of the Investment Manager. The continuing independence of Mr Allen has been fully considered in light of his 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, his knowledge of the Company and experience is considered extremely valuable by the other Directors. The Board also considers Mr Stevens is independent, notwithstanding that he is a significant shareholder in the Company. Mr Stevens is experienced in business and accountancy and provides a robust balanced view between the Investment Manager and the shareholders. Mr Lenygon has many years of experience in investment trusts, providing specific expertise of this sector which is of great benefit to the Board. Mr Lenygon is considered by the Board to be independent notwithstanding that he is also a director of another investment trust managed by CAM. Mr Horner as managing director of CAM the Investment Manager, is not independent. 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 8.

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. There are no qualifying third party indemnity provisions in place.

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.

Directors are required to retire by rotation at least every three years, Mr Stevens retired in 2007 and will stand for re-election next year. Mr Allen stands for re-election annually having served on the Board for more than nine years, as does Mr Horner, as a director of the Investment Manager and Mr Lenygon as a director of another company with the same Investment Manager.

The Chairman, Mr Stevens, is deemed by his fellow independent Board members to be independent and have no conflicting relationships. He considers himself to have sufficient time to commit to the Company’s affairs.

### Directors’ attendance

During the year the Directors’ attendance at meetings has been recorded as follows:

	Board meetings	Audit Committee
K J Allen	4 of 4	2 of 2
B N Lenygon	4 of 4	2 of 2
D A Horner	4 of 4	n/a
G E Stevens	4 of 4	2 of 2

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## Statement on corporate governance (continued)

### *Board operation*

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 has been adopted. 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 investment 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; and
- opportunistic top-up investments of up to £50,000 are permitted in any investment on the basis that the Board is informed.

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

### *Committees*

The Company also uses a number of committees to control its operations. These committees comprise the full Board, except the Management Engagement and Audit Committees where Mr Horner is not a member by virtue of his association with the Investment Manager. Each committee's delegated responsibilities are clearly defined in written 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 twice a year. Mr Lenygon chairs the Audit Committee.

The primary responsibilities of the Audit Committee are: to review the effectiveness of the internal control environment of the Company and monitor adherence to best practice in corporate governance; to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve their remuneration and terms of engagement; to review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process and provide a forum through which the Company's Auditors report to the Board. The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Company and for reviewing the Company's financial reporting and internal control policies and procedures. Committee members consider that individually and collectively they are appropriately experienced to fulfil the role required.

The Audit Committee has direct access to the Company's Auditors, Hazlewoods LLP, whose representatives attend the year end Audit Committee meeting. On the basis of these meetings the Audit Committee has been able to assess the effectiveness of the external audit. A formal statement of independence is received from the external Auditors each 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 to be 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 as required and Mr Stevens chairs this committee. No meetings were held in the year.

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## Statement on corporate governance (continued)

The Nomination Committee considers the appointment and re-appointment of Directors and meets as and when required. Mr Stevens chairs this committee. No meetings were held during the year. The Committee meets for the purpose of considering appointments to, and removals from, the Board and determining the appointment process.

The Board as a whole fulfils the function of a Remuneration Committee. Remuneration details are given in the Directors' remuneration report on pages 23 and 24. At 31 August 2010 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company.

On appointment to the Board, Directors are fully briefed as to their responsibilities by the Chairman and Investment Manager.

As an ongoing policy, Directors' skills and knowledge are updated regularly with information provided by the Company Secretary and various industry bodies.

### *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.

### *Substantial shareholdings*

The Directors had been notified of the following substantial interests in the voting shares of the Company at the date of this Report:

	Number of shares	% of total voting rights
M E Brockbank	2,186,677	14.86
Philip J Milton private clients	1,507,135	10.24
Rensburg Sheppard private clients	1,412,967	9.60
MAM Funds	1,387,000	9.42
G E Stevens	1,221,315	8.30
D A Horner	698,163	4.74
M M Brooks	595,265	4.04
Charles Stanley private clients	556,295	3.78

### *Company share and share information*

The following information is disclosed in accordance with The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6.

- The Company's capital structure and voting rights are summarised on page 1.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on page 17.
- The Board is seeking to renew its current powers to buy back and issue shares as detailed on page 15.

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## Statement on corporate governance (continued)

- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to the control attached to securities; no restrictions on voting rights; no agreements which the Company is party to that might affect its control following a successful takeover.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

### *Relations with shareholders*

Communication with shareholders is given a high priority by both the Board and the Investment Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the Company are offered the opportunity to meet with the independent non-executive Directors of the Board in an attempt to ensure that their views are understood. All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board and the Investment Manager are available to discuss issues affecting the Company and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairman of the Board's standing committees.

Any shareholder who would like to lodge questions in advance of the Annual General Meeting is invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 9. The Company always responds to letters from individual shareholders.

The Annual and Half Yearly Reports of the Company are prepared by the Board and its advisers to present a full and readily understandable review of the Company's performance. Copies of the Annual Report are dispatched to shareholders by mail and are also available for downloading from the Company's website maintained by the Investment Manager at [www.chelvertonam.com](http://www.chelvertonam.com).

### *Going concern*

The Directors have reviewed the principle risks and uncertainties facing the Company (as stated in the Report of the Directors and Business Review on pages 10 to 12). The Company's business activities, together with factors likely to affect its future development, performance and position are described in the Chairman's statement on page 2 and in the Investment Manager's overview on page 3. In addition, note 19 to the Financial statements includes the Company's objectives, policies, and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. The Company has adequate financial resources and no significant investment commitments and as a consequence, the Directors are of the opinion that the Company has adequate resources to meet all outstanding commitments and to continue in operational existence for the foreseeable future. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the Annual Report.

### *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 supplied by the Financial Reporting Council's Internal Control: Guidance for Directors on the Combined Code, 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. Key procedures established with a view to providing effective financial control have been in place for the full financial year and up to the date of approval of this report.

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.

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## Statement on corporate governance (continued)

### *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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## Statement on corporate governance (continued)

The key procedures which have been established to provide internal 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 Capita 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.

On behalf of the Board

**George Stevens**

Chairman

*19 November 2010*



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## Directors' remuneration report

The Board has prepared this report, in accordance with Schedule 8 to The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution will be put to the members to approve the report 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 26 and 27.

### 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 2011.

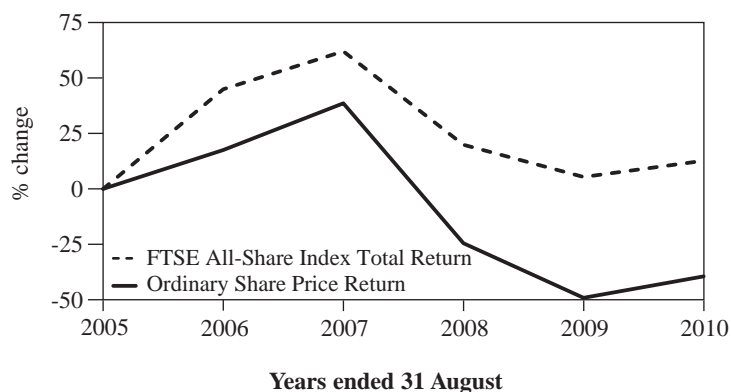
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits as the Board do not consider it to be appropriate at this time.

### 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 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 Company's 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:

	<b>2010</b>	2009
G E Stevens	<b>18,750</b>	18,750
K J Allen	<b>15,000</b>	15,000
B N Lenygon	<b>15,000</b>	15,000
	<b><u>48,750</u></b>	<u>48,750</u>

Mr Horner has waived his fees.

### **Approval**

This Directors' remuneration report was approved by the Board of Directors on 19 November 2010.

**George Stevens**

Chairman

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## Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements and have elected to prepare them in accordance with applicable United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing the 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, to the best of their knowledge, state that:

- the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Chairman's statement, Investment Manager's overview and Report of the Directors include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information related to the Company including on the website of the Investment Manager [www.chelvertonam.com](http://www.chelvertonam.com).

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

**George Stevens**

Chairman

*19 November 2010*

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## **Independent Auditors' report**

To the members of Chelverton Growth Trust PLC

We have audited the financial statements of Chelverton Growth Trust Plc for the year ended 31 August 2010 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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**

As explained more fully in the Statement of Directors' responsibilities (set out on page 25), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

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

To the members of Chelverton Growth Trust PLC

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the listing rules we are required to review:

- the directors' statement set out on page 20 in relation to going concern; and
- the parts of the statement on corporate governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**David Main**

**Senior Statutory Auditor**

For and on behalf of **Hazlewoods LLP, Statutory Auditor**

*19 November 2010*

## Income statement

for the year ended 31 August 2010

		2010			2009		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at fair value	8	–	862	862	–	(2,043)	(2,043)
Income	2	79	–	79	65	–	65
Investment management fee	3	(9)	(27)	(36)	(8)	(26)	(34)
Refund of VAT on investment management fee	3	–	–	–	33	99	132
Other expenses	4	(145)	–	(145)	(144)	–	(144)
<b>Net return before finance costs and taxation</b>		<b>(75)</b>	<b>835</b>	<b>760</b>	<b>(54)</b>	<b>(1,970)</b>	<b>(2,024)</b>
Interest payable	5	–	–	–	(4)	(12)	(16)
<b>Net return on ordinary activities before taxation</b>		<b>(75)</b>	<b>835</b>	<b>760</b>	<b>(58)</b>	<b>(1,982)</b>	<b>(2,040)</b>
Taxation on ordinary activities	6	–	–	–	(1)	–	(1)
<b>Net return on ordinary activities after taxation</b>		<b>(75)</b>	<b>835</b>	<b>760</b>	<b>(59)</b>	<b>(1,982)</b>	<b>(2,041)</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>(0.50)</b>	<b>5.62</b>	<b>5.12</b>	<b>(0.40)</b>	<b>(13.33)</b>	<b>(13.73)</b>

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the year.

A separate statement of total recognised gains and losses has not been prepared as all such gains and losses are included in the income statement.

The notes on pages 32 to 47 form part of these accounts.

## Reconciliation of movements in shareholders' funds

for the year ended 31 August 2010

	Called up share capital £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
<b>Year ended 31 August 2010</b>						
1 September 2009	<b>149</b>	<b>2,674</b>	<b>(3,574)</b>	<b>40</b>	<b>3,606</b>	<b>2,895</b>
Cost of shares purchased for Treasury	–	–	–	–	(25)	(25)
Net return after taxation for the year	–	–	<b>835</b>	–	(75)	<b>760</b>
31 August 2010	<b>149</b>	<b>2,674</b>	<b>(2,739)</b>	<b>40</b>	<b>3,506</b>	<b>3,630</b>
<b>Year ended 31 August 2009</b>						
1 September 2008	149	2,674	(1,595)	40	3,665	4,933
Adjustment to provision for tender offer expenses	–	–	3	–	–	3
Net return after taxation for the year	–	–	(1,982)	–	(59)	(2,041)
31 August 2009	149	2,674	(3,574)	40	3,606	2,895

The notes on pages 32 to 47 form part of these accounts.

## Balance sheet

as at 31 August 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments at fair value	8	3,583	2,908
<b>Current assets</b>			
Debtors	10	6	6
Cash at bank		86	44
		92	50
<b>Creditors – amounts falling due within one year</b>	11	45	63
<b>Net current assets/(liabilities)</b>		47	(13)
<b>Net assets</b>		3,630	2,895
<b>Share capital and reserves</b>			
Called up share capital	12	149	149
Share premium account	13	2,674	2,674
Capital reserve	13	(2,739)	(3,574)
Capital redemption reserve	13	40	40
Revenue reserve	13	3,506	3,606
<b>Equity shareholders' funds</b>		3,630	2,895
<b>Net asset value per Ordinary share</b>	17	24.66p	19.47p

The notes on pages 32 to 47 form part of these accounts.

These accounts were approved by the Board of Directors of Chelverton Growth Trust PLC and authorised for issue on 19 November 2010. They were signed on its behalf by

**George Stevens**  
*Chairman*



## Statement of cash flows

for the year ended 31 August 2010

	Note	2010 £'000	2009 £'000
<b>Operating activities</b>			
Investment income received		60	79
Deposit interest received		19	–
Investment management fees paid		(35)	(37)
VAT refund on investment management fees		–	132
Secretarial fees paid		(49)	(39)
Other cash payments		(115)	(83)
<b>Net cash (outflow)/inflow from operating activities</b>	14	(120)	52
<b>Returns on investments and servicing of finance</b>			
Interest paid		–	(28)
<b>Investing activities</b>			
Purchases of investments		–	(71)
Sales of investments		187	1,028
<b>Net cash inflow from investing activities</b>		187	957
<b>Financing</b>			
Cost of shares purchased for Treasury		(25)	–
		(25)	–
<b>Increase in cash</b>	16	42	981

The notes on pages 32 to 47 form part of these accounts.

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## Notes to the accounts

as at 31 August 2010

### 1 ACCOUNTING POLICIES

#### **Accounting convention**

The accounts are prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and with the AIC Statement of Recommended Practice ("SORP") issued in January 2009, regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts. All the Company's activities are continuing.

#### **Income recognition**

Dividends receivable on quoted equity shares are included as revenue 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 income statement except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital and separately identified and disclosed (see note 8);
- management fees and bank interest have been allocated 75% to capital reserve and 25% to revenue reserve in the income statement, 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**

All investments held by the Company are classified as 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition investments are measured at fair value, with changes in the fair value of investments and impairment of investments recognised in the income statement and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

Where investments are unlisted or trading in the securities of an investee company is suspended, the investment is valued at the Directors' estimate of its net realisable value being their estimate of fair value. These have either been measured at cost or, where applicable, at the most recent transaction price.

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## Notes to the accounts (continued)

as at 31 August 2010

### 1 ACCOUNTING POLICIES (continued)

#### Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- net movement arising from changes in the fair value of investments that can be readily converted to cash without accepting adverse terms;
- realised exchange differences of a capital nature;
- expenses, together with related taxation effect, charged to this account in accordance with the above policies; and
- net movement arising from the changes in the fair value of investments that cannot be readily converted to cash without accepting adverse terms, 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 FRS 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 2010

<b>2 INCOME</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income from investments</b>		
Dividends from UK companies	<b>60</b>	59
Dividends from overseas companies	–	6
	<b>60</b>	65
<b>Other income</b>		
Interest on Investment Management fee VAT refund	<b>19</b>	–
<b>Total income</b>	<b>79</b>	65
Total income comprises:		
Dividends	<b>60</b>	65
Interest	<b>19</b>	–
	<b>79</b>	65

<b>3 INVESTMENT MANAGEMENT FEE</b>	<b>2010</b>			<b>2009</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investment management fee	<b>9</b>	<b>27</b>	<b>36</b>	8	26	34
	<b>9</b>	<b>27</b>	<b>36</b>	8	26	34

The investment management fee is calculated at the rate of  $\frac{1}{6}\%$  per month of the gross value of funds under management and is payable monthly in arrears. At 31 August 2010 there was £3,000 outstanding (2009: £2,000). From 1 December 2006 the Investment Manager agreed to waive half its fee.

In 2004 the Association of Investment Companies ('AIC') and JPMorgan Claverhouse ('Claverhouse') brought a case against HM Revenue & Customs to challenge the VAT charged on management fees paid by investment trusts. The case was referred to the European Court of Justice and in a ruling in June 2007 it upheld the AIC/Claverhouse claim.

Following this ruling the Company has not been charged VAT on its investment management fees from 1 November 2007.

In the year to 31 August 2009, the Company received a refund of VAT previously paid of £132,000. In the year to 31 August 2010, the Company received interest on this refund of VAT of £19,000. This has been allocated 100% to revenue.

## Notes to the accounts (continued)

as at 31 August 2010

### 4 OTHER EXPENSES

	2010	2009
	Revenue	Revenue
	£'000	£'000
Administrative and secretarial services	46	42
Directors' remuneration	49	49
Auditors' remuneration:		
audit services	12	10
Other expenses	38	43
	<u>145</u>	<u>144</u>

### 5 INTEREST PAYABLE

	2010			2009		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
On bank overdraft	—	—	—	4	12	16

### 6 TAXATION

	2010			2009		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Analysis of charge in period</b>						
Current tax:						
Irrecoverable withholding tax	—	—	—	1	—	1
	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>

#### Factors affecting current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2010			2009		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
(Loss)/profit on ordinary activities before taxation	(75)	835	760	(58)	(1,982)	(2,040)
Theoretical tax at UK corporation tax rate of 28% (2009: 28%)	(21)	234	213	(16)	(555)	(571)
UK dividend income not taxable	(17)	—	(17)	(16)	—	(16)
Expenses not allowable for tax	—	—	—	1	—	1
Non-taxable investment (gains)/losses	—	(241)	(241)	—	572	572
Excess expenses for the period	38	7	45	31	—	31
Utilisation of brought forward expenses	—	—	—	—	(17)	(17)
Withholding tax suffered on foreign income dividend	—	—	—	1	—	1
Current tax charge for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>

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## Notes to the accounts (continued)

as at 31 August 2010

### 6 TAXATION (continued)

At 31 August 2010 the Company had surplus management expenses of £3,135,000 (2009: £2,972,000) 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.

### 7 RETURN PER ORDINARY SHARE

	2010			2009		
	Revenue	Capital	Total	Revenue	Capital	Total
	pence	pence	pence	pence	pence	pence
Basic	<u>(0.50)</u>	<u>5.62</u>	<u>5.12</u>	<u>(0.40)</u>	<u>(13.33)</u>	<u>(13.73)</u>

Revenue return per Ordinary share is based on the net revenue loss on ordinary activities after taxation attributable of £75,000 (2009: £59,000) and on 14,843,882 (2009: 14,864,827) Ordinary shares, being the weighted average number of Ordinary shares in issue less treasury shares during the year.

Capital return per Ordinary share is based on the net capital gain of £835,000 (2009: net capital loss of £1,982,000) and on 14,843,882 (2009: 14,864,827) Ordinary shares, being the weighted average number of Ordinary shares in issue less treasury shares during the year.

Total return per Ordinary share is based on the total gain of £760,000 (2009: total loss £2,041,000) and on 14,843,882 (2009: 14,864,827) Ordinary shares, being the weighted average number of Ordinary shares in issue less treasury shares during the year.

## Notes to the accounts (continued)

as at 31 August 2010

### 8 INVESTMENTS

	2010	2009
	£'000	£'000
Delisted	213	3
AIM	2,827	2,412
Unquoted	543	493
	<b>3,583</b>	<b>2,908</b>

	AIM	Delisted	Unquoted*	Total
	£'000	£'000	£'000	£'000
Opening book cost	5,697	1,512	451	7,660
Opening fair value adjustment	(3,285)	(1,509)	42	(4,752)
	2,412	3	493	2,908
Movements in the year:				
Purchases at cost	—	—	—	—
Sales:				
Proceeds	(166)	—	(21)	(187)
(Losses)/gains on sales	(48)	(195)	21	(222)
Investments delisted	(849)	849	—	—
Changes in fair value of investments (net of previous revaluation surpluses and deficits realised)	1,478	(444)	50	1,084
Closing valuation	<b>2,827</b>	<b>213</b>	<b>543</b>	<b>3,583</b>
Closing book cost	4,634	2,166	451	7,251
Closing fair value adjustment	(1,807)	(1,953)	92	(3,668)
Closing valuation	<b>2,827</b>	<b>213</b>	<b>543</b>	<b>3,583</b>

	2010	2009
	£'000	£'000
Realised losses on sales	(222)	(916)
Changes in fair value	<b>1,084</b>	(1,127)
Net gains/(losses) on investments at fair value	<b>862</b>	(2,043)

All quoted investments are made up of equity shares.

\* Unquoted investments are valued at the Directors' estimate of their net realisable value, being their estimate of fair value.

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## Notes to the accounts (continued)

as at 31 August 2010

### 8 INVESTMENTS (continued)

#### Analysis of movements in unquoted investments

	Cost at 31 August 2010 £'000	Valuation at 31 August 2010 £'000	Realised in year £'000	Changes in fair value £'000	Cost at 31 August 2009 £'000	Valuation at 31 August 2009 £'000
Investment						
Closed Loop Recycling*						
Loan Stock	252	252	–	–	252	252
Ordinary B Shares	84	–	–	(105)	84	105
Locker Group	–	–	(21)	–	–	21
Parmenion Capital Partners LLP**	115	291	–	176	115	115
	451	543	(21)	71	451	493

#### Analysis of disposals of unquoted investments

The Company did not dispose of any unquoted investments in the year, but realised £21,000 in respect of its investment in Locker Group, being a distribution on liquidation.

#### Transaction costs

During the year, the Company incurred transaction costs of £nil (2009: £nil) and £149 (2009: £4,388) on purchases and sales of investments, respectively. These amounts are included in 'Gains/(losses) on investments at fair value' as disclosed in the income statement.



## Notes to the accounts (continued)

as at 31 August 2010

### 8 INVESTMENTS (continued)

#### Details of material holdings in unquoted investments

	Cost at 31 August 2010 £'000	Valuation at 31 August 2010 £'000	Cost at 31 August 2009 £'000	Valuation at 31 August 2009 £'000	Last accounts period end	Net (liabilities) /assets £'000	Turnover £'000	Pre tax (loss) /profit £'000
<b>Investment</b>								
Closed Loop Recycling*								
– Loanstock	252	252	252	252	30/06/2009			
– Ordinary B shares	84	–	84	105	30/06/2009	(4,926)	1,533	(7,315)
Parmenion Capital Partners LLP **	115	291	115	115	31/03/2010	648	907	45

\* Closed Loop Recycling is the first food grade plastic recycler in the UK. The company produces food grade PET and HDPE from plastic bottle waste.

\*\* Parmenion Capital Partners LLP offers fund based discretionary investment management services to the Independent Financial Adviser community.

### 9 SIGNIFICANT INTERESTS

At 31 August 2010 the Company had 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:

	Number of shares held	Percentage of issued share capital	Issued share capital
Security			
Forest Support Services, Ord 5p	2,140,000	11.440	18,706,961
CEPS, Ord 5p	625,856	7.527	8,314,310
Belgravium Technologies, Ord 5p	5,000,000	4.954	100,936,547
Hartest Holdings, Ord 10p	340,000	3.951	8,605,288
AI Claims Solutions, Ord 10p	2,175,000	3.541	61,416,189

In addition to the above, the Company has a 5.819% interest in the capital and profits of Parmenion Capital Partners LLP.

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

	2010 £'000	2009 £'000
Prepayments and other debtors	6	6
	<u>6</u>	<u>6</u>

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## Notes to the accounts (continued)

as at 31 August 2010

<b>11 CREDITORS – amounts falling due within one year</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Other creditors	<u>45</u>	<u>63</u>
	<b>45</b>	<b>63</b>
<b>12 CALLED UP SHARE CAPITAL</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Allotted, called up and fully paid:		
14,864,827 (2009: 14,864,827) Ordinary shares of 1p each	<u>149</u>	<u>149</u>

There were 145,000 (2009: nil) shares held in Treasury at the date of this report. The shares were purchased during the year for £25,000 and that amount has been deducted from distributable reserves.

### Duration of Company

At the Annual General Meeting of the Company in 2011 the Directors shall ensure that a resolution is proposed to the effect that the duration of the Company shall continue for a further three years (a “Continuance Resolution”). In the event that a Continuance Resolution is passed, the Directors shall ensure that a further Continuance Resolution is proposed at a general meeting of the Company to be held no later than three years after the date on which the previous Continuance Resolution was passed.

In the event that any Continuance Resolution fails to be passed at any general meeting of the Company, the Directors shall conduct the Company’s affairs so as to arrange an orderly wind up of the Company’s affairs and shall ensure that a resolution to effect a voluntary wind up of the Company shall be proposed at a general meeting of the Company by no later than the third anniversary of the date on which the relevant Continuance Resolution failed to be passed.

At a general meeting called pursuant to the Articles those holders of Ordinary shares who (being individuals) are present in person or by proxy or (being corporations) are present by proxy or by a representative duly authorised (not being himself a member entitled to vote) and entitled to vote and who vote in favour of the resolution proposed to wind up the Company voluntarily shall on a poll collectively have such total number of votes as is one more than the number of votes which are required to be cast on such poll for the said resolution to be carried, and upon such resolution being passed then the Company shall be wound up accordingly.

## Notes to the accounts (continued)

as at 31 August 2010

### 13 RESERVES

	Share premium £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000
<b>Year ended 31 August 2010</b>				
At 1 September 2009	2,674	(3,574)	40	3,606
Net losses on realisation of investments	–	(222)	–	–
Changes in fair value of investments	–	1,084	–	–
Costs of shares purchased for Treasury	–	–	–	(25)
Costs charged to capital	–	(27)	–	–
Retained net loss for the year	–	–	–	(75)
<b>At 31 August 2010</b>	<b>2,674</b>	<b>(2,739)</b>	<b>40</b>	<b>3,506</b>

	Share premium £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000
<b>Year ended 31 August 2009</b>				
At 1 September 2008	2,674	(1,595)	40	3,665
Net losses on realisation of investments	–	(916)	–	–
VAT refund on investment management fees	–	99	–	–
Changes in fair value of investments	–	(1,127)	–	–
Adjustment to provision for tender offer expenses	–	3	–	–
Costs charged to capital	–	(38)	–	–
Retained net loss for the year	–	–	–	(59)
<b>At 31 August 2009</b>	<b>2,674</b>	<b>(3,574)</b>	<b>40</b>	<b>3,606</b>

### 14 RECONCILIATION OF NET RETURN BEFORE FINANCE

<b>COSTS AND TAXATION TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Net return before finance costs and taxation	<b>760</b>	(2,024)
Net capital return before finance costs	<b>(835)</b>	1,970
Expenses charged to capital	<b>(27)</b>	(26)
VAT refund on investment management fees allocated to capital	–	99
(Decrease)/increase in creditors and accruals	<b>(18)</b>	19
Decrease in prepayments and accrued income	–	14
	<b>(120)</b>	52

## Notes to the accounts (continued)

as at 31 August 2010

<b>15 RECONCILIATION OF NET CASH FLOW TO NET CASH</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Net cash/(debt) at 1 September 2009	<b>44</b>	(937)
Net cash inflow	<b>42</b>	981
Net cash at 31 August 2010	<b>86</b>	44

<b>16 ANALYSIS OF CHANGES IN NET CASH</b>	<b>At</b>	<b>Cash</b>	<b>At</b>
	<b>31 August</b>	<b>flows</b>	<b>31 August</b>
	<b>2009</b>	<b>2010</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank	44	42	<b>86</b>
	44	42	<b>86</b>

## 17 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per Ordinary share is based on net assets of £3,630,000 (2009: £2,895,000) and on 14,719,827 (2009: 14,864,827) Ordinary shares, being the number of shares in issue at the year end, less treasury shares.

## 18 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 August 2010 there were no capital commitments or contingent liabilities (2009: £nil).

## 19 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 primarily invests in companies traded on AIM with a market capitalisation at the time of investment of up to £50 million. The Company finances its operations through its issued capital and existing reserves.

In following its investment objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets. These risks are market risk (comprising exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

### (i) Market risk – market price risk

Market price risk arises mainly from uncertainty about future prices of financial investments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions by way of price movements other than movements in exchange rates and interest rates.

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager who gives timely reports of relevant information to the Directors. Investment performance is also reviewed at each Board meeting.

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## Notes to the accounts (continued)

as at 31 August 2010

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

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.

The Company's exposure to other changes in market prices at 31 August on its investments is as follows:

	2010	2009
	£'000	£'000
Fair value through profit or loss investments	<u>3,583</u>	<u>2,908</u>

A 20% decrease in the market value of investments at 31 August 2010 would have decreased net assets attributable to shareholders by £717,000 (2009: £582,000). An increase of the same percentage would have an equal but opposite effect on net assets available to shareholders.

#### (ii) Market risk – exchange rate risk

All of the Company's assets are in sterling and accordingly the only currency exposure the Company has is through the trading activities of its investee companies.

#### (iii) Market risk – interest rate risk

Changes in interest rates may cause fluctuations in the income and expenses of the Company.

The majority of the Company's financial assets are non-interest bearing. As a result, the Company's financial assets are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The exposure at 31 August of financial assets and financial liabilities to interest rate risk is as follows:

	2010	2009
	£'000	£'000
Cash at bank	<u>86</u>	<u>44</u>
	<u>86</u>	<u>44</u>

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## Notes to the accounts (continued)

as at 31 August 2010

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

The effect of an interest rate increase of 1% would increase net revenue before taxation on an annualised basis by £860. If there was a decrease in interest rates of 0.5% net revenue before taxation would decrease by £430. These calculations are based on balances as at 31 August 2010 and may not be representative of the year as a whole.

#### (iv) Credit risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held with the custodian to be delayed.

#### (v) Liquidity risk

The majority of the Company's assets are AIM listed securities, which under normal conditions can be sold to meet funding commitments if necessary. These may however be difficult to realise in adverse market conditions.

#### (vi) Maturity Analysis of Financial Liabilities

The Company's financial liabilities comprise of creditors as disclosed in note 11. All items are due within one year.

#### (vii) Managing Capital

The Company's capital management objectives are to increase net asset value per share at a higher rate than other quoted smaller company trusts and the FTSE All-Share Index.

Primarily the Company finances its operations through its issued capital and existing reserves.

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

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

#### (ix) Financial instruments by category

The financial instruments of the Company fall into the following categories.

#### 31 August 2010

	At amortised cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
<b>Assets as per the Balance sheet</b>				
Investments	–	252	3,331	3,583
Debtors	–	6	–	6
<b>Total</b>	<b>–</b>	<b>258</b>	<b>3,331</b>	<b>3,589</b>

## Notes to the accounts (continued)

as at 31 August 2010

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

	At amortised cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
<b>Liabilities as per the Balance sheet</b>				
Creditors	45	–	–	45
	<b>45</b>	<b>–</b>	<b>–</b>	<b>45</b>

31 August 2009

	At amortised cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
<b>Assets as per the Balance sheet</b>				
Investments	–	252	2,656	2,908
Debtors	–	6	–	6
<b>Total</b>	<b>–</b>	<b>258</b>	<b>2,656</b>	<b>2,914</b>
<b>Liabilities as per the Balance sheet</b>				
Creditors	63	–	–	63
	<b>63</b>	<b>–</b>	<b>–</b>	<b>63</b>

#### Fair value hierarchy

In accordance with Financial Reporting Standard No.29: 'Financial Instruments: Disclosures', the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.

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## Notes to the accounts (continued)

as at 31 August 2010

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

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- quoted prices for similar (i.e. not identical) assets in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgement by the Company. The Company considers observable data to be investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices (or last traded in respect of SETS) at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2.

Investments classified within level 3 have significant unobservable inputs. Level 3 instruments include unquoted holdings. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The Company has no level 2 investments, and level 3 investments consist only of unquoted holdings.



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## Notes to the accounts (continued)

as at 31 August 2010

### Financial assets at fair value through profit or loss

At 31 August 2010

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	2,827	–	504	3,331
<b>Total</b>	<b>2,827</b>	<b>–</b>	<b>504</b>	<b>3,331</b>

The following table presents the movement in the level 3 investments for the period ended 31 August 2010:

	Equity investments £'000
Opening balance	241
Sales proceeds:	(21)
Total gains included in gains on investments in the income statement	71
Transfers into level 3*	213
Closing balance	<b>504</b>

\* Satcom Group and Forest Support Services were delisted in the year to 31 August 2010.

## 20 RELATED PARTY TRANSACTIONS

Under the terms of the agreement dated 28 June 2001, 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. Mr Horner, a Director of the Company, is also a director of Chelverton Asset Management Limited and CEPS PLC, in which the Company has an investment. Mr Allen, a Director of the Company is a director and employee of Forest Support Services PLC, in which the Company has an investment (see note 9). Forest Support Services PLC is now in members voluntary liquidation.

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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:	Capita Sinclair Henderson Limited	Tel: 01392 412122 Fax: 01392 253282
Registrar:	Share Registrars Limited	Tel: 01252 821390 <a href="http://www.shareregistrars.uk.com">www.shareregistrars.uk.com</a>
Investment Manager:	Chelverton Asset Management Limited	Tel: 01225 483030
Website:		<a href="http://www.chelvertonam.com">www.chelvertonam.com</a>

Postal address details are shown on page 9.

### Sources of further information

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

### Key dates

August	Company year end
November	Annual results
December	AGM
April	Half-year results

### Frequency of NAV publication

The Company's net asset value is released to the Stock Exchange monthly and is posted on the Investment Manager's website: [www.chelvertonam.com](http://www.chelvertonam.com).

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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 Chelverton Asset Management Limited, 9 Dartmouth Street, London SW1H 9BP at 11.30 am on Thursday, 16 December 2010 for the following purposes:

### Ordinary business

To consider and if thought fit to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the financial statements for the year ended 31 August 2010, together with the Report of the Directors and Independent Auditors' Report thereon.
2. To receive and if thought fit, to accept the Directors' remuneration report for the year ended 31 August 2010.
3. To re-elect Mr D Horner as a Director of the Company.
4. To re-elect Mr K Allen as a Director of the Company.
5. To re-elect Mr B Lenygon as a Director of the Company.
6. To re-appoint Hazlewoods 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 resolution as an ordinary resolution:

7. THAT the Directors be empowered pursuant to Section 551 of the Companies Act 2006 to allot equity securities up to an aggregate nominal amount of £14,865, such authority to expire fifteen months after the date of passing of this resolution or 16 December 2011, 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.

The following resolutions will be proposed as special resolutions.

8. THAT, subject to the passing of Resolution 7 above, the Company be authorised, for the purposes of paragraph 15.4.11 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 £14,865.
  - ii) the sale of shares which, immediately before such sale, were held by the Company as Treasury shares.
9. THAT the Company is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 to renew its authority to make market purchases 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 2,206,502 (or, if less, 14.99% of the issued Ordinary share capital in circulation 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 which will or may be executed wholly or partly after the expiry of this authority.
10. THAT, in addition to the authority given to the Company to purchase its Ordinary shares of 1p each ("Shares") pursuant to resolution number 9 above and in accordance with the terms and conditions contained in a Tender Offer Circular issued on 24 November 2010 by the Company and the accompanying Tender Form (together the "Terms and Conditions"), the Company be and is hereby authorised in accordance with section 701 of the Companies Act 2006 to make market purchases of its Shares, provided that:
- (a) the maximum number of Shares hereby authorised to be purchased shall not exceed 10% of the Shares in issue as at the date hereof (excluding any Shares held in Treasury);
  - (b) the price which may be paid for a Share shall be the Tender Price (as defined in the Terms and Conditions); and
  - (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry.
- Save as expressly provided in this resolution, words defined in the Terms and Conditions shall bear the same meanings in this resolution.
11. THAT the Articles of Association contained in the document produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2010 Annual General Meeting.

Registered Office:  
Beaufort House  
51 New North Road  
Exeter EX4 4EP

By Order of the Board  
**Capita Sinclair Henderson Limited**  
Secretary  
19 November 2010

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## Notice of Annual General Meeting (continued)

### NOTES:

1. *To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast) members must be entered on the Company's register of members at 6 pm on 14 December 2010 (or, in the event of any adjournment, 6 pm on the date which is two days (excluding weekends and bank holidays) before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. A member entitled to attend, vote and speak at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL not later than 48 hours before the time of the meeting. The appointment of a proxy will not prevent a member from attending the meeting and voting and speaking in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll shall have one vote for every Ordinary share of which he/she is the holder.*  
*In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders, and seniority shall be determined by the order in which the names of the holders stand in the register.*  
*Any question relevant to the business of the Annual General Meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Company Secretary at the registered office.*
2. *A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.*
3. *The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in that Note can only be exercised by registered members of the Company.*
4. *As at 18 November 2010 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 14,864,827 Ordinary shares carrying one vote each. The total voting rights of the Company as at 19 November 2010 was 14,719,827 with 145,000 Ordinary shares in Treasury.*
5. *A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company. On a vote on a resolution on a show of hands, each authorised person has the same voting rights as the corporation would be entitled to. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same shares:*
  - a) *if they purport to exercise the power in the same way as each other, the power is treated as exercised in that way;*
  - b) *if they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.*
6. *The following documents will be available for inspection at the registered office of the Company, Capita Sinclair Henderson Limited, Beaufort House, 51 New North Road, Exeter, EX4 4EP during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting at the offices of Chelverton Asset Management Limited, 9 Dartmouth Street, London SW1H 9BP from 11:15 am until the conclusion of the meeting:*
  - a) *A copy of the current Articles of Association of the Company.*

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## Notice of Annual General Meeting (continued)

7. *CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*

*In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID 7RA36) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.*

*CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.*

*The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.*

8. *Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.*
9. *None of the Directors has a contract of service with the Company.*
10. *The Annual Report incorporating this notice of meeting, details of the number of shares in respect of which members are entitled to exercise voting rights at the Annual General Meeting as at 18 November 2010 (the business day prior to publication of this notice) and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the dates of this notice will be available on the Manager's website [www.chelvertonam.com](http://www.chelvertonam.com).*

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## Appendix

### Explanatory notes of principal changes to the Company's Articles of Association

It is proposed to adopt new articles of association ("New Articles") in order to update the Company's existing Articles of Association, primarily to take account of changes in English company law brought about by the Companies Act 2006 ("CA 2006"). The principal changes introduced in the New Articles include the following:

#### **1 Memorandum of association**

Provisions relating to objects in the memorandum have been moved automatically under CA 2006 into the Articles of Association and provisions relating to the authorised share capital have been abolished; the Memorandum will be amended to reflect these changes.

#### **2 Objects clause**

Following the above changes to the Memorandum of Association, the Company will be abolishing the objects clause which has automatically transferred to the Articles of Association of the Company. Therefore, there will be no restrictions on the Company's objects included in the New Articles.

#### **3 Authorised share capital**

The requirement for a company's articles of association to state its authorised share capital and for this to serve as a limit on the maximum number of shares which may be issued by the company is being removed following the abolition of the concept of authorised share capital. Provisions regarding the allotment of shares will be adjusted to include a limitation on the number of shares which Directors may issue in the Company; this limitation will reflect the current authorised share capital.

#### **4 The reduction in notice period for general meetings**

Under the CA 2006 (and secondary legislation) a minimum of 21 clear days notice must be given for all general meetings and AGMs for public companies. However, it is possible for the Company to reduce this to 14 clear days notice for general meetings other than AGMs. The New Articles will include this provision and they will also provide for the notice of meeting to be made available on a website.

#### **5 Change of name**

Under the New Articles, the Company may change its name by the members passing a special resolution or by such terms as are prescribed in the Articles of Association. The New Articles will provide that this can be undertaken by the Directors.

#### **6 Chairman's casting vote**

Provisions relating to a Chairman's casting vote at general meetings are no longer effective under CA 2006; these provisions will therefore be removed.

#### **7 Articles which replicate statutory provisions**

Provisions in the existing articles which replicate provisions contained in the CA 2006 or other existing legislation are, in the main, being amended to bring them into line with, or to cross refer to, the provisions of the relevant legislation.

#### **8 General**

Generally the opportunity will be taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles to the CA 2006. Other changes, which are of a minor, technical or clarifying nature and also some consequential changes which merely reflect other changes made by the CA 2006 have not been noted above.

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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/

..... Number of Shares held

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 Chelverton Asset Management Limited, 9 Dartmouth Street, London, SW1H 9BP at 11.30 am on Thursday, 16 December 2010, and at any adjournment thereof.

Signature .....

Date ..... 2010

☐ Please mark this box to indicate that this proxy appointment is one of multiple appointments being made (see note 7).

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

		FOR	AGAINST	WITHHELD
<b>RESOLUTION 1</b>	To adopt the financial statements for the year ended 31 August 2010, 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 D Horner as a Director of the Company.			
<b>RESOLUTION 4</b>	To re-elect Mr K Allen as a Director of the Company.			
<b>RESOLUTION 5</b>	To re-elect Mr B Lenygon as a Director of the Company.			
<b>RESOLUTION 6</b>	To re-appoint Hazlewoods LLP as Auditors to the Company, and to authorise the Directors to determine their remuneration.			
<b>RESOLUTION 7</b>	To authorise the Directors to allot shares other than in accordance with statutory pre-emption rights.			
<b>RESOLUTION 8</b>	To authorise the Directors to issue shares previously held in treasury at a discount to net asset value.			
<b>RESOLUTION 9</b>	To authorise the Company to renew its authority to make market purchases of its Ordinary shares.			
<b>RESOLUTION 10</b>	To authorise the Company to purchase its Ordinary shares under the Tender Offer.			
<b>RESOLUTION 11</b>	To amend the Articles of Association.			

### 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 on 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 proxy 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, Share Registrars Ltd., Suite E, 1st Floor, 9 Lion and Lamb Yard, Farnham GU9 7LL not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting. Only those shareholders registered in the register of members 48 hours prior to the meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
6. A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution. The "vote withheld" option is provided to enable you to instruct the registered holder to abstain from voting.
7. You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars helpline or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

