CHAMELEON TRUST plc

SC 269598

INITIAL REPORT
for the period 21 June 2004 to 31 May 2005

Investment Objective & Policy

Chameleon Trust plc is a special situations investment trust, which has the objective of making capital profits from investments in ordinary shares of selected UK listed companies. Chameleon Trust plc has a bias towards companies that are at earlier stages of their corporate lifecycle than the typical UK listed company. However, Chameleon Trust plc works within a risk control framework that aims to shift its focus from capital growth to capital preservation at particular stages of the stock market cycle.

For the purposes of Listing Rule 15.4.13R of the Listing Rules of the UK Listing Authority ("UKLA"), the Directors confirm that the Company does not currently hold any investments in UK listed investment companies, including investment trusts, nor is it in the Company's normal course of business to invest in such investment companies. However, in the unlikely event that the Company does decide at some future date to make an investment in any UK listed investment company, it confirms that no more than 15% of its gross assets may be invested in other UK listed investment companies, including investment trusts (as covered by Chapter 15 of the FSA Listing Rules).

Financial Highlights

	(Audited) As at 31 May 2005 Pence	(Unaudited) As at Launch Pence
Net asset value per share	107.9	98.6
Share price	110.0	100.0
Revenue return per share	0.30	–

Contents

Directors & Advisers

Martin Ritchie OBE (Chairman)*†

Age 56. Martin Ritchie was a director of Spider Systems Limited which was sold to Shiva Corporation in 1995. Since then Martin has been a director of a number of small technology businesses, is chairman of both Stortext FM Limited and Pentland Systems Limited. Appointed on 24 September 2004.

Robert Adair†

Age 48. Robert Adair is the chairman of Melrose Resources plc, a listed oil and gas exploration group, which he founded in 1992. It is active in Bulgaria, Egypt and the USA. Robert founded Melrose Energy plc in 1992 and served as chief executive between 1993 and 1995, and subsequently as deputy chairman and finance director until Melrose Resources plc's demerger from Melrose Energy in May 1997. He is also chairman of Terrace Hill Group plc, a property development and investment company. Appointed on 24 September 2004.

Gordon Crawford†

Age 50. Until May 2004, Gordon Crawford was chairman of London Bridge Software Holdings plc, which he founded in February 1987. London Bridge Software Holdings plc listed on the London Stock Exchange in 1997. He was formerly a non-executive director of The Innovation Group plc and Intec Telecom Systems plc. Appointed on 1 October 2004.

Andrew Mickel*†

Age 31. Andrew is a director responsible for strategic land investment with Mactaggart & Mickel Limited, one of Scotland's largest private housebuilders. Andrew Mickel supervises investment activity in his role as a trustee of the Mactaggart & Mickel Pension Scheme. Appointed on 24 September 2004.

* *Independent of the Manager in accordance with the provisions of the Combined Code.*

† *Member of the Audit Committee and Nomination Committee.*

Directors

Martin Ritchie OBE (Chairman)
Robert Adair MA (Oxon), ACA, CTA, FGS (Chairman of the Audit Committee)
Gordon Crawford
Andrew Mickel

Company Secretary

BNP Paribas Secretarial Services Limited
55 Moorgate
London
EC2R 6PA
Tel: 020 7410 5971
Fax: 020 7477 5849
Email: secretarialservice@bnpparibas.com

Manager

Revera Asset Management Limited
15-19 York Place
Edinburgh
EH1 3EB
Tel: 0131 524 6150

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
Tel: 0870 601 5366
www.shareview.co.uk

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Stockbrokers

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Registered Office:

7 West Nile Street
Glasgow
G1 2PX
Registered in Scotland Number: SC269598.
An investment company as defined under Section 266 of the Companies Act 1985.

Chairman's Statement

Introduction

It gives me great pleasure to announce the maiden set of final results for your Company. Chameleon Trust plc commenced trading on the London Stock Exchange on 15 October 2004, with the stated objective of generating capital growth for shareholders from the securities of UK quoted companies, whilst utilising a unique risk control framework that aims to reduce the risk to capital in the underlying portfolio when it is appropriate to do so. The result of the first seven month's work has produced a satisfactory initial performance.

Performance

The Company has an absolute return objective. On 31 May 2005 the net asset value per share of the Company was 107.9p, which represents a 9.4% increase over the Company's starting net asset value per share of 98.6p. The value of the ordinary shares rose from the issue price of 100p to finish at 110p at the period end – an increase of 10%.

Whilst the Directors do not measure the Company's performance against any specific benchmark, it was a benign period to be an equity investor in the UK. The FTSE All-Share Index rose by 8.2% over the same period, whilst there was a marked difference in the performance of shares at the smaller end of the stock market. The FTSE SmallCap Index returned 9.4% over the period, whilst the FTSE AIM All-Share Index managed only to return 1.2%.

An analysis of the distribution of returns within the portfolio by our Manager, Revera Asset Management Ltd, shows a roughly even spread of returns between emerging, established and mature companies over the period.

Our manager estimates that the closing net asset value per share on 28 July 2005 was 113.6p. This gives a return of 15.2% since launch. On the same date the share price was 114.5p, equating to a 14.5% return.

Earnings and Dividends

For the period covering the seven and a half months to 31 May 2005, Chameleon Trust plc generated earnings per share of 0.30p. In line with the Board's policy of paying out all available income at the end of the period, the Directors will recommend a dividend payment of 0.25p per ordinary share for the period ended 31 May 2005, to be paid on 18 October 2005 to all members appearing on the Register at close of business on 12 August 2005. Shareholders will be asked to approve this dividend payment at the Company's Annual General Meeting to be held on Thursday, 13 October 2005 at 12 noon at the offices of Bell Lawrie, 48 St Vincent Street, Glasgow, G2 5TS.

Share Issues

Since admission, your Company's shares have consistently traded at a small premium to net asset value per share. To meet additional demand for shares, the Board has issued a further 2,050,000 ordinary shares at varying premiums to the underlying net asset value per share.

Board

The Directors were specifically selected for their experience in building highly successful companies across a range of business sectors. All the Directors have significant interests in the Company with the total equity held by the Board of Directors totalling 51% of the Company's issued share capital. This has produced a highly motivated Board, which is focused on achieving increased shareholder value. The Board has established a good working relationship with the Manager.

We have also been very aware of the need to comply with the rules and recommendations for corporate governance. In the early months, setting in place the necessary procedures has been a significant overhead in terms of time and resources. Your Board is determined to ensure that we meet the appropriate standards without losing focus on what we are here for – to increase shareholder value.

We were disappointed that Robert Barrow resigned from the Board on 26 April 2005 for personal reasons. In his short period on the Board he made a significant and worthwhile contribution. We are currently reviewing the make-up of the Board before deciding on a new appointment.

Outlook

Your Company's risk framework suggests that the risk to capital values in the UK equity market is low compared to historical levels, and valuations do not look stretched. A broad consensus appears to be emerging that the interest rate cycle in the UK has peaked, which will aid the performance of economically sensitive companies, and renew focus on companies with substantial dividend yields. In both of these regards your Company is positioned well.

I look forward to reporting further progress in the coming year.

Martin Ritchie OBE
Chairman

19 August 2005

Managers' Review

2005 Annual Review

As Managers, we are relatively satisfied with the initial performance of Chameleon Trust plc. In isolation, a 9.4% return on an investment in just over seven months is attractive. This was achieved after costs associated with establishing a portfolio from scratch, which include stamp duty, commission and bid-offer price spreads. By comparison, the FTSE All-Share Index rose by 8.2% in the same period. However the most pleasing aspect is that this performance was achieved against a rather unusual market backdrop. Most bull markets are led in the initial phases by those companies with market capitalisations at the higher end of the spectrum. This time round it has been the smaller and mid sized stocks that have forged ahead. While the headline indicators in the Chameleon risk control framework pointed to bull market conditions, the deeper data suggested that the small cap and AiM markets might pause for breath. We ran with quite high liquidity throughout the period and were therefore well positioned to take advantage of the correction in AiM and IPO valuations in May and June.

In the first four months of this period, economic data was supportive and the demand for new equity was strong. This was undoubtedly helped by a sharp improvement in the quality of businesses being brought to the stock market in the period leading up to Christmas and the early part of the New Year and, by and large, at prices that offered new investors an attractive risk/reward balance. Over that period we carried large cash balances reflecting our view that valuations had become a little stretched particularly at the smaller end of the market, and as a consequence had the resources to capitalise on these opportunities as they emerged. Notable successes in this regard were **Premier Research Group**, a contract research group running Phase II to Phase IV trials into the merits of new drugs, and **La Tasca**, a fast growing group of Tapas bars. Many existing quoted companies used the benign conditions to raise money to facilitate future growth plans or current acquisitions. Our most successful investment in the period fell into the latter category. **Imprint Search & Selection** is an executive search and contractor recruitment company, formed in 2001 by an experienced management team. Since inception the company has grown strongly, and raised £10m in December to fund the successful acquisition of ECMH. The new funds were raised at a price of 145p – on 31 May 2005 the shares had a mid price of 277p.

However, it was also a new issue that provided us with our biggest disappointment in the initial trading period. **Inion Oy** is a manufacturer and developer of biodegradable implants for the treatment of various traumatic injuries – most commonly broken bones. These products have a number of advantages over traditional metal implants in that they do not require secondary treatment to remove them once the injury is healed, and in children they do not restrict future growth of the bone being treated. Most of Inion's product range is sold under licence in the US and Europe by Stryker Corporation. Delays in the ramp up of marketing support by Stryker for the product's launch has led to expectations for sales in the coming year being less than previously thought. We conducted a thorough review of the situation following a meeting with the management and we have concluded that the market has focused too closely on the short-term impact of the delays and that the shares have significant upside potential from here.

One business, **Centurion Electronics**, did not raise new finance, but did have a substantial placing of existing shares to new investors. However, it did not deliver on expectations set at the time of the placing. Very quickly after the event, the company announced that the slow down in consumer demand for high-ticket electrical goods was impacting its profitability. Sentiment towards the stock turned sharply given the recent placing, and the shares were left friendless. Following the same review procedure as Inion, we decided to exit the position.

When we first assumed control of the Company's funds on 15 October 2004, our number one objective was to build a portfolio that was capable of exploiting the substantial growth potential available to investors in emerging businesses, but within a framework that offered counterbalance to the risk by investing to varying degrees in mature, stable businesses.

By and large, we believe that by the end of the reporting period we had created such a portfolio. At 31 May 2005, 27% of the Company's assets were invested in "Emerging" companies (by our definition, any company that has not been profitable in each of the last two annual reporting periods), easily within the 40% limit dictated by our view on the current market phase. At the period end the biggest single investment in an "Emerging" company was **Axis-Sheild**, a developer and manufacturer of diagnostic tests for the medical industry. The company has invested heavily in new products over the last three years with a very substantial drag on profitability. This programme of heightened research spend has come to an end, and the current year's numbers will benefit from both the elimination of the extra costs, and the additional sales from new products recently launched. The next largest investment in this category is **Pursuit Dynamics**, which recently started the commercialisation of its PDX technology for use in the food and beverage industries. Recent licencees have included Campbell Soup Company and Greene King. This technology appears to offer significant process improvements in terms of time and efficiency. Longer term opportunities include fire suppression particularly where accelerants are involved.

Many investments in this category start off by necessity at a lower level. But further down the portfolio list are a number of companies that we are particularly excited about. **Zytronic** has recently moved into profitability on the success of its ZyTouch screen for use in petrol stations and other hostile environments. Over the medium term the company has a huge opportunity to address the market for touch screen/EPOS technologies in the leisure sector with the launch of the low cost ZyPos product range. **Ark Therapeutics** is a developer of new drugs and medical devices. Its first product to market is Kerraboot, a device for the treatment of diabetic foot ulcers and venous leg ulcers. It has been launched in the UK and Europe, and we expect an announcement on a US distributor soon. Future success could come from drugs under development for the treatment of cancer cachexia and brain cancer.

Imprint Search & Selection was the Company's biggest investment by value at the end of the period, and therefore by definition, our biggest investment in the Established category (any business that has been profitable for more than two years, but less than seven). Certain parts of the recruitment market in the UK are undoubtedly difficult as we write this report, but anecdotal evidence suggests that executive search remains strong and Imprint still has to capture most of the benefits associated with its last two acquisitions. In total Established companies accounted for a further 26% of the Company's assets at the end of May, and included companies such as **Arm Holdings** and

Managers' Review
Continued

Wolfson Microelectronics which are leading players in the semi conductor and micro processor chip industries. Neither of these businesses physically manufacture product, but generate sales and profits from value added through design and intellectual property. In many ways they are models of how UK businesses can compete in an industrial setting.

For the entirety of the period under discussion, there has been a marked difference in valuation in aggregate between large and small companies. The FTSE 100 Index has traded in a range of PE ratios which would be considered low within the context of the last 25 years, whilst over the same time period the PE ratio on the FTSE Smallcap (ex Investment Companies) Index frequently sat above 80 – a function of its very strong run over the last two years. Accordingly, we held a larger proportion of large, mature companies than we might have done in less marked circumstances. This, we believe, is one of the most compelling reasons for us to open up the whole investment universe of UK quoted companies to Chameleon Trust plc. Accordingly, at the end of May the Company had a number of investments in its top ten holdings that would be instantly recognisable to the vast majority of lay investors. The UK retail banks feature prominently in the portfolio, a function of their lowly rating and our contention that the interest rate cycle in the UK has peaked.

Many of the remainder fall into the category of "special situations". Perhaps the best example of this is **J Sainsbury**, the long time laggard in the food retail sector. Turnaround situations can frequently be one of the most lucrative sources of investment ideas, and in our experience retailers are slightly easier to turn around than other types of business by virtue of the fast stock turn and flexible supply chains. The initial evidence suggests that new chief executive, Justin King, is leading a turnaround in sales performance that will eventually translate into profit margins returning to more normal levels.

The rating divergence between small and large companies reached its recent apogee in March 2005. Since then, smaller company valuations have fallen. Between 9 March 2005 and 16 May 2005 the FTSE SmallCap Index fell 7.5% and the FTSE AiM Index fell by 16.4%. This obviously increases the potential returns available from existing quoted investments, but it is its secondary impact on the valuation of new equity that gives us most confidence for the future. Going back to February 2005, the flow of new equity into the market suddenly turned into a flood with March seeing the largest number of flotations on AiM in any month since its inception ten years ago. This created indigestion and many flotations went to a discount to their offer price in very short order. As easy gains were no longer available, the appetite for new equity dried up in April and May.

Since mid-May, companies looking for a stock market listing have been required (in general) to attach realistic valuations to their businesses in order to raise new equity. Consequently the prognosis for equity investment in this area improved markedly in the first couple of weeks of the new financial year.

Investors familiar with our approach will know that we use a "traffic light" system for assessing the level of risk inherent within equity investment at any point in time. The framework combines valuation measures based on historic ranges and current stock market momentum. At the time of writing this report, the PE ratio of the FTSE All-Share Index sits at 15.1, below our threshold of 16, which we believe suggests lower risk to capital than at an average point in the stock market cycle. The ratio of inflation-adjusted gilt yields and equity dividend yields also suggests good relative value in equities, sitting at 0.77. Earnings momentum appears gently positive, and the appetite for new equity has picked up from the lows of April and May in response to more realistic valuations, and to a certain extent an improvement in the quality of businesses looking to float. In summary, the current environment falls into the "Bull Phase" risk category. With this assessment we are relatively unconstrained in how we can structure the portfolio to generate attractive returns in the coming months.

Overall the risks to capital values may appear low, but generating capital profits will not happen without a supportive economic backdrop. As ever, there are challenges to economic growth in the UK, not least the current hiatus in consumer spending on big ticket goods. However, employment remains strong, the housing market is returning to normal activity levels and most commentators believe that the next move on UK base rates is down. History would suggest that this is an environment in which equity investment in the UK will be a profitable pursuit.

Revera Asset Management Limited
Manager

19 August 2005

Portfolio Information

Twenty Largest Investments

As at 31 May 2005

Investment	Description of Business	% of Total Assets
Imprint Search & Selection*	Support Services	4.29
Lloyds TSB Group	Banks	3.67
Sainsbury (J)	Food & Drug Retailers	3.13
Aviva	Life Assurance	3.08
GlaxoSmithKline	Pharmaceuticals & Biotech	2.98
Royal Bank of Scotland Group	Banks	2.73
Wolfson Microelectronics Plc	Information Technology Hardware	2.71
Codascisys*	Software & Computer Services	2.70
Axis-Sheild	Health	2.67
Reckitt Benckiser	Personal Care & Household Products	2.45
Total for top 10 holdings		30.41
Shell Transport & Trading	Oil & Gas	2.44
Pearson	Media & Entertainment	2.41
Redrow Group	Construction & Building Materials	2.33
Bloomsbury Publishing	Media & Entertainment	2.24
Standard Chartered	Banks	2.18
Prudential	Life Assurance	2.15
Arm Holdings	Information Technology Hardware	2.13
Pursuit Dynamics*	Engineering & Machinery	2.04
Moss Bros Group	General Retailers	1.92
Close Bros Group	Speciality & Other Finance	1.87
Total for top 20 holdings		52.12
Other equity holdings		43.06
Bonds and net liquidity		4.82
Total		100.0

The total portfolio consists of 57 holdings and has a total value of £13,030,798.

All shares are UK listed. (* These investments are AiM listed.)

Structure of the Trust

As at 31 May 2005

	% of Total Portfolio
Emerging companies	27
Emerging and Established companies	53
Mature companies, bonds and cash	47

Portfolio Valuation

As at 31 May 2005

Holding	Security	Market Value £	Total investments %
	UNITED KINGDOM		
	BASIC INDUSTRIES		
	Construction & Building Materials		
28,500	Bellway Ord GBP0.125	242,820	1.86
23,500	Persimmon Ord GBP0.10	175,663	1.35
200,000	Pilkington Ord GBP0.50	231,500	1.78
80,000	Redrow Group Ord GBP0.10	319,200	2.45
	GENERAL INDUSTRIALS		
	Diversified Industrials		
173,850	Romag Holdings Ord GBP0.25*	150,380	1.15
	Engineering & Machinery		
100,000	Hamworthy KSE Ord GBP0.05*	221,500	1.70
130,000	Pursuit Dynamics Ord GBP NPV*	279,500	2.14
122,500	Zytronic Ord GBP0.01*	246,838	1.89
	NON-CYCLICAL CONSUMER GOODS		
	Health		
125,000	Ark Therapeutics Group Ord GBP0.01	139,375	1.07
130,000	Axis-Sheild Ord GBP0.35	365,300	2.80
48,334	BBI Holdings Ord GBP0.025*	38,909	0.30
300,000	Cozart Ord GBP0.01*	111,000	0.85
	Personal Care & Household Products		
20,000	Reckitt Benckiser Ord GBP0.105	336,000	2.58
	Pharmaceuticals & Biotech		
10,000	Astrazeneca Ord USD0.25 (GBP Quoted)	233,500	1.79
30,000	GlaxoSmithKline Ord GBP0.25	408,000	3.13
191,070	Immunodiagnostic Systems Ord GBP0.02*	118,463	0.91
230,000	Vectura Group Ord GBP0.025*	180,550	1.39
62,500	York Pharma Ord GBP0.05*	65,000	0.50
	RESOURCES		
	Oil & Gas		
70,000	Shell Transport & Trading Ord GBP0.25 (Regd)	334,250	2.57
105,000	Victoria Oil & Gas Ord GBP0.005*	37,538	0.29
	CYCLICAL SERVICES		
	General Retailers		
40,000	Ideal Shopping Direct Ord GBP0.03*	94,400	0.72
250,000	Moss Bros Group Ord GBP0.05	262,500	2.01
	Leisure & Hotels		
182,000	La Tasca Group Ord GBP0.05*	235,690	1.81

Portfolio Valuation
Continued

Holding	Security	Market Value £	Total investments %
	CYCLICAL SERVICES continued		
	Media & Entertainment		
90,000	Bloomsbury Publishing Ord GBP0.0125	307,350	2.36
240,000	Entertainment Rights Ord GBP0.05	63,600	0.49
600,000	Huveaux Ord GBP0.10*	219,000	1.68
50,000	Pearson Ord GBP0.25	329,500	2.53
120,000	RDF Media Ord GBP NPV*	183,000	1.40
40,000	United Business Media Ord GBP0.25	200,000	1.53
	Support Services		
211,600	Imprint Search & Selection Ord GBP0.01*	587,190	4.51
100,000	Mouchel plc GBP0.0025	239,500	1.84
250,000	PHS Group Ord GBP0.10	243,750	1.87
210,000	Spring Group Ord GBP0.10	184,800	1.42
1,000,000	Triplearc Ord GBP0.05*	172,500	1.32
92,750	Yougov Ltd Ord GBP*	136,806	1.05
	NON-CYCLICAL SERVICES		
	Food & Drug Retailers		
150,000	Sainsbury (J) Ord GBP0.286	428,625	3.29
	Telecommunication Services		
175,000	O_2 Ord GBP0.001	223,125	1.71
	FINANCIALS		
	Banks		
48,175	Barclays Ord GBP0.25	251,233	1.93
111,000	Lloyds TSB Group Ord GBP0.25	502,830	3.86
23,100	Royal Bank of Scotland Group Ord GBP0.25	373,296	2.86
30,000	Standard Chartered Ord USD0.50	299,100	2.30
	Life Assurance		
68,500	Aviva Ord GBP0.25	421,960	3.24
60,200	Prudential Ord GBP0.05	294,077	2.26
	Speciality & Other Finance		
35,000	Close Bros Group Ord GBP0.25	255,675	1.96
	INFORMATION TECHNOLOGY		
	Information Technology Hardware		
270,000	Arm Holdings Ord GBP0.0005	291,600	2.24
33,600	Bede Ord GBP0.02	11,592	0.09
600,000	IQE Ord GBP0.01*	42,750	0.33
237,500	Wolfson Microelectronics plc GBP0.1	370,500	2.84
	Software & Computer Services		
100,000	Codascisys Ord GBP0.25*	370,000	2.84
50,000	Matrix Communications GBP0.10*	81,750	0.63
29,050	Royalblue Group Ord GBP0.10	150,334	1.15
84,000	XN Checkout Holdings Ord GBP0.10*	201,600	1.55
1,000,000	Zoo Digital Group Ord GBP0.02*	95,000	0.73
	Total United Kingdom	**12,359,919**	**94.85**

Portfolio Valuation
Continued

Holding	Security	Market Value £	Total investments %
	FINLAND		
	EQUITIES		
	Manufacturing		
227,250	Inion Oy Ord Eur0.03	240,885	1.85
	Total Finland	**240,885**	**1.85**
	ISRAEL		
	EQUITIES		
	Technology		
156,000	Orca Interactive ILS0.01*	198,900	1.53
	Total Israel	**198,900**	**1.53**
	UNITED STATES		
	CAPITAL GOODS		
	Technology		
543,750	Gatekeeper Systems Com USD0.001*	231,094	1.77
	Total United States	**231,094**	**1.77**
	Grand total	**13,030,798**	**100.00**

* All these investments are AiM listed.

Directors' Report

The Directors have pleasure in presenting their report and audited accounts for the period ended 31 May 2005.

Principal Activities and Business Review

The Company was incorporated on 21 June 2004 and commenced trading on the London Stock Exchange on 15 October 2004. A description of the Company's activities during the period to 31 May 2005 can be found in the Chairman's Statement on page 3 and the Manager's Review on pages 4 to 5.

Status

The Company operates as an investment company as defined within Section 266 of the Companies Act 1985 and operated as an investment trust. Whilst the Company has not yet been approved by the Inland Revenue as an investment trust, it has sought to comply with the requirements set out in Section 842 of the Income and Corporation Taxes Act 1988 to qualify as such and will seek the Inland Revenue's approval for the period in the coming year. In addition, it is the Company's intention to continue meeting the conditions required to obtain approval in the foreseeable future and the Company can confirm that it has not provided deferred tax or any capital gains or losses arising on the revaluation or disposal of investments.

The current portfolio of the Company is such that its shares are eligible for inclusion in an Individual Savings Account, and the Directors expect this eligibility to be maintained.

Life of Company

In accordance with the Company's Articles of Association, Chameleon Trust plc has an indefinite life.

Share Capital

As at 31 May 2005, there were 12,755,000 ordinary 1p shares in issue. Full details of the authorised and issued share capital are set out in note 12 of the Financial Statements on page 24.

Results and Dividends

The net revenue for the period is set out in the Statement of Total Return on page 18 of the Financial Statements.

The Directors will recommend a dividend payment of 0.25p per ordinary share for the period ended 31 May 2005 to be paid on 18 October 2005 to all members appearing on the Register at close of business on 12 August 2005.

Net Asset Value

At the period end the net asset value per ordinary 1p share, including retained income, was 107.9p.

Management Agreement

The Company's investments are managed by Revera Asset Management Limited under a Management Agreement dated 8 October 2004. The Manager is authorised and regulated by the Financial Services Authority and at 31 May 2005 had £39m of assets under management.

Under the Management Agreement the Manager will be entitled to a management fee payable monthly in arrears at a monthly rate of 0.0833% of the market capitalisation of the Company (plus VAT at the prevailing rate). The market capitalisation of the Company will be calculated as the product of the number of ordinary shares in issue (less any held in treasury) and the closing mid-market price of the Company's ordinary shares quoted on the London Stock Exchange on the last trading day of the preceding month.

The Management Agreement also provides for the payment of an additional fee to the Manager in the event of the performance of the Company achieving a pre-determined set of criteria. This additional fee will be paid to the Manager in the event that the increase in fully diluted net asset value per share of the Company on the last day of any financial year from 31 May 2006 and thereafter exceeds the highest net asset value per share on the last day of any of the preceding financial years by more than 20 percentage points.

No additional fee was payable by the Company for the period ending 31 May 2005.

The Company or the Manager can terminate the Agreement providing they give not less than 12 months' notice in writing and that such notice shall not expire on any date prior to the second anniversary following admission to listing of the Company's ordinary shares.

In the event of termination by the Company of the Management Agreement on less than the agreed notice period, compensation is payable to the Manager by the Company. The amount of compensation payable shall equal 1% of the market capitalisation of the Company on the date of termination (or, if the date of termination is not the last business day of a month, the last business day of the month preceding the date of termination) reduced pro rata in respect of any period of notice actually given.

Administration and Company Secretarial Agreement

Chameleon Trust plc has entered into an agreement with BNP Paribas Fund Services UK Limited to provide company secretarial and administration services to the Company. BNP Paribas Fund Services UK Limited delegates the provision of secretarial services to the Company to its wholly owned subsidiary, BNP Paribas Secretarial Services Limited. The contract runs for an initial term of 12 months. The fees for these services are set at £49,000 per annum, plus a charge based on the level of gross assets of the Company. All charges are subject to VAT at the prevailing rate. The Agreement may be terminated on six months' notice by either party after 15 October 2005.

Continuing Appointment of the Manager

Revera Asset Management Limited manages the portfolio and the Board believes that the continued appointment of the Manager on its current terms is in the interests of shareholders because of the Manager's specialist knowledge.

Directors

The Company was incorporated and registered in Scotland on 21 June 2004 as a public limited company. On the launch of the Company Mr Glen Nimmo and Mr John Johnston of the Manager were appointed as Directors of the Company on 21 June 2004. They both resigned on 24 September 2004.

The Directors of the Company and their biographical details are shown on page 2. All Directors except Mr Barrow, who resigned as a Director of the Company on 26 April 2005, held office throughout the period under review.

In accordance with the Company's Articles of Association, all of the Directors must stand for election at the Company's first Annual General Meeting and a third will retire by rotation at every AGM thereafter. The Nomination Committee, having reviewed their performance as Directors and their contributions to the operation of the Company, have concluded that the Company benefited from the services of all Directors and accordingly, recommended to the Board that resolutions be put to

Directors' Report

Continued

shareholders at the 2005 Annual General Meeting that Messrs Adair, Crawford, Mickel and Ritchie be recommended for election. The Board concurred with the Nomination Committee's recommendation and recommends that shareholders vote in favour of those resolutions.

There are no other contracts or arrangements subsisting during the period or at the year end in which any of the Directors is or was materially interested and which is or was significant in relation to the Company's business.

Directors' Interests

Director	Ordinary shares held on launch and at the period end	% of the share capital as at the date of this report
Martin Ritchie OBE	250,000	1.96%
Robert Adair	3,500,000	27.44%
Robert Barrow*	300,000	2.35%
Gordon Crawford	2,000,000	15.68%
Andrew Mickel	500,000	3.92%

** Mr Barrow resigned as a Director of the Company on 26 April 2005.*

No further changes to these holdings have been notified as at the date of this report.

Substantial Shareholdings

As at 1 July 2005, the Company had been notified of the following disclosable interests in the ordinary shares of the Company in accordance with Section 198 to 208 of the Companies Act 1985:-

Company	%	%
Clients of Dryden Asset Management including:		41.53%
Robert Adair	27.44%	
Andrew Mickel	3.92%	
Gordon Crawford		15.68%
Sir Reo Stakis Charitable Fund		4.74%

Payment of Suppliers

The Company does not have a specific policy in place for the payment of its suppliers. Rather, the Board seeks to secure the most advantageous possible terms for the Company. Once terms are agreed, the Company will adhere to them accordingly. It is normal practice for all outstanding invoices to be settled within 30 days. The Company had no creditors at close of business on 31 May 2005.

Going Concern

The Directors have prepared the accounts on the going concern basis as, after due consideration, they believe that the Company has the resources to continue in operation into the foreseeable future.

International Financial Reporting Standards

In the forthcoming year the Board will consider the adoption of the new UK accounting standards issued as part of the Accounting Standards Board's ongoing project in harmonisation of UK GAAP with International Financial Reporting Standards. The resulting changes will be detailed in the Company's interim accounts for the six months to 30 November 2005.

Authority to Allot Shares

On 1 October 2004, the Directors were given the powers to allot relevant securities pursuant to Section 80(2) of the Companies Act 1985 (the "Act") up to an aggregate nominal amount of £239,999.98, such authority to expire on 1 October 2009 (unless previously revoked, varied or extended by the Company in general meetings).

Authority to Purchase Own Shares

With effect from 1 October 2004 until the conclusion of the Company's first Annual General Meeting, the Directors have the authority in accordance with Section 166 of the Companies Act 1985 to buy back up to 14.99% of the Company's ordinary shares in issue. The Directors also have authority to buy back and retain in treasury up to 10% of the Company's ordinary shares in issue in any twelve month period.

The Board considers that the Company should continue to have the authority to make market purchases of its own shares for cancellation. Accordingly a special resolution will be proposed at the Annual General Meeting to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue, equivalent to 1,911,974 ordinary shares as at the date of this report. Under the FSA Listing Rules of the UK Listing Authority, this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The Board currently has no intention of using the authority to make market purchases of the Company's shares unless to do so would result in an increase in the net asset value per ordinary share. The Company would only make market purchases within guidelines set by the Board if, or when, market conditions are suitable, with the aim of maximising benefits to shareholders.

Auditors

PricewaterhouseCoopers LLP, the Auditors of the Company, has indicated its willingness to continue in office. The Audit Committee has responsibility for making a recommendation to the Board on the re-appointment of the external auditors. After careful consideration of the services provided to the Company during the period and a review of the effectiveness of the external auditor, the Audit Committee has recommended that PricewaterhouseCoopers LLP be re-appointed as the Company's auditors. Accordingly, resolutions are to be proposed at the forthcoming Annual General Meeting for their re-appointment and to authorise Directors to agree their remuneration for the ensuing year.

Annual General Meeting ("AGM")

The Company's first AGM will be held on Thursday, 13 October 2005 at 12 noon at the offices of Bell Lawrie, 48 St Vincent Street, Glasgow, G2 5TS. Details of the business of the meeting can be found in the Notice of AGM on page 29.

By order of the Board

BNP Paribas Secretarial Services Limited
Secretary

19 August 2005

Corporate Governance

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance (the "Code"), as issued by the Financial Reporting Council in July 2003.

Corporate Governance Principles

During the period to 31 May 2005, the Company complied with the provisions of the Code subject to the exceptions explained below and its special circumstances as an investment trust company. Throughout the period, the Board have attached great importance to the matters set out in the Code and aim to observe its principles. However, since the Company was launched the Board has been embedding the recommendations of the Code on a gradual basis. It should be noted that as an investment trust, all the Directors are non-executive and most of the Company's day to day responsibilities are delegated to third parties.

Board Responsibilities

The Board determines the strategic direction of the Company. It meets at least four times a year to review the investment performance of the Company's investments, the financial position of the Company, its performance in line with the agreed investment objective and all other important issues to ensure control is maintained over the Company's affairs and that it operates within a framework of prudent and effective controls. The Directors also meet ad hoc on an informal basis. A schedule of matters specifically reserved to the Board for its decision has been adopted.

There is a clear division of responsibility between the Chairman, the Directors, the Manager and the Company's other third party service providers. No one individual has unfettered powers of decision. The Chairman, Mr Ritchie, was at the time of his appointment, and remains, independent of the Manager. The Chairman is responsible for leading the Board and ensuring its effectiveness on all aspects of its role. In addition, the Chairman is responsible for ensuring that all Directors receive accurate, timely and clear information as well as ensuring that there is effective communication with shareholders.

The Board sets the boundaries within which the Manager operates. The Manager takes decisions as to the purchase and sale of individual investments and also ensures that the Board receives all relevant management and financial information in a timely manner. Representatives of the Manager attend each Board meeting enabling the Board to review the Manager's performance against the Company's investment objective, the portfolio risk and attribution analysis. In addition, their attendance allows the Board to seek clarification on specific issues. The Board takes responsibility for the content of major corporate communications and the Manager informs the Board of any relevant promotional material that is issued.

The Board has formalised arrangements under which Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Directors have access to the advice and services of the Company Secretary through its appointed representatives, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties. The appointment and removal of the Company Secretary is a matter for the whole Board. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses as appropriate.

The Board, led by the Nomination Committee, has formalised process to evaluate its own performance and that of its Chairman on an annual basis. This process is based upon a self-assessment of the Board's strengths and weaknesses, with the Chairman making a recommendation to improve performance where necessary. Since the Company is newly incorporated, the Directors did not meet formally in this period to complete this review.

The Board has agreed that new appointees will be provided with a full induction programme which covers the Company's strategy, policies and practices. Thereafter Directors are provided with a Director's Manual which is regularly updated by the Company Secretary.

The Board has decided that due to the small size of the Board, it is not necessary to form a separate Management Engagement Committee and, as such, the entire Board will review the performance and terms of appointment of the Manager and other third party service providers on an annual basis.

Directors and Directors' Independence

As at 31 May 2005, the Board comprised of four non-executive Directors. On 26 April 2005, Mr Robert Barrow resigned as a Director of the Board. All the Directors are deemed to be independent of the Manager and independent in accordance with the provisions of the Code, with the exception of Messrs Adair and Crawford who have both invested in the Manager and this constitutes a material business relationship. In addition, Messrs Adair and Crawford are considered to be significant shareholders in the Company which also renders them non-independent in accordance with the provisions of the Code. The Board has considered the position of these Directors with particular care and it was agreed that both Messrs Adair and Crawford contributed significantly through their individual skills, their considerable knowledge of both the Company and the industry and concluded that all the Directors are considered to be independent in character and judgement. The Board will annually review the continued independence of the Directors. However being mindful of the requirement to have a majority of the Board as independent non-executive Directors, following the resignation of Mr Barrow, the Board have resolved to recruit a new Director.

As the Board is comprised solely of non-executive Directors, there is no chief executive position within the Company. During the period under review, it was agreed by the Board that given the small size of the Board, the opportunity for open discussions and the breadth of investment, commercial and professional knowledge of each Director that would enable them to address any concerns conveyed to them, there was not a need to appoint a senior independent Director at the current time. This matter will be reviewed annually. Biographies of all the Directors appear on page 2 and demonstrate the wide range of skills and experience they bring to the Board. All the Directors except Mr Barrow served throughout the period under review.

All of the Directors are appointed for an initial term of three years and are re-appointed in accordance with the Company's Articles of Association and stand for election at the first Annual General Meeting following their appointment. All Directors will stand for election at the forthcoming Annual General Meeting.

Corporate Governance
Continued

All the terms and conditions of non-executive Directors are available for inspection at the registered office of the Company and at the Annual General Meeting.

Board Committees
In order to enable the Directors to discharge their duties, the Board has operated Audit and Nomination Committees during the period. Committee membership is set out on page 2 of this report. No one other than the Committee chairman and members is entitled to be present at the meetings unless invited to attend by the individual Committee. Each Committee is chaired by the Chairman of the Board except the Audit Committee, to which Mr Adair was appointed chairman. Copies of the terms of reference for the Board Committees are available from the Company Secretary.

Audit Committee
The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external Auditors report to the Board. The main responsibilities of the Audit Committee include monitoring the integrity of the Company's Financial Statements and appropriateness of its accounting policies, reviewing the internal control systems and the risks to which the Company is exposed and making recommendations to the Board regarding the appointment of the external Auditor and the external Auditors' independence, objectivity and effectiveness of the audit process.

The Audit Committee has approved and implemented a policy on the engagement of the Auditors to supply non-audit services, taking into account the recommendations of the Accounting Practices Board. Auditor objectivity and independence are safeguarded through a requirement to have all non-audit work which incurs a fee greater than £10,000 to be approved by the Audit Committee prior to the commencement; and the prohibition of the performance of accounting and other services relating to the accounting records of the Company where the Auditors may be required to audit their own work.

Mr Adair, the chairman of the Audit Committee is considered to have relevant financial and investment experience as a result of his employment in the financial services and other industries. In addition, he is a qualified accountant. The Board acknowledges that Mr Adair is not independent in accordance with the provisions of the Code but the Directors believe that it is in the best interests of the Company that he chairs the Audit Committee.

As the Company has no employees there is no dedicated resource to the Audit Committee. However, representatives from BNP Paribas Fund Services UK Limited, which produces the financial information for the Company, are invited to attend and present on issues as required.

The Secretary to the Audit Committee is BNP Paribas Secretarial Services Limited. In addition, representatives of the Manager are invited to attend the Audit Committee meetings and are asked to present on specific issues.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The Administrator has established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. The Manager and the Administrator report on any breaches of law or regulation as and when they arise and on a quarterly basis. The Audit Committee will consider annually whether there is any need for an internal audit function, and it has agreed that it is appropriate for the Company to rely on the internal audit controls which exist within its third party providers. Accordingly, it was agreed that it would be inappropriate to have an internal audit function.

The Company does not have a whistleblowing policy and procedure in place. The Company delegates its main functions to third party providers who have such policies in place and the Audit Committee is happy to accept that these policies meet the industry standards.

Nomination Committee
The Nomination Committee has defined terms of reference and is responsible for identifying and nominating to the Board new Directors, and for considering whether existing Directors should be recommended for election and re-election.

The Nomination Committee is chaired by Mr Ritchie, except on those occasions when the Committee is reviewing the performance of the Chairman. In such instances, an independent non-executive Director chairs the Committee. The Nomination Committee meets at least annually.

Following the resignation of Mr Barrow as a Director of the Company, the Nomination Committee conducted a thorough review of the balance of skills and knowledge of the Board and concluded that the Company would benefit from the appointment of an additional Director. The Committee has identified some suitable candidates but has yet to make a decision. The Board did not consider it necessary to employ a search consultancy, nor to use open advertising.

Board Meeting Dates and Attendance

Meeting date	Attendance
24 November 2004 Board meeting	All Directors attended
2 February 2005 Audit Committee and Board meeting	All Directors attended
19 April 2005 Audit, Nomination Committee and Board meeting	All Directors attended
28 July 2005 Audit, Nomination, Committee and Board meeting	All Directors attended except Mr Crawford*

** Mr Barrow resigned from the Board on 26 April 2005*

Directors' Remuneration
The Board as a whole considers Directors' remuneration in accordance with the limits set by the Company's Articles of Association and a separate Remuneration Committee has not been established.

Under the Listing Rule 15.4.15, where an investment trust company has only non-executive directors, the Code's principles relating to directors' remuneration do not apply. Details of the Directors' remuneration are contained in the Directors' Remuneration Report on page 15.

Corporate Governance
Continued

Board Succession Planning

Since the Company has only been recently incorporated, the Board does not have a timetable for Board succession planning as yet. The Nomination Committee reviewed the tenure policy for Directors during the period and, in recognition of the value of experience bestowed by longevity of service, recommended to the Board that a nine year tenure policy be adopted, subject to rigorous review of individual Directors after six years of service and annual re-election of Directors after nine years. The Board approved and adopted this recommendation.

The Board have agreed a procedure for the appointment of new Directors. Formal consideration of the skills and experience of the Board is undertaken to help identify the capabilities of a new Director when a vacancy arises.

Relations with Shareholders

The Directors are always available to enter into dialogue with shareholders and the Company places a great deal of importance upon such communications. During the period, the Manager, together with the Chairman if requested, is available to meet with the Company's institutional shareholders to discuss the Company's investment strategy, performance and governance. Discussions with shareholders are reported to the Board on a quarterly basis.

All shareholders have the opportunity to attend and vote at the Annual General Meeting of the Company to be held on Thursday, 13 October 2005 and in accordance with the Code, the Notice of Meeting will be circulated 20 working days in advance of the Meeting. At the Meeting the Board and the Manager will be available to discuss issues affecting the Company. Proxy votes are declared at the Meetings. Following the Annual General Meeting the Company will hold a presentation to shareholders at which the Company's performance and prospects will be explained in more detail.

The Company discloses the top twenty investments on a half yearly basis and the top ten holdings are disclosed to the London Stock Exchange at each quarter end in accordance with Listing Rules.

Voting Policy

The Board has delegated discretion to the Manager to exercise voting powers on its behalf. The Manager will seek to vote on all issues raised at general meetings of investee companies.

Internal Controls

The Board recognises that it bears overall responsibility for the Company's system of internal control and for reviewing its effectiveness. As the majority of the Company's systems are maintained on behalf of the Company by third party providers under contract; the Board fulfils its obligations by requiring those service providers to report and give assurance on their internal controls, which are designed to manage rather than eliminate risks. In light of the Board's reliance on these systems and the reports thereon, the Board can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, the Board ensures that these service providers are employed subject to clearly defined contracts.

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

- The Board has carried out and documented a risk and control assessment, which was reviewed during the period and will be kept under ongoing, and at least annual, review.
- The duties of the investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement each other.
- Investment management is provided by Revera Asset Management Limited. The Board is responsible for setting the overall investment policy and monitor the actions of the Manager at regular Board Meetings. The Board reviews information produced by the Manager in detail on a regular basis.
- Administration and Company Secretarial services are provided by BNP Paribas Fund Services UK Limited and BNP Paribas Secretarial Services Limited respectively (together "BNP Paribas"). BNP Paribas reports to the Board on a quarterly basis and ad hoc as necessary. In addition the Board reviews BNP Paribas' annual audited report on internal controls.
- Safekeeping of the Company's assets is undertaken by the Bank of New York.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; the Board monitors their ongoing performance and contractual arrangements to ensure that they remain effective.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.

By the procedures set out above, and in accordance with the Turnbull "Guidance for Directors on the Combined Code" published by the Institute of Chartered Accountants in England and Wales, the Directors have kept under review the effectiveness of the Company's internal controls throughout the period under review and up to the date of this report.

Compliance with the Provisions of the Combined Code

The Directors have reviewed the principles outlined in the Code and consider that, subject to the exceptions detailed above, the Company has complied with the provisions of Section 1 of the Combined Code during the period to 31 May 2005 and up to the date of this report.

Directors' Remuneration Report

The Directors are pleased to present their report on remuneration for the period ended 31 May 2005, in accordance with the Directors' Remuneration Report Regulations.

The Company's Auditors are required to verify certain information contained within the report and accounts. Where information set out below has been audited, it is clearly indicated. The Auditors' opinion is included in the Auditors' Report, which can be found on page 17.

The Board

The Board is comprised entirely of non-executive Directors, who determine their remuneration as a whole. Accordingly, a separate Remuneration Committee has not been appointed.

The Board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the Directors will carry out reviews from time to time of the fees paid to directors of other investment trusts.

As at 31 May 2005, the Board comprised four non-executive Directors, two of whom are independent of the Manager. In accordance with the Company's Articles of Association, new Directors are required to stand for election at the first Annual General Meeting following their appointment, and thereafter, are required to retire by rotation, so that over a three-year period all Directors have retired from the Board and been offered up for re-election.

No Director has a contract of service with the Company but are instead appointed by letters of appointment. A Director may resign in writing to the Board at any time; there are no fixed notice periods nor any entitlement to compensation for loss of office.

Policy on Directors' Remuneration

The Company's Articles of Association limit the fees payable to Directors to £100,000 per annum. The Company's policy is that fees payable to the Directors should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of a high calibre to be recruited.

The Company's policy is for the Chairman of the Board to be paid a higher fee than the other Directors, to reflect his more onerous role and for the Directors' fees to be reviewed from time to time.

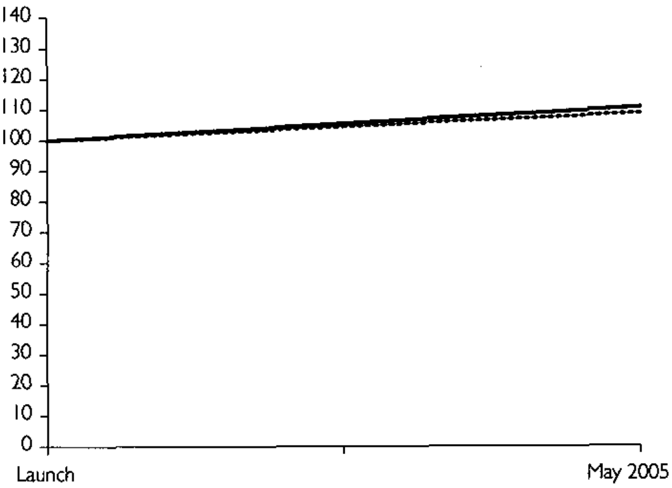
At launch, the Company reviewed the fees being paid to non-executive directors of investment trust companies of a similar size or with a similar investment objective. In addition, corporate governance responsibilities were assessed. Having due regard to this information, at the time of launch it was agreed that the Chairman should be paid a fee of £15,000 per annum with each of the other Directors being entitled to fees of £10,000 per person per annum.

It is the Company's policy that no Director shall be entitled to any benefits in kind, share options, long-term incentives, pensions or other retirement benefits, or compensation for loss of office. It is also considered appropriate that no aspect of Directors' remuneration should be performance-related in light of the Directors' non-executive status. Directors are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company.

It is the intention of the Board, that unless deemed appropriate to implement a revision, the above remuneration policy will continue to apply for the forthcoming and subsequent financial years.

The Company is currently reviewing the need to obtain Directors' and Officers' liability insurance.

Performance Graph



Source: Datastream

In accordance with the Regulations, the performance graph above shows the share price total return to ordinary shareholders from launch to 31 May 2005 compared to the total return on notional investments in the FTSE All-Share Index. The data has been rebased to 100 at the date of launch.

The Board considers that the FTSE All-Share Index to be the most appropriate comparison for the Company against which to track the performance of its share price.

Directors' Fees (audited)

The information in this section has been subject to audit.

The Directors who served during the period to 31 May 2005 received the following emoluments:

Director	Directors' Fees to 31 May 2005
Martin Ritchie OBE	**10,233**
Robert Adair	**6,822**
Robert Barrow*	**5,849**
Gordon Crawford	**6,630**
Andrew Mickel	**6,822**

** Mr Barrow resigned as a Director of the Company on 26 April 2005.*

By order of the Board

BNP Paribas Secretarial Services Limited
Secretary

19 August 2005

Statement of Directors' Responsibilities

In respect of the Financial Statements

Company law in the United Kingdom requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed, and explained the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them and to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report

To the members of the Chameleon Trust plc

We have audited the Financial Statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of fixed asset investments) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the Financial Statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Manager's Review and the Corporate Governance Statement.

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

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of the Company's affairs at 31 May 2005 and of its total return and cash flows for the period from 21 June 2004 to 31 May 2005;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh

19 August 2005

Statement of Total Return (Incorporating the Revenue Account*)

For the period from 21 June 2004 to 31 May 2005

	Notes	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	1,018	1,018
Income from investments	2	167	–	167
Other income	2	41	–	41
Investment management fees	3	(32)	(65)	(97)
Other expenses	4	(143)	–	(143)
Net return on ordinary activities before taxation		33	953	986
Tax on ordinary activities	6	–	–	–
Return attributable to equity shareholders		33	953	986
Dividend payable	7	(32)	–	(32)
Transfer to reserves		1	953	954
		Pence	Pence	Pence
Ordinary and diluted return per ordinary share	8	0.30	8.63	8.93

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

No operations were acquired or discontinued in the period.

The accompanying notes are an integral part of the Financial Statements.

Balance Sheet

As at 31 May 2005

	Notes	£'000	£'000
Fixed assets			
Investments	9		13,031
Current assets			
Debtors	10	475	
Cash at bank and short-term deposits		660	
		1,135	
Creditors: Amounts falling due within one year	11	402	
Net current assets			733
Net assets			13,764
Capital and reserves			
Called up share capital	12		128
Share premium	13		2,245
Capital reserve - realised	13		80
Capital reserve - unrealised	13		873
Revenue reserve	13		1
Distributable reserve	13		10,437
Equity shareholders' funds			13,764
Net asset value per ordinary share (pence)	14		107.9

The Financial Statements were approved by the Board of Directors on 19 August 2005 and were signed on its behalf by:

Martin Ritchie OBE
Chairman

The accompanying notes are an integral part of the Financial Statements.

Cash Flow Statement

For the period from 21 June 2004 to 31 May 2005

	Notes	£'000	£'000
Operating activities			
Investment income received		107	
Deposit interest received		41	
Other cash payments		(150)	
Net cash outflow from operating activities	16		(2)
Financial investment			
Purchase of investments		(20,525)	
Sale of investments		8,371	
Net cash outflow from financial investment			(12,154)
Net cash outflow before financing			(12,156)
Financing			
Issue of ordinary shares		12,984	
Expenses of share issue		(168)	
Net cash inflow from financing			12,816
Increase in cash	17		660

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Accounting Policies

(a) Basis of preparation

The Financial Statements have been prepared in accordance with the Companies Act 1985, applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the "SORP") as issued by the Association of Investment Trust Companies in January 2003. The Financial Statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments.

(b) Investments

Listed investments are at middle market prices. Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised and unrealised surpluses and deficits on the revaluation of investments are taken to the capital reserve.

(c) Income

Dividends receivable on equity shares are treated as revenue for the period on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the period end are treated as revenue for the period. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Provision is made for any fixed income not expected to be received. Interest receivable from cash and short term deposits and interest payable are accrued to the end of the period.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- expenses are charged to realised capital reserves where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 1/3 to revenue and 2/3 to realised capital reserves to reflect the Company's investment policy and prospective income and capital growth.

No performance fee is payable to the Manager for the period to 31 May 2005.

(e) Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or right to pay less tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the Financial Statements
Continued

2 Income

	For the period 21 June 2004 to 31 May 2005 £'000
Income from investments:	
Franked investment income	146
Unfranked investment income	21
	167
Other income:	
Deposit interest	41
Total income	**208**
Total income comprises:	
Dividends	146
Interest	21
Other income	41
	208

3 Investment management fees

	For the period 21 June 2004 to 31 May 2005		
	Revenue £'000	Capital £'000	Total £'000
Investment management fees	27	55	82
Irrecoverable VAT	5	10	15
	32	65	97

The investment management fee payable to Revera Asset Management Limited has been calculated and charged on the following basis:

- an investment management fee of 0.0833% per month on Market Capitalisation, which is chargeable 1/3 to revenue and 2/3 against realised capital reserves.

4 Other expenses

	For the period 21 June 2004 to 31 May 2005 Total £'000
Secretarial fees	9
Administration fees	23
Shareholder services*	8
Directors' remuneration (note 5)	37
Auditors' remuneration	15
Irrecoverable VAT	14
Miscellaneous expenses	37
	143

* Includes registration and promotion expenses.

Notes to the Financial Statements

Continued

5 Directors' remuneration

	For the period 21 June 2004 to 31 May 2005 £'000
R Adair (appointed 24/09/04)	7
R Barrow (appointed 27/09/04)	6
G Crawford (appointed 01/10/04)	7
A Mickel (appointed 24/09/04)	7
M Ritchie (appointed 24/09/04)	10
	37

No pension contributions or other benefits are payable in respect of the service of the Directors.

6 Tax on ordinary activities

	For the period 21 June 2004 to 31 May 2005		
	Revenue £'000	Capital £'000	Total £'000
Corporation tax	–	–	–

The tax assessed for the period is lower than the standard rate of corporation tax (19%). The differences are explained below:

	For the period 21 June 2004 to 31 May 2005 £'000
Revenue return on ordinary activities before tax	33
Revenue returns on ordinary activities multiplied by standard rate of corporation tax 19%	6
Franked investment income adjustment	(27)
Unused management expenses	17
Disallowed expenses	4
	–

The Company has an unrecognised deferred tax asset of £33,000. This has arisen from deductible expenses exceeding taxable income based on the current composition of the portfolio, these expenses are unlikely to be utilised.

7 Ordinary dividends on equity shares

	For the period 21 June 2004 to 31 May 2005 £'000
Proposed final dividend of 0.25p	32

8 Returns per ordinary share

The returns per ordinary share have been based on the following figures:

	For the period 21 June 2004 to 31 May 2005 Number
Weighted average number of ordinary shares	11,039,215

	£'000
Revenue return	33
Capital return	953

Notes to the Financial Statements

Continued

9 Investments

	For the period 21 June 2004 to 31 May 2005 £'000
Movements during the period:	
Purchases	20,794
Sales proceeds	(8,781)
Realised gains	145
Cost at 31 May 2005	12,158
Unrealised gains	873
Valuation at 31 May 2005	13,031
The portfolio valuation:	
Listed on UK stock exchange and AiM at market valuation:	
Equities	13,031
Fixed income	–
	13,031
Gains/losses on investments:	
Net movement in unrealised appreciation	873
Realised gains based on historical cost	145
Gains on investments	1,018

Of the total investments, £4,299,000 is listed on the Alternative Investment market ("AiM").

10 Debtors

	31 May 2005 £'000
Sales for future settlement	410
Prepayments and accrued income	65
	475

11 Creditors: amounts falling due within one year

	31 May 2005 £'000
Purchases for future settlement	269
Accruals	101
Dividends payable on ordinary shares	32
	402

12 Share capital

	Number	31 May 2005 £'000
At 31 May 2005 the authorised share capital comprised:		
Allotted, issued and fully paid:		
Ordinary shares of 1p each	12,755,000	128
Unissued unclassified shares of 1p each	11,245,000	112
	24,000,000	240

On 1 October 2004, Revera Asset Management Limited were allotted 50,000 redeemable shares of £1 each so as to enable the Company to obtain a certificate under Section 117 of the Companies Act 1985. These redeemable shares were redeemed subsequently out of the proceeds of the Offer and redesignated as ordinary shares pursuant to the Articles of Association.

From 15 October 2004 to 31 May 2005, 12,755,000 ordinary shares of 1p each were issued for cash of £12,983,875 to finance the commencement of the Company's activities (resulting in a share premium of £12,856,325).

Notes to the Financial Statements

Continued

13 Reserves

	For the period 21 June 2004 to 31 May 2005				
	Share premium account £'000	Distributable reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000
Issue of shares	12,856	–	–	–	–
Expenses of share issue	(174)	–	–	–	–
Net gains on realisation of investments	–	–	145	–	–
Movement in unrealised depreciation	–	–	–	873	–
Investment management fees	–	–	(65)	–	–
Retained net revenue for period	–	–	–	–	1
Transfer from Share Premium*	(10,437)	10,437	–	–	–
At 31 May 2005	2,245	10,437	80	873	1

* In accordance with the terms and conditions as set out in the Company's prospectus, on 21 March 2005, £10,437,000 was transferred from the share premium to distributable reserve. Subject to the Share Issue becoming unconditional and to the sanction of the Court of Session, the amount standing to the credit of the share premium account of the Company following completion of the Issue (being the amount standing to the credit of the share premium account of the Company immediately following Admission less that part of the amount applied in writing off the Company's preliminary expenses and the expenses of, and the commission paid in connection with, the Issue) was cancelled and the credit arising in the Company's books of account was applied in crediting a distributable reserve in the Company's books of account which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with Section 263(3) of the Act) are able to be applied.

14 Net asset value per ordinary share

The net asset value per ordinary share and the net asset value attributable to the ordinary shares at the period end calculated in accordance with the Articles of Association were as follows:

	31 May 2005 Net asset value per share pence	31 May 2005 Net asset value attributable £'000
Ordinary shares	107.9	13,764

The movements during the period of the assets attributable to the ordinary shares are shown in note 15.

On 1 October 2004, Revera Asset Management Limited were allotted 50,000 redeemable shares of £1 each so as to enable the Company to obtain a certificate under Section 117 of the Companies Act 1985. These redeemable shares were redeemed subsequently out of the proceeds of the Offer and redesignated as ordinary shares pursuant to the Articles of Association.

15 Reconciliation of movements in shareholders' funds

	For the period 21 June 2004 to 31 May 2005 £'000
Movements during the period:	
Net proceeds of issue of shares	12,984
Cost of issue of share premium	(174)
Issue of redeemable shares	50
Redemption of redeemable shares	(50)
Total recognised gains for period	954
Closing shareholders' funds	13,764

Notes to the Financial Statements
Continued

16 Reconciliation of profit before finance costs and taxation to net cash inflow from operating activities

	For the period 21 June 2004 to 31 May 2005 £'000
Revenue return before taxation	33
Investment management fees charged to capital	(65)
Accrued expenses charged to capital	(6)
Increase in accrued franked income	(60)
Increase in prepayments	(5)
Increase in accruals	101
Net cash outflow from operating activities	**(2)**

17 Analysis of changes in net funds

	Cash flows £'000	At 31 May 2005 £'000
Cash at bank and short-term deposits	660	660

18 Derivatives and other financial instruments

The Company's financial instruments, other than derivatives, comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions in the form of forward foreign currency contracts, futures and options. The Company did not carry out any derivative transactions during the period. The purpose of these financial instruments is efficient portfolio management.

The main risks the Company faces from its financial instruments are:

(a) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement;
(b) interest rate risk;
(c) foreign currency risk; and
(d) liquidity risk.

The Board regularly reviews and agrees policies for managing each of the risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures below exclude short-term debtors and creditors.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions as a consequence of price movements and movements in exchange rate.

Further information on the investment portfolio is set out in the Manager's Review on pages 4 and 5.

To mitigate risk, the investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

Current strategy is detailed in the Chairman's Statement on page 3.

Notes to the Financial Statements
Continued

18 Derivatives and other financial instruments continued

Interest rate risk
The Company may finance its operations through bank overdrafts. The Company may borrow, in Sterling at floating rates of interest. The Board imposes borrowing limits to ensure that gearing levels are appropriate to market conditions and revises these limits on a regular basis.

Financial assets
The interest rate risk of the portfolio of financial assets at the balance sheet date was as follows:

	Fixed Interest £'000	Floating Rate £'000	Non-Interest Bearing £'000
Sterling	–	660	13,031

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates.

The non-interest bearing assets represent the equity element of the portfolio.

No interest bearing assets were held in the portfolio.

Foreign currency risk
A proportion of the Company's investment portfolio may be invested in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. The Manager seeks, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. No forward currency contracts were undertaken during the period under review. The revenue account is subject to fluctuation arising on overseas income. The Company does not hedge against this currency risk.

Liquidity risk
The Company's assets comprise readily realisable securities which can be sold to meet funding requirements if necessary. Short-term flexibility is achieved through the use of an overdraft facility which would increase on a floating rate basis.

19 Capital commitments
At the balance sheet date, there were no capital commitments.

20 Related party transactions
Transactions with the Manager are disclosed in note 3. The amount due to the Manager at the period end was £23,547.

There were no other related party transactions.

Shareholder Information

Share Capital

Ordinary shares of 1p each	12,755,000

Share Prices and Net Asset Value Information

The Company's ordinary 1p shares are traded on the London Stock Exchange.

SEDOL number:	B031054
ISIN number:	GB00B0310540
EPIC code:	CHAM

The Company's share price is listed in the ***Glasgow Herald*** and in the ***Financial Times*** under the London Share Service "Investment Companies" sector.

The Company releases the net asset value per share to the market on a Tuesday, based on the value of the assets at the close of business on the previous Friday.

The Company does not offer a share dealing service. The Company's shares may be purchased through the Registrar, a stockbroker, a high street bank share dealing service or other share dealing service.

Financial Calendar

Year end	31 May
Results announced	
Interim	February
Annual	August
Annual General Meeting	October
Annual dividend (if payable)	October

Annual and Interim Reports

Copies of the annual and interim report are available from the Company Secretary – Tel: 020 7410 5971.

Shareholdings

Lloyds TSB Registrars now provide a range of shareholder information on line. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk.

Notice of Meeting

Notice is hereby given that the first Annual General Meeting of Chameleon Trust plc will be held at the offices of Bell Lawrie, 48 St Vincent Street, Glasgow, G2 5TS on Thursday, 13 October 2005 at 12 noon for the purpose of transacting the following business:
To consider and, if thought fit, pass the following resolutions of the Company, resolutions 1 to 9 being ordinary resolutions and resolution 10 being a special resolution.

Ordinary resolutions

1. To receive the report of the Directors and audited accounts for the period ended 31 May 2005.
2. To approve the Directors' Remuneration Report for the period ended 31 May 2005.
3. To declare a dividend of 0.25p per ordinary share.
4. To elect Mr Robert Adair*, as a Director, in accordance with the Company's Articles of Association.
5. To elect Mr Gordon Crawford*, as a Director, in accordance with the Company's Articles of Association.
6. To elect Mr Andrew Mickel*, as a Director, in accordance with the Company's Articles of Association.
7. To elect Mr Martin Ritchie*, as a Director, in accordance with the Company's Articles of Association.
8. To appoint PricewaterhouseCoopers LLP as Auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before members.
9. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors of the Company.

Special resolution

10. THAT, the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the said Act) of ordinary shares of 1p each in the capital of the Company ("ordinary shares"), provided that.
    (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 1,911,974;
    (b) the minimum price which may be paid for an ordinary share is one pence;
    (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Official List for the five business days immediately proceeding the day on which the ordinary share is purchased or such other amount as may be specified by the UK Listing Authority from time to time;
    (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2006 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and
    (e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract;
    such authority to be in substitution for any existing authority.

By order of the Board

S. [signature]

BNP Paribas Secretarial Services Limited
Secretary

Registered office:
7 West Nile Street
Glasgow
G1 2PX

19 August 2005

Registered in Scotland Number: SC269598
An investment company as defined under Section 266 of the Companies Act 1985.

*The biographies of the Directors are set out on page 2.

Notice of Meeting
Continued

Notes

1) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 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 registered on the Company's Register of Members at 6 pm on 11 October 2005. If the meeting is adjourned to a time not more than 48 hours after the specific time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's Register of Members by 6 pm two days before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at a time specified in the notice.
2) A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. A form of proxy for use at the above meeting is enclosed. To be valid, the form of proxy must be completed and deposited at the office of the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZR, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. Lodgement of the form of proxy will not preclude a member from attending and voting at the meeting.
3) Members (and any proxies or corporate representatives appointed) agree, by attending the Annual General Meeting, that they are expressly requesting and that they are willing to receive any communications relating to the Company's securities made at the Annual General Meeting.
4) The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (expect Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:
   a) A statement of all transactions of each Director and of their family interests in the share capital of the Company;
   b) The Memorandum and Articles of Association; and
   c) Terms and conditions of appointment of non-executive Directors.

None of the Directors has a contract of service with the Company.

Form of Proxy

For use at the first Annual General Meeting of Chameleon Trust plc to be held on Thursday, 13 October 2005 at 12 noon at the offices of Bell Lawrie, 48 St Vincent Street, Glasgow, G2 5TS.

I/We* ....

(Delete as appropriate) (BLOCK CAPITALS please)*

of ....

being the holder(s) of ordinary shares of 1p each in the capital of the above-named Company, hereby appoint the Chairman of the meeting (see note 2)

....

or ....

of ....

as my/ our proxy to attend for me/us on my/ our behalf at the Annual General Meeting of the Company to be held at the offices of Bell Lawrie, 48 St Vincent Street, Glasgow G2 5TS on Thursday, 13 October 2005 or at any adjournment thereof.

I/We desire to vote on the resolutions as indicated in the appropriate column below. Please indicate with an "X" how you wish your vote to be cast.

Full details of the resolutions are set out in the Notice of the Annual General Meeting.

Ordinary resolutions	For	Against	Vote Withheld (see note 1)
1. To receive the report of the Directors and audited accounts.	☐	☐	☐
2. To approve the Directors' Remuneration Report.	☐	☐	☐
3. To approve the dividend payment.	☐	☐	☐
4. To elect Mr Robert Adair, as a Director.	☐	☐	☐
5. To elect Mr Gordon Crawford, as a Director.	☐	☐	☐
6. To elect Mr Andrew Mickel, as a Director.	☐	☐	☐
7. To elect Mr Martin Ritchie, as a Director.	☐	☐	☐
8. To appoint PricewaterhouseCoopers LLP as Auditors of the Company.	☐	☐	☐
9. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors.	☐	☐	☐
Special resolution			
10. To authorise the Directors to make market purchases of the Company's own shares.	☐	☐	☐

Dated this .... day of 2005

Signature(s) .... / ....

Notes:

1. The "Vote Withheld" option is provided to enable you to abstain on any particular resolution. It should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of votes "For" and "Against" a resolution.
2. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Meeting" and insert the name and address of the person whom you wish to appoint in the space provided. A proxy need not be a member of the Company.
3. In the case of a corporation this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
4. In the case of joint shareholders any one may sign, but the vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
5. If you do not indicate the way you desire your proxy to vote, you will be deemed to have authorised your proxy to vote or abstain from voting at his or her discretion.
6. To be valid this form of proxy must be completed and deposited (together with any power of attorney, or other authority under which it is signed) with Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZR not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
7. Completion of this form will not preclude you from attending and voting at the meeting if you so wish.
8. Any alteration made to the form of proxy must be initialled.

First fold

Second fold

Business Reply Service
Licence Number SEA 10850

1

Lloyds TSB Registrars
(Registrars for **Chameleon Trust plc)**
The Causeway
Worthing
West Sussex
BN99 6ZR

Third fold and tuck in

Do not affix Postage Stamps if posting in
Great. Britain, Channel Islands, or N. Ireland