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CHAMELEON TRUST plc



Investment Objective & Policy

Chameleon Trust plc (the "Company") is a special situations investment trust, which has the objective of making capital profits from investments in ordinary shares of selected UK quoted companies. Chameleon Trust plc has a bias towards companies within recognised growth industries. 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 UK Listing Authority, 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 2007 (Pence)	(Audited) As at 31 May 2006 (Pence)
Net asset value per share	130.2	129.6
Share price	129.7	136.5
Revenue return per share	0.42	(0.12)

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Risk Framework

The Company's unique risk framework seeks to identify, in an objective way, the underlying risk to an investor's capital when investing in the stock market at any given moment in time

The framework, developed by Revera Asset Management Limited, ("Revera") incorporates a traffic light approach to assessing risk to capital values. By monitoring five key parameters (as detailed below) relating to the stockmarket, and charting them relative to their historic values, one can build a picture of how risky equity investment is at that moment in time.

The ultimate picture consists of a signal for each of the five parameters that may be

GRAPHIC
REMOVED

indicating an increased risk to capital
indicating no strong signal from data
indicating a lowered risk to capital

The Historic Price/Earnings (P/E) Ratio on the FTSE All Share Yield on the FTSE All Share (ex Investment Companies) Index

Over the last 25 years there have been huge swings in this ratio, largely driven by market expectations for future earnings growth. Our analysis suggests that if this ratio is below 16 there is a lower risk to capital values over the following eighteen months, but that if that same ratio sits at or above 22 there is a increased risk to capital values.

The Ratio of 10 year Gilt Yields (Adjusted for Inflation) to the Dividend Yield on the FTSE All Share (ex Investment Companies) Index

This ratio gives an indication of the relative value of investing in government bonds versus UK equities. If the yield on the FTSE All Share is perceived as a "real" yield (i.e. over the long term dividends should rise around the rate of inflation), then if this ratio is below 1.0, you are receiving a better real yield from equities than from gilts. This has historically implied that there is a lower than normal risk to equity values. If the ratio sits above 1.5 our analysis suggests that the underlying risk to equity values is higher than normal.

The Direction of UK Earnings Revisions

The price of equity is ultimately a function of current expectations of future earnings. When confidence about future profitability is high, then the risk to capital values tends to be low, and when the outlook for the future is uncertain the risks to capital are higher. Much of this movement is captured by revisions to analysts' expectations of future profits from individual companies. When taken in aggregate, one gets a bottom up prediction of future profitability. When aggregate estimates are rising, we perceive a lower risk to capital, when they are falling, we perceive an increased risk.

Appetite for New Equity

There are many reasons – such as tax – why an investor may not sell an existing equity holding, even though he or she may feel that it is overvalued. However, there are very few reasons to buy a share, other than if you believe that it will go up in price. Revera monitors the level of appetite for new equity placings, rights issues and initial public offerings as an indicator of risk to capital. A reduction in buying interest is often first

evident in new equity issues and this can indicate a greater likelihood of stock market instability and an increased risk to capital values.

Share Price Momentum

Perhaps the purest measure of momentum in a stock market. When share prices in aggregate have risen by more than 2% in the preceding three months momentum is deemed to be strong, and when they have fallen by more than 2% it is classified as weak.

Summary of Risk Framework

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FTSE All-Share PE ratio	<16	16–22	>22
Real bond yield/equity yield	<1	1–1.5	>1.5
Earnings revisions	+ve	±	–ve
Appetite for new equity	strong	neutral	weak
3mth market direction	>+2%	+2%–(2)%	<(2)%

Using the Risk Framework

The Company's Managers, using the above five parameters, will determine which of the following four phases the stockmarket is in:

- **Bull Phase** – the market is showing *positive momentum*, and there is *reduced valuation risk*.
- **Extended Bull Phase** – the market is showing *positive momentum*, but there is *increased valuation risk*.
- **Bear Phase** – the market is showing *poor momentum*, and there is *increased valuation risk*.
- **Fallow Phase** – the market is showing *poor momentum*, but there is *reduced valuation risk*.

This important phase decision dictates the extent to which the Company can invest in higher risk companies. Specifically this relates to "Emerging" and "Established" companies, where:

- **Emerging companies** – have not been profitable in both of their last two annual reporting periods.
- **Established companies** – have been profitable in both of the last two annual reporting periods, but have not been profitable for seven consecutive annual reporting periods.
- **Mature companies** – have been profitable in all of the last seven annual reporting periods.

Maximum % Exposure Based on Market Phase

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Directors & Advisers

Martin Ritchie OBE (Chairman)*†

Age 58 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 (Chairman of the Audit Committee)†

Age 50 Robert Adair is the executive chairman of Melrose Resources plc, a listed oil and gas exploration group, which he founded in 1992. It is active in Egypt, Bulgaria and the USA. He is also executive chairman of Terrace Hill Group plc, an AIM listed PLC property group and non executive chairman of AIM listed Plexus Holdings. He is also non executive chairman of Revera Asset Management Limited. Appointed on 24 September 2004.

James Leek*†

Age 63 James Leek, a chartered accountant, has had an extensive career in industrial manufacturing with Caparo Group PLC and E Wood Holdings PLC and brings broad and complimentary experience to the Board. He is currently chairman of Pennine Downing AIMVCT 2 PLC. He is also on the boards of Leisure & Media VCT PLC, Pennine Downing AIMVCT PLC and Pennine AIMVCT 5 PLC. Appointed on 31 October 2005.

Andrew Mickel*†

Age 33 Andrew Mickel is a director responsible for strategic land investment with Mactaggart & Mickel Limited, one of Scotland's largest private housebuilders. He supervises investment activity in his role as chairman of trustees of the Mactaggart & Mickel Pension Scheme. Appointed on 24 September 2004.

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

† 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)
James Leek
Andrew Mickel

Administrators and Company Secretary

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Huddersfield
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Shareholder enquiries
Tel 0870 162 3100

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Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
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Custodian/Bankers

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London
E14 5AL

Registered Office

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Glasgow

G2 7JS

Registered in Scotland Number SC269598

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

Chairman's Statement

Introduction

Last year I was pleased to report that in the eighteen months since our launch that our net asset value ("NAV") had increased by 29.6%. It is therefore very disappointing to report on a NAV per share which was little changed over this year at 130.2p. This compares unfavourably against the generally healthy returns seen elsewhere in the stockmarkets.

Your Board is acutely aware of the need to produce good returns for shareholders. This is no academic exercise for us, for, as you will see in the attached Financial Statements, the Directors hold 4,400,000 shares, i.e. 34.96% of the issued equity as at 26 July 2007. Investment performance is our number one priority. To this end, we have carried out reviews with our Manager to identify the underlying issues affecting our performance and to ensure that they put in place the necessary changes to address these issues. We believe the changes adopted by our Manager should give you confidence in the future growth of the fund.

Chameleon Trust is an absolute return trust which aims to make money for its shareholders during periods of stockmarket growth through a disciplined approach to stockpicking and to preserve these gains in more turbulent times by employing a unique traffic light system of risk control. We do not adopt a benchmark based approach to investment and hence do not expect returns to correlate with the main stockmarket indices. However, the disparity in our performance compared to the FTSE All Share Index (which rose by 17.9%) and the FTSE AIM Index (which increased by 8.1%) requires explanation.

Notwithstanding a flat twelve months, our longer term returns have produced a capital return of 32.3% for shareholders since launch.

Economic background

Economic growth both in the US and UK remained on track in spite of a series of interest rate increases by both the Federal Reserve and the Bank of England. It is clear that the primary focus of monetary policy is to curb any inflationary pressures. In consequence, there is every chance that interest rates may increase further. Higher interest rates do not usually provide the backdrop for either strong corporate profit growth or rising stockmarkets. In the main, corporate profitability was unaffected by tighter monetary policy. Despite periodic blips generally occasioned by concerns over US sub prime borrowing or Chinese stockmarket volatility, stockmarkets continued to make headway. In addition, relatively high levels of institutional liquidity and cash bids from private equity houses for leading UK companies supported markets and endorsed equity valuations.

Performance Analysis

When evaluating the return over the year in more detail, attribution analysis demonstrated that as a group the established and mature companies within the portfolio performed well. However a number of our investments in emerging companies encountered business execution issues and financing problems, exacerbated by poor secondary market liquidity and this had a detrimental effect on overall performance. The situations which were the most notable detractors of value were Imate, Celoxica, Servocell, and Quantica. The company specific issues are covered in greater detail in the Manager's Review.

The Manager exited a number of their long standing investments in established and mature businesses at substantial profits. They closed out their bullish stance on housebuilders and banked large gains. Cad/cam

software provider Aveva enjoyed a tremendous share price appreciation driven by growing demand from Far Eastern customers. We sold on valuation concerns Immunodiagnostics Systems, a producer of diagnostic testing kits, has appreciated over five fold since we made our original investment. Recent issue, Matchtech, a specialist engineering recruitment consultancy, has performed well since listing on AIM.

In terms of overall portfolio exposure the Managers have reduced their investment in the banking sector and built up new investments in oil stocks. The proportion of cash and of short dated bonds has risen reflecting the Manager's view that while they have identified a number of attractive investment opportunities, valuations are not yet at the right level.

Change of Emphasis

In light of the above, the Board, in conjunction with the Manager, has decided to significantly increase the proportion of the portfolio invested in companies with demonstrable track records. This change will necessitate a re-alignment of the portfolio and the Board has instructed the Manager to effect this in as timely and cost effective manner as possible. In addition the Manager has revised its risk controls on individual stocks, paying particular attention to new issues. The Board believes these changes should deliver enhanced returns for shareholders in the medium term.

The Company's unique traffic light system of risk control will remain in place as it is entirely consistent with the Company's objective of preserving capital during more turbulent times.

Change of Lead Manager

I am also pleased to announce the appointment of Stephen Grant on 25 June 2007 as the lead individual responsible for the Company's investment portfolio. Stephen joined Revera Asset Management Limited ("Revera") in October 2006 and after a period of familiarisation with the Company, its portfolio and its objectives, Revera decided that this was an appropriate time for Stephen to take full responsibility for the Company's investment portfolio.

Before joining Revera, Stephen had a very successful nine year period running the award winning ISIS Smaller Companies Trust plc.

Earnings and Dividends

For the year ended 31 May 2007, the Company generated earnings per share of 0.25p. The Board's policy is to distribute all available income at the year end and consequently proposes a dividend payment of 0.33p per ordinary share for the year ended 31 May 2007, to be paid on 27 September 2007 to all members on the Register at close of business on 3 August 2007. Shareholders will be asked to approve this dividend payment at the Company's Annual General Meeting ("AGM") to be held on Thursday, 20 September 2007 at 4.00 pm.

The Board encourages as many shareholders as possible to attend the Company's AGM to hear a formal review from the Manager covering the past year and future investment prospects.

Share Issues

The Board recognises that return to shareholders comprises both the change in NAV and the change in the premium or discount at which the shares trade in relation to the NAV. During the year the Company's

Chairman's Statement

Continued

shares moved from trading at a premium to trading at a discount. The Board reaffirms its commitment to ensuring that the issued shares trade at a minimal discount to NAV and bought back 112 million shares for cancellation, amounting to approximately 8% of the issued share capital. The Board also acknowledges the importance of good long term investment performance in determining the relationship between the share price and NAV.

Outlook

Our economic outlook remains positive. Legitimate concerns over rising interest rates, levels of personal borrowing and possibly tighter lines of credit may result in markets suffering periodic bouts of nervousness. However, the corporate sector remains in good health. Strong earnings growth, healthy dividend increases driven by robust underlying cashflow all point to a business environment which is conducive to further progress in stockmarkets. Those companies with strong business propositions will still prosper. The Board believes that there are still sufficient profitable opportunities for the Company to exploit.

Despite a difficult year in performance terms, the Board views the future with increased confidence. The Board believes that the Company's remit and absolute return objective should appeal to a broad range of investors. Further, it believes that the honing of the Manager's approach and the application of tighter risk parameters should generate higher returns for shareholders. We also welcome Stephen Grant's introduction as our Lead Manager.

I look forward to presenting you with a healthier set of results in next year's Annual Report and Financial Statements.



Martin Ritchie OBE
Chairman

2 August 2007

Manager's Review

2007 Annual Review

Performance

During the year ended 31 May 2007, the NAV per share rose by 0.5%. Although this is not a benchmarking trust, by way of comparison, the FTSE All Share Index rose by 17.9%.

The UK economy continued to grow at close to trend, in spite of five quarter point rises in the Bank of England base rate. Minutes from the Bank of England meetings indicate that the Monetary Policy Committee ("MPC") is worried about inflation running ahead of its target of no more than 2%. Consensus opinion now believes that the MPC may increase rates further to curb inflationary pressures in the economy. US economic growth has been similarly encouraging although there is growing concern that problems with sub prime borrowing will afflict the wider economy. A good barometer of economic health, the housing market continued to show year on year growth although in recent months there have been signs of this growth abating.

Markets were able to ignore these issues as corporate profit growth was strong and outlook statements generally confident. Corporate health was further endorsed by strong underlying cashflows which manifested themselves in attractive rates of dividend growth and share buy backs. Markets forecasts suggest that the highest rates of earnings growth will continue to be found in small and mid cap companies. While earnings growth is slower in large companies to some extent this is mitigated by the rating differential between mid cap and large companies.

Against this benign backdrop, it is disappointing to report that the Company made no significant headway over the course of the year. This factor requires some further analysis.

Attribution Analysis

We classify our investments into mature, established and emerging companies. In analysing the performance contribution from each classification, we experienced good returns from our investments in established and mature companies and significant value detractor from the emerging section of the portfolio.

Looking at the emerging companies there were three common themes as to why these investments produced poor returns. The weaknesses we identified related to business execution, insufficient financing and secondary market liquidity. On a stock level the most significant detractors of value were as follows: **Imate**, a designer of Smartphones, which experienced issues with quality control from two of its key suppliers and consequently was unable to satisfy customer demand during important selling periods. There were large downgrades in revenue and profit projections. **Celoxica**, a provider of technology for accelerated computing systems, was unable to achieve the wider sales penetration required to hit its revenue targets. It was refinanced on disadvantageous terms for existing shareholders. **Servocell**, a provider of Active Latch technology that offers low energy products for the lock market, could not convert customer interest into firm product orders. A series of revenue and profit downgrades impacted the share price. **Quantica**, a recruitment business, experienced textbook problems in managing a people business which has grown through acquisition. Freedoms developed and the centre lost touch with local performance. High profile staff departures and missed forecasts took their toll on the

share price. **Netservices**, a provider of converged voice and data networks, experienced delays in orders shortly after listing and never recovered from issuing a profit warning so early in its stockmarket life. We have exited several of our investments in this area.

In contrast, the portfolio enjoyed a number of positive contributions from our mature and established companies. We invested in several of the UK's leading housebuilding companies – **Persimmon**, **Bellway** and **Bovis** – over two years ago. Our belief was that housebuilders were well placed to exceed consensus earnings expectations through a combination of clever land buying and a favourable demographic for new homes. This subsequently proved to be accurate. However a series of management updates in March caused us to re appraise our investment in the sector. The growing proportion of investment buyers coupled with affordability issues excluding first time buyers led us to conclude that the great run enjoyed by housebuilding shares was about to end. We exited all our investments. **Aveva**, a supplier of CadCam software to design engineers, experienced further strong growth in demand from end customers in the Far East. The subsequent upgrades in earnings estimates drove the share valuation to a level which we found difficult to justify. Again we were able to bank significant profits. We backed a new management team at **Parity Group**, an IT resourcing business. The cost cutting and re focussing of Parity's business was quickly and effectively implemented and we are minded to back the team in their efforts to grow Parity's revenues. When **Xaar**, the specialist printhead manufacturer, encountered problems with its Chinese customers, we viewed this as a buying opportunity. The problems were not of Xaar's making and likely to be resolved quickly. Although revenues were downgraded for 2006, the longer term growth story remains intact. The shares recovered after management indicated a resumption of more normal trading patterns in China and the potentially hostile purchase of 3% of Xaar's equity by Danaher Corporation. As with Aveva, we exited the investment once the shares appreciated to a level which discounted the recovery in trading.

Activity

Our buying strategy is one of patience. We are reluctant to chase prices, particularly when so many are inflated by perceived private equity bid premium. The most important sectoral decision was to increase our exposure to the oil sector. We made new investments in **BP** and **Bowleven**. The former has been the focus of some adverse media coverage but is materially undervalued when compared to its global peers. Bowleven's stockmarket history is chequered but we believe that the new management team can deliver an uplift in shareholder value. A defensive earnings stream and the prospect of industry consolidation lead us to make a new investment in **GlaxoSmithKline**. Whilst there is some adverse sentiment overhanging the retail sector, we believe that **Next's** history of creating shareholder value and a stronger product offering should see it rebound later this year.

We purchased **Hilton Foods**, a leading specialist meat packing business supplying major international food retailers across Europe. It is a well invested business with scope to win major new accounts. New investment **Pure Wafer** has a market leading position in supplying wafer

Manager's Review

Continued

reclaim services to semiconductor manufacturers. It reconditions test wafers which are an integral part of the semiconductor manufacturing process. With the industry set to move to using 300mm wafers, Pure Wafer appears well set for several years of growth.

The most significant sales were of **Barclays** and **Lloyds TSB** to reduce our investment in the banking sector. We booked significant profits in **Immunodiagnostic Systems**, a manufacturer of diagnostic test kits for the clinical and research markets, returning over six times our original stake. As detailed earlier, we exited a number of investments in emerging companies.

Investment Process

We will retain our process for evaluating new investments. We believe that it works well but we will alter the focus of the portfolio. We intend to concentrate our efforts on identifying companies which have the following characteristics: established industry positions, a transparent relationship between reported profits and cashflow, operate in markets which have structural growth characteristics and, lastly, have acknowledged managerial talent. We believe these changes will be to the benefit of shareholders and allow us to capitalise on those areas of the portfolio where we have a proven track record of success. In addition we have imposed a 1% limit on any Initial Public Offering ("IPO") investment. This can be increased but only after a subsequent meeting with management. We will also set a strict limit on the amount of an IPO free float that our investment represents.

Traffic Lights

The traffic light system which we employ is designed to anticipate major stockmarket corrections, not short term trading ranges. The signals which we use aim to identify whether equities look cheap or expensive relative to historic patterns, the relative valuation of equities and bonds, the direction of changes in earnings expectations, and, assess prevailing stockmarket sentiment through investors' appetite for new equity and three month change in stockmarket levels. The traffic lights suggest that equities remain cheap by historic standards. Despite the recent rise in bond yields, the bond/equity valuation does not appear unduly stretched, although one consequence is to make longer duration stocks less compelling. In summary from a top down perspective we perceive little threat to capital values.

We would remind shareholders that the percentages shown on page 2 are limits not target asset allocations.

Outlook

Our investment approach is more a case of playing to our strengths rather than a new departure. It has delivered very strong returns in mature and established businesses. A concentrated portfolio of shares, constructed using a soundly based research driven investment approach should generate more than acceptable return for shareholders over the medium term.

There are challenges for policymakers in the developed economies most notably inflation and personal debt. The US economy through the sub prime borrowing and housing markets provides the greatest source

of uncertainty. The Fed has a track record of responding to slowing economic growth by cutting interest rates with surprising alacrity if the occasion demands. However, in aggregate, we do not believe that economies are showing signs of undue stress. Close monitoring of both earnings forecasts and company statements reveals no sign of pressure on profit margins. Although there may be further interest rate rises before the Bank of England feels confident that inflation is under control, the economy feels sufficiently robust to cope. Global economic activity continues to be buoyed by growth in China and India.

Corporate confidence is high. The vast majority of public companies are enjoying favourable trading conditions and rewarding shareholders either through relatively large dividend increases or value enhancing share buybacks. We see prospects for capital appreciation across the market spectrum.

Hence, our bullish stance is derived from a combination of strong company fundamentals and historical precedent.

Revera Asset Management Limited
Manager

2 August 2007

Portfolio Information

Twenty Largest Investments

As at 31 May 2007

Investment		Description of Business	2007 % of Total Assets	2006 % of Total Assets
1	UK Treasury 8.5% 16/07/07	Fixed Interest	8.54	—
2	BP	Oil & Gas	5.27	—
3	GlaxoSmithKline	Health	4.53	—
4	Kewill Systems	Software & Computer Services	4.53	—
5	Matchtech Group	Support Services	3.93	—
6 (8)†	Royal Bank of Scotland Group	Banks	3.77	3.19
7	Pure Wafer	Electronic & Electrical Equipment	3.39	—
8 (10)†	Aviva	Life Assurance	3.21	2.76
9 (15)†	Itis Holdings	Transport	3.02	2.24
10	Panty Group	Software & Computer Services	2.89	—
Total for top 10 holdings			43.08	
11	Mothercare	General Retailers	2.69	—
12	Inspicio	Support Services	2.36	—
13	HBoS	Banks	2.31	—
14	Ark Therapeutics Group	Health	2.23	—
15	Next	General Retailers	2.08	—
16	Bloomsbury Publishing	Media & Entertainment	2.06	—
17	Hilton Food Group	Leisure & Hotels	2.02	—
18	Axon Holdings*	Information Technology Hardware	1.98	—
19	Byotrol PLC	Transport	1.96	—
20	Gatekeeper Systems Com*	Technology	1.89	—
Total for top 20 holdings			64.66	
Other equity holdings			34.26	
Net equity			1.07	
Total			100.00	

† Numbers in brackets represent last year's position

The total portfolio consists of 52 holdings and has a value of £16,850,723

All shares are UK listed (* these investments are AIM listed)

Structure of the Portfolio

As at 31 May 2007

	2007 % of Total Portfolio	2006 % of Total Portfolio
Emerging companies	27%	30%
Established companies	38%	22%
Emerging and established companies	65%	52%
Mature companies, bonds and cash	35%	48%

Portfolio Valuation

As at 31 May 2007

Holding	Security	Fair Value £	% of Total Portfolio %
FINLAND			
Mining			
21,250	Talvivaara Mining Co Eur	55,250	0.33
UNITED KINGDOM			
GENERAL INDUSTRIALS			
Electronic & Electrical Equipment			
138,000	Citel ORD GBP0.038*	73,140	0.43
142,000	DSG International Ord GBP0.025	238,986	1.42
175,000	Pure Wafer GBP0.02*	577,600	3.43
705,556	Servocell Group Ord GBP0.01*	246,945	1.47
NON CYCLICAL CONSUMER GOODS			
Health			
265,000	Ark Therapeutics Group Ord GBP0.01	380,275	2.26
64,500	Glaxosmithkline Ord GBP GBP0.025	844,950	5.01
Pharmaceuticals & Biotech			
90,000	Carclo Ord GBP0.05	101,700	0.60
86,095	Immunodiagnostic Systems Ord GBP0.02*	209,211	1.24
200,000	Vectura Group Ord GBP0.00025*	170,600	1.01
RESOURCES			
Oil & Gas			
960,429	Ascent Resources Ord GBP0.01*	156,070	0.93
105,235	Bowleven Ord GBP0.10*	211,522	1.26
159,000	BP Ord USD0.25	897,555	5.33
48,205	Hardy Oil & Gas Ord*	229,456	1.36
855,000	Plexus Ord GBP0.01*	282,150	1.67
CYCLICAL SERVICES			
General Retailers			
60,000	Dunelm Group Ord GBP0.01	121,800	0.72
780,000	Jacques Vert PLC Ord GBP0.10*	187,200	1.11
112,500	Mothercare Ord GBP0.50	458,719	2.72
16,000	Next Ord GBP0.10	353,440	2.10
184,500	Vertu Motors Ord GBP0.10*	142,065	0.84
Leisure & Hotels			
185,000	Hilton Food Group Ord GBP	344,100	2.04
Media & Entertainment			
188,756	Bloomsbury Publishing Ord GBP0.0125	351,558	2.09
370,000	Tinopolis Ord GBP1.00*	129,600	0.77
Support Services			
169,600	CMR Fuel Cells Ord GBP0.10*	220,480	1.31
216,667	Inspicio Ord GBP0.10*	401,917	2.39
138,103	Matchtech Group GBP0.01*	669,800	3.98
2,700,000	Triplearc Ord GBP0.05*	128,250	0.76
155,000	Nationwide Accident Repair GBP12.5*	235,600	1.40
375,000	Work Group Ord GBP0.02*	319,000	1.89
Transport			
557,500	Bytrol PLC GBP0.0025	334,600	1.99
676,500	Itis Holdings Ord GBP0.02*	514,140	3.05

Portfolio Valuation

as at 31 May 2007 continued

Holding	Security	Fair Value £	% of Total Portfolio %
NON CYCLICAL SERVICES			
Telecommunication Services			
385,250	Netservices Ord GBP0 0025*	53,935	0 32
962,180	Telephonetics PLC Ord GBP0 01*	81,785	0 49
FINANCIALS			
Banks			
36,200	HBoS Ord GBP0 25	393,594	2 34
102,300	Royal Bank of Scotland Group Ord GBP0 25	641,933	3 81
Life Assurance			
68,500	Aviva Ord GBP0 25	546,630	3 24
Investment Companies			
Speciality & Other Finance			
123,950	Ludorum Ord GBP0 01*	130,148	0 77
50,000	Resolution Ord GBP0 05	316,000	1 88
INFORMATION TECHNOLOGY			
Information Technology Hardware			
420,880	Axeon Holdings GBP0 05*	336,704	2 00
125,000	Coda Ord GBP0 25*	235,000	1 39
2,092,007	IQE Ord GBP0 01*	308,571	1 83
37,412	MTL Instruments Group Ord GBP0 10	188,931	1 12
Software & Computer Services			
338,571	Ascribe Ord GBP0 01*	206,528	1 23
705,000	At Communications Ord GBP0 01*	282,000	1 67
250,768	Bango Ord GBP0 20*	112,846	0 67
39,980	Chelford Group Ord GBP0 01*	55,972	0 33
930,000	Kewill Systems Ord GBP0 01	771,900	4 58
85,000	Maxima GBP0 01*	242,250	1 44
615,125	Parity Group Ord GBP0 02	492,100	2 92
214,540	Z Group Ord GBP0 05*	90,107	0 53
Total United Kingdom		15,074,363	89 46
UNITED STATES			
CAPITAL GOODS			
Technology			
606,000	Gatekeeper Systems Com USD0 001*	321,180	1 91
Total United States		321,180	1 91
FIXED INTEREST			
1,450,000	UK Treasury 8 5% 16/07/07	1,454,930	8 63
Total Fixed Interest		1,454,930	8 63
Grand Total		16,850,723	100 00

* All these investments are AIM listed

Directors' Report

The Directors have pleasure in presenting their Report and audited Financial Statements for the year ended 31 May 2007

Principal Activities and Business Review

A description of the Company's activities during the year ended 31 May 2007 can be found in the Chairman's Statement on pages 4 and 5 and in the Manager's Review on pages 6 and 7

This business review has been prepared in accordance with the requirements of Section 234 ZZB of the Companies Act 1985 ("Section 234"), Schedule 7 Part 1 of the Companies Act 1985 and current best practice. The objective of the Directors has been to provide a balanced and comprehensive review that is consistent with the size and complexity of the business. As an externally managed investment trust entity, the Company has no employees and delegates most of its functions to third party service providers. Accordingly your Board has focussed this review on the Company's financial performance during the year ended 31 May 2007.

The business review is addressed only to shareholders as a body, and no liability can be admitted by the Directors to any other parties in connection therewith. The purpose of the business review is limited to its statutory purpose, namely to assist shareholders in assessing the Company's strategies and the potential for those strategies contained in the business review to reflect the knowledge and information available to the Directors at the date the business review was prepared. The business review will not be updated during the next financial year, but any forward looking statements contained in the business review will be considered in the preparation of the next business review.

Status

The Company operates as an investment company as defined within Section 266 of the Companies Act 1985 and operates as an investment trust. HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 May 2006. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it would continue to qualify.

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.

Financial Position

The net revenue for the year is set out in the Income Statement on page 20 of the Financial Statements.

At the year end the net asset value per ordinary 1p share, including retained income, was 130.2p (2006: 129.6p).

For the year ended 31 May 2007, the Company generated earnings per share of 0.25p. The Board's policy is to distribute all available income at the year end and consequently propose a dividend payment of 0.33p per ordinary share for the year ended 31 May 2007, to be paid on 27 September 2007 to all members on the Register at close of business on 3 August 2007. Shareholders will be asked to approve this dividend payment at the Company's Annual General Meeting to be held on Thursday, 20 September 2007 at 4.00 pm at The George Hotel, 19-21 George Street, Edinburgh EH2 2PB.

A number of performance measures are considered by the Board and the Manager in assessing the Company's success in achieving its

objectives. The key performance indicators ("KPIs") used to measure the progress and performance of the Company over time are as follows:

- **Performance** The Company has an absolute rate of return objective and as such does not have a specific stockmarket index as a benchmark. However, the Chairman's Statement on pages 4 and 5 lays out several market indices as points of reference. In addition to the above performance indicators, the Board assesses the discount/premium at which the share price stands against the underlying attributable net assets. At 31 May 2007 the shares stood at a premium of 2.51% (2006: 5.3%) to the diluted net assets per share, reflecting the Company's performance record.
- **Total expense ratio** The Company's total expense ratio ("TER") is also reviewed by the Board as a measure of the Company's performance. As at 31 May 2007 the TER was 2.5% (2006: 2.2%).

In addition to the above KPIs, the Board monitors the activity in the Company's shares and any discount to the net asset value.

The Board considers that stability in the premium/discount comes from good long term performance. No premium/discount targets have been set, but in the event that the shares trade at a discount, the Board has empowered the Manager to exercise the Company's authority to buy back shares, within guidelines established for this purpose.

Market/Company Performance

The objective of the Company is to make capital profits from investments in ordinary shares of selected UK quoted companies. In seeking to achieve this objective, Revera Asset Management Limited has been appointed as Manager and has responsibility for the day to day running of the Company's investment portfolio. Details of how the Company has performed for the year under review and the key factors that influenced this return are set out in the Chairman's Statement and the Manager's Review.

The performance of the Company is reviewed regularly by the Board. As the investment policy is broad, it affords the Manager flexibility as to where it invests.

Principal Risks and Uncertainties

The Company has established a risk management framework within the context of the Company's overall objective to achieve capital growth by investing in companies quoted on the London Stock Exchange. The Board and the Audit Committee are responsible for the monitoring of the risk framework. The framework enables the Company to assess the overall risk exposure of the Company and to develop a risk map which identifies the potential impact to the Company and the risk management approach.

Within the context of the Company's overall objective, the Board has identified the principal financial risks which are set out in note 17 to the Financial Statements on pages 30 and 31.

Operational risk

As the Company's main functions are delegated to third party service providers, operational risk arises from inadequate processes of internal control. This would include, for example, compliance with statute and regulation governing the functions of the Company.

Directors' Report

Continued

Operational risks are assessed by the Board and the Board receives timely reports from its main service providers as to the internal control processes in place within those organisations, which serve to minimise the risk exposure to the Company. The Board and Audit Committee annually review the internal control reports of the Company's service providers, produced in accordance with Financial Reporting and Auditing Guidance (FRAG 21).

Outlook

Schedule 7 Part I of the Companies Act 1985 requires that this Report should contain an indication of the "likely future developments in the business of the company". This is outlined in the Chairman's Statement on pages 4 and 5, and is not meant to be a detailed forecast in any way.

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 2007, there were 13,085,000 ordinary 1p shares in issue. During the year ended 31 May 2007, the Company bought back 1,120,000 shares for cancellation at a cost of £1,401,337.50. Since the year end, the Company has bought back 500,000 shares for holding in Treasury at a cost of £612,240. At the date of this Report, the total issued share capital is 12,585,000, excluding those held in Treasury. Full details of the authorised and issued share capital are set out in note 12 of the Financial Statements on page 28.

Management Agreement

The Company's investments are managed by Revera Asset Management Limited under a Management Agreement ("Agreement") dated 8 October 2004. The Manager is authorised and regulated by the Financial Services Authority and at 31 May 2007 had £64m of assets under management.

Under the Agreement the Manager is 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 is 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 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 2007 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 year ended 31 May 2007 (2006: £nil).

The Company or the Manager can terminate the Agreement providing they give not less than twelve 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

The Company 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 (the "Administrator") delegates the provision of secretarial services to the Company to its wholly owned subsidiary, BNP Paribas Secretarial Services Limited (the "Company Secretary"). 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.

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 Directors of the Company and their biographical details are shown on page 3. All Directors held office throughout the year under review.

In accordance with the Company's Articles of Association, Mr Mickel will be retiring by rotation and, being eligible, will be seeking re-election by shareholders at the Annual General Meeting. The Nomination Committee have reviewed the performance of this Director and his contribution to the operation of the Company and have concluded that the Company benefited from his services and accordingly recommended to the Board that a resolution be put to shareholders at the 2007 Annual General Meeting that Mr Mickel be recommended for re-election. The Board concurred with the Nomination Committee's recommendation and recommends that shareholders vote in favour of this resolution.

There are no other contracts or arrangements subsisting for the year ended 31 May 2007 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 as at 31 May 2007	Ordinary shares held as at 31 May 2006	% of the share capital as at the date of this Report
Martin Ritchie OBE	250,000	250,000	1.99%
Robert Adair	3,500,000	3,500,000	27.81%
James Leek	150,000	125,000	1.19%
Andrew Mickel	500,000	500,000	3.97%

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

Directors' Report

Continued

Substantial Shareholdings

As at 5 July 2007, the Company had been notified of the following disclosable interests in the ordinary shares of the Company:

Beneficial Holder	Shareholding %
Robert Adair	27.27%
Gordon Crawford	15.58%
Premier Enterprise Fund	5.45%
South Yorkshire Pensions Authority	5.45%
Andrew Mickel	3.90%

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 trade creditors at close of business on 31 May 2007.

Going Concern

The Directors have prepared the Financial Statements 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.

Authority to Allot Shares

On 1 October 2004, the Directors were given the power 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 10 October 2006 until the conclusion of the Company's third 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. During the year ended 31 May 2007, 1,120,000 ordinary shares were purchased for cancellation at a cost to the Company of £1,401,337.50.

The Board considers that the Company should continue to have the authority to make market purchases of its own shares. Accordingly a special resolution will be proposed at the Annual General Meeting to authorise the Company to make market purchases of up to 14.99% of the ordinary shares in issue, equivalent to 1,886,491 ordinary shares 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 authority for the Company to purchase its own ordinary shares will, by virtue of Treasury Shares Regulations, allow the Company to hold ordinary shares so purchased in Treasury, as an alternative to immediate cancellation, provided that the number of ordinary shares held in

Treasury is not more than 10% of the Company's issued share capital. 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.

Independent Auditors

PricewaterhouseCoopers LLP, the Independent Auditors of the Company, have indicated their 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 year 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.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Annual General Meeting ("AGM")

The Company's third AGM will be held on Thursday, 20 September 2007 at 4.00 pm at The George Hotel, 19-21 George Street, Edinburgh EH2 2PB. Details of the business of the meeting can be found in the Notice of AGM on page 33.

By order of the Board



BNP Paribas Secretarial Services Limited
Secretary

2 August 2007

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. In addition, the AIC Code of Corporate Governance was issued by the Association of Investment Companies and provides specific corporate governance guidelines to investment trusts.

Corporate Governance Principles

During the year ended 31 May 2007, 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 year, the Board have attached great importance to the matters set out in the Code and aim to observe its principles. 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 on an ad hoc 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 a 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 recommendations to improve performance where necessary.

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 2007, the Board comprised four non executive Directors. 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 Mr Adair who was appointed the non executive chairman of Revera Asset Management Limited in 2006 and has invested in the Manager and this constitutes a material business relationship in accordance with the Code. In addition, Mr Adair is considered to be a significant shareholder in the Company which also renders him non independent in accordance with the provisions of the Code. The Board has considered the position of this Director with particular care and it was agreed that Mr Adair contributed significantly through his individual skills, and a considerable knowledge of both the Company and the industry. It was further concluded that all the Directors were considered to be independent in character and judgement. The Board annually reviews the continued independence of the Directors.

As the Board is comprised solely of non executive Directors, there is no chief executive position within the Company. During the year 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 is reviewed annually. Biographies of all the Directors appear on page 3 and demonstrate the wide range of skills and experience they bring to the Board. All the Directors served throughout the year 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 the terms and conditions of the non executive Directors' appointments are available for inspection at the registered office of the Company and at the Annual General Meeting.

Corporate Governance

Continued

Board Committees

In order to enable the Directors to discharge their duties, the Board has operated Audit and Nomination Committees during the year. Committee membership is set out on page 3 of this Report. No one other than the Committee Chairman and members are 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, of 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 and remuneration of the external Auditor and considering the external Auditors' independence, objectivity and the 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 might otherwise find themselves auditing 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 based on his extensive experience in financial services.

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 assurances 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, the Board has concluded that an internal audit function is not necessary at the present time.

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 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.

Board Meeting Dates and Attendance

Meeting date	Attendance
10 October 2006	
Nomination Committee, Board meeting and Annual General Meeting	All Directors attended
23 January 2007	
Audit Committee and Board meeting	All Directors attended except Mr Mickel
24 April 2007	
Audit, Nomination Committees and Board meeting	All Directors attended
24 July 2007	
Audit, Nomination Committees and Board meeting	All Directors attended

Corporate Governance

Continued

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 17

Board Succession Planning

The Board does not have a timetable for Board succession as yet. The Nomination Committee reviewed the tenure policy for Directors during the year 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 year, the Manager, together with the Chairman if requested, is available to meet with the Company's 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, 20 September 2007 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 the FSA 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 and followed 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 year 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 year 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 year ended 31 May 2007 and up to the date of this Report

Directors' Remuneration Report

The Directors are pleased to present their Report on remuneration for the year ended 31 May 2007, in accordance with the Directors' Remuneration Report Regulations 2002 (the "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 19

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 2007, the Board comprised four non executive Directors, three 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

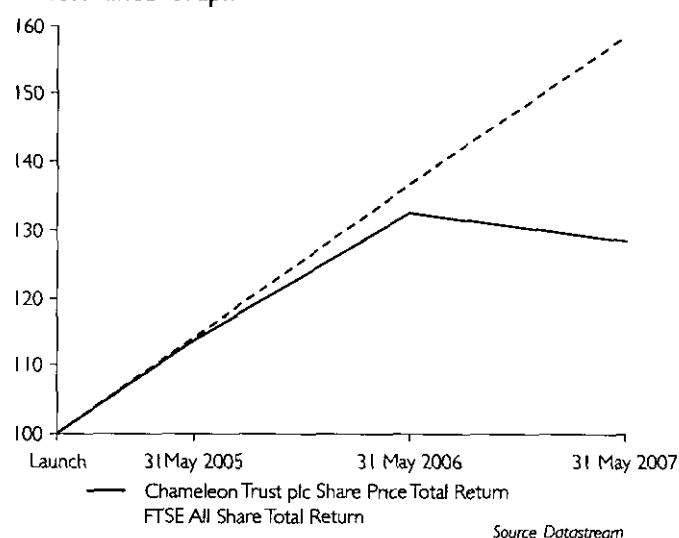
At launch, the Company reviewed the fees being paid to non executive directors of investment trust companies of a similar size or with a similar investment objective In addition, corporate governance responsibilities were assessed Having due regard to this information, at the time of launch it was agreed 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 has obtained Directors' and Officers' liability insurance and this will be renewed annually

Performance Graph



In accordance with the Regulations, the performance graph above shows the share price total return to ordinary shareholders from launch to 31 May 2007 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 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 year ended 31 May 2007 received the following emoluments

Director	Fees to 31 May 2007	Fees to 31 May 2006
Martin Ritchie OBE	15,000	15,000
Robert Adair	10,000	10,000
James Leek	10,000	5,833†
Andrew Mickel	10,000	10,000

† Mr Leek was appointed a Director of the Company on 31 October 2005

By order of the Board

S. Scudamore

BNP Paribas Secretarial Services Limited
Secretary

2 August 2007

Statement of Directors' Responsibilities

In respect of the Financial Statements

The Directors are responsible for the preparing the Annual Report and Financial Statements in accordance with applicable law and regulations

Company law in the United Kingdom requires the Directors to prepare Financial Statements 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 year. In preparing these Financial Statements, the Directors are required to

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

The Directors confirm that they have complied with the above requirements

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

Independent Auditors' Report

To the shareholders of the Chameleon Trust plc ("the Company")

We have audited the Financial Statements of the Chameleon Trust plc for the year ended 31 May 2007 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes 1 to 19. These Financial Statements have been prepared under the accounting policies set out therein. We have audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is not consistent with the Financial Statements. In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Chairman's Statement, the Managers' Review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

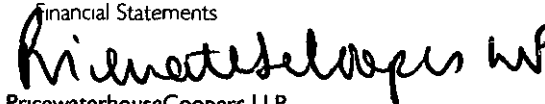
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion*

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 May 2007 and of its net return and cash flows for the year then ended;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Edinburgh

3 August 2007

* The Financial Statements are published on www.reverafunds.co.uk, which is a website maintained by Revera Asset Management Limited. The maintenance and integrity of the website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the presentation and dissemination of the Financial Statements may differ from legislation in their jurisdiction.

Income Statement

For the year ended 31 May 2007

	Notes	For the year ended 31 May 2007			For the year ended 31 May 2006		
		Revenue £'000	Capital £'000	Total £ 000	Revenue £ 000	Capital £ 000	Total £ 000
Gains on investments held at fair value through profit or loss	9	—	115	115	—	3,116	3,116
Income from investments held at fair value through profit or loss	2	284	—	284	270	—	270
Other income	2	27	—	27	36	—	36
Investment management fees	3	(68)	(139)	(207)	(68)	(137)	(205)
Other expenses	4	(211)	—	(211)	(209)	—	(209)
Net return before finance costs and taxation		32	(24)	8	29	2,979	3,008
Finance charges	5	26	—	26	(46)	—	(46)
Return on ordinary activities before taxation		58	(24)	34	(17)	2,979	2,962
Taxation on ordinary activities	6	—	—	—	—	—	—
Net return on ordinary activities after taxation		58	(24)	34	(17)	2,979	2,962
Return per ordinary share (pence)	7	0.42	(0.17)	0.25	(0.12)	21.89	21.77

The total column of this statement represents the profit and loss of the Company

All items in the above statement derive from continuing operations

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

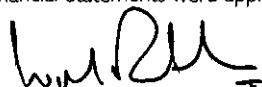
The accompanying notes are an integral part of the Financial Statements

Balance Sheet

As at 31 May 2007

	Notes	31 May 2007 £'000	31 May 2006 £'000
Fixed assets			
Investments designated as held at fair value through profit or loss	9	16,851	16,652
Current assets			
Debtors	10	160	43
Cash at bank and short term deposits		749	1,997
		909	2,040
Creditors			
Amounts falling due within one year	11	(722)	(282)
Net current assets		181	1,758
Total assets less total liabilities		17,038	18,410
Capital and reserves			
Called up share capital	12	131	142
Share premium		3,936	3,930
Distributable reserve	13	9,025	10,437
Capital reserves	13	3,893	3,917
Capital redemption reserve	13	11	–
Revenue reserve	13	42	(16)
Equity shareholders' funds		17,038	18,410
Net asset value per ordinary share (pence)	14	130.2	129.6

The Financial Statements were approved by the Board of Directors on 2 August 2007 and were signed on its behalf by



Martin Ritchie OBE
Chairman

The accompanying notes are an integral part of the Financial Statements

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 May 2007

	Share capital £'000	Share premium £'000	Distributable reserve £'000	Capital reserves £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
Shareholders' funds at 31 May 2006	142	3,930	10,437	3,917	—	(16)	18,410
Repurchase of shares	(11)	—	(1,405)	—	11	—	(1,405)
Expenses of repurchases	—	—	(7)	—	—	—	(7)
Net return from ordinary activities	—	—	—	(24)	—	58	34
Reversal of initial costs provision	—	6	—	—	—	—	6
Dividends paid in respect of year ended 31 May 2006	—	—	—	—	—	—	—
Balance at 31 May 2007	131	3,936	9,025	3,893	11	42	17,038

For the year ended 31 May 2006

	Share capital £'000	Share premium £'000	Distributable reserve £'000	Capital reserves £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
Shareholders' funds at 31 May 2005	128	2,245	10,437	938	—	33	13,781
Issue of shares	14	1,783	—	—	—	—	1,797
Expense of share issues	—	(98)	—	—	—	—	(98)
Net return from ordinary activities	—	—	—	2,979	—	(17)	2,962
Dividends paid in respect of year ended 31 May 2005	—	—	—	—	—	(32)	(32)
Balance at 31 May 2006	142	3,930	10,437	3,917	—	(16)	18,410

The accompanying notes are an integral part of the Financial Statements

Cash Flow Statement

For the year ended 31 May 2007

	Notes	For the year ended 31 May 2007		For the year ended 31 May 2006	
		£'000	£'000	£'000	£'000
Investment income received		209		299	
Interest received		27		36	
Investment management fees paid		(176)		(214)	
Other cash payments		(241)		(221)	
Net cash outflow from operating activities	15		(181)		(100)
Servicing of finance					
Overdraft interest refunded/(paid)		26			(46)
Net cash inflow/(outflow) from servicing of finance			26		(46)
Financial investment					
Purchase of investments		(14,047)		(16,283)	
Sale of investments		14,366		16,099	
Net cash inflow/(outflow) from financial investment			319		(184)
Equity dividends paid			—		(32)
Net cash inflow/(outflow) before financing			164		(362)
Financing					
(Repurchase)/issue of ordinary shares		(1,405)		1,797	
Expenses of share issue		(7)		(98)	
Net cash (outflow)/inflow from financing			(1,412)		1,699
(Decrease)/increase in cash	16		(1,248)		1,337

The accompanying notes are an integral part of the Financial Statements

Notes to the Financial Statements

I Accounting policies

(a) Basis of preparation

For the accounting period beginning on 21 June 2004, the Company had the option to prepare its Financial Statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the International Accounting Standards Board ("IASB"). The Board has elected to continue to adopt UK Generally Accepted Accounting Principles ("UK GAAP") and therefore adopt the new Financial Reporting Standards issued as part of the programme to converge UK GAAP with IFRS.

The Financial Statements have been prepared under the historical cost convention, as modified to include the revaluation of investments in accordance with the Companies Act 1985, applicable UK Accounting Standards and with the Statement of Recommended Practice for "Financial Statements of Investment Trust Companies" issued by the Association of Investment Companies revised December 2005 ("The revised SORP").

(b) Income

Income from equity shares is brought into the Revenue Return of the Income Statement on the ex dividend date. Where no ex dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. 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 deposits and interest payable are accrued to the end of the year.

(c) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the Revenue Return of the Income Statement 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 the 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.

(d) Taxation

Deferred taxation is provided on 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 the future or right to pay less tax in the future have occurred at the Balance Sheet date. Deferred tax is not provided on permanent differences. Deferred tax assets are only recognised to the extent that it is considered more likely than not that there will be future taxable profits from which the future reversal of 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.

(e) Valuation of investments

Listed investments have been designated by the Board as held at fair value through the profit or loss and accordingly are valued at fair value deemed to be bid market prices for quoted investments.

Changes in the fair value of investments held at fair value through the profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses on investments held at fair value through profit or loss". Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and the bid price at the date of purchase. All purchases and sales are accounted for on a trade date basis.

Notes to the Financial Statements

Continued

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
2 Income		
Income from investments held at fair value through profit or loss		
UK listed dividends	268	270
Unfranked investment income	16	—
	284	270
Other income		
Deposit interest	27	36
Total income	311	306

	For the year ended 31 May 2007			For the year ended 31 May 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
3 Investment management fees						
Investment management fees	58	118	176	58	117	175
Irrecoverable VAT	10	21	31	10	20	30
	68	139	207	68	137	205

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. The Company and 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.

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
4 Other expenses – all charged to revenue		
Secretarial fees	16	15
Administration fees	48	42
Shareholder services*	6	7
Directors' remuneration	45	45
Auditors' remuneration	17	16
Irrecoverable VAT	18	20
General administration	61	64
	211	209

* includes registration and promotion expenses

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
5 Finance charges – all charged to revenue		
Bank overdraft charges	(26)	46

In the year ended 31 May 2006 overdraft interest was incurred owing to an administrative error. The Company was reimbursed during the year ended 31 May 2007 by the parties concerned for their contribution to the error.

Notes to the Financial Statements

Continued

6	Taxation on ordinary activities	For the year ended 31 May 2007			For the year ended 31 May 2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Analysis of charge in year						
	Corporation tax	—	—	—	—	—	—

Factors affecting current tax charge for year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	For the year ended 31 May 2007			For the year ended 31 May 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before tax	58	(24)	34	(17)	2,979	2,962
Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	17	(7)	10	(5)	894	889
Other capital returns*	—	(34)	(34)	—	(935)	(935)
UK Dividends	(80)	—	(80)	(81)	—	(81)
Unused management expenses	66	41	107	86	41	127
Losses brought forward	(3)	—	(3)	—	—	—

* These items are not subject to corporation tax within an investment trust company

Factors that may affect future tax charges

The Company has an unrecognised deferred tax asset of £278,000 (2006 £173,000). This has arisen from deductible expenses exceeding taxable income. A deferred tax asset has not been recognised on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and is not liable to tax on capital gains.

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

7	Return per ordinary share	For the year ended 31 May 2007		For the year ended 31 May 2006	
	The returns per ordinary share have been based on the following figures	Number		Number	
	Weighted average number of ordinary shares	13,824,898		13,608,699	
		£'000	Pence	£'000	Pence
	Revenue return	58	0.42	(17)	(0.12)
	Capital return	(24)	(0.17)	2,979	21.89

8	Dividends on ordinary shares	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
	Amounts recognised as distributions in the period	—	—

The total dividends payable in respect of the financial year which is the basis on which the requirements of Section 842 of the Income and Corporation Tax Act 1988 are considered are set out below:

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
Final dividend 0.33p, payable 3 August 2007 (2006 nil)	42	—

Notes to the Financial Statements

Continued

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
9 Fixed Asset Investments designated as held at fair value through profit or loss		
Cost at start of year	15,254	12,158
Unrealised gains	1,398	858
Valuation at start of year	16,652	13,016
Movements during the year		
Purchases	14,495	16,210
Sales proceeds	(14,411)	(15,690)
Realised gains	1,486	2,576
(Decrease)/increase in unrealised appreciation	(1,371)	540
Valuation at 31 May 2007	16,851	16,652
Unrealised gains	(27)	(1,398)
Cost at 31 May 2007	16,824	15,254
The portfolio valuation		
Listed on UK stock exchange and AIM at market valuation		
Equities	15,396	16,652
Fixed Interest Stocks	1,455	–
	16,851	16,652
Gains/(Losses) on investments		
Realised gains based on historical cost	1,486	2,576
Net movement in unrealised appreciation	(1,371)	540
(Losses)/Gains on Investments	115	3,116

Of the total investments, £7,561,772 (2006 £6,500,000) is listed on AIM

Transaction Costs

During the year transaction costs were incurred on purchases and sales of investments as follows

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
Purchases	83	80
Sales	42	54
	125	134

Notes to the Financial Statements

Continued

	31 May 2007 £ 000	31 May 2006 £ 000
10 Debtors		
Prepayments and accrued income	114	42
Sales for future settlement	46	1
	160	43

	31 May 2007 £ 000	31 May 2006 £ 000
11 Creditors amounts falling due within one year		
Purchases for future settlement	644	196
Accruals	78	86
	722	282

Accruals include amounts due to Manager for management fees of £16,265 plus VAT (2006 £16,152 plus VAT)

	Number	Authorised £'000	Issued and fully paid Number	£ 000
12 Share capital				
Ordinary shares of 1p				
Balance brought forward	24,000,000	240	14,205,000	142
Shares issued by the Company	—	—	(1,120,000)	(11)
	24,000,000	240	13,085,000	131

During the year the Company made the following share repurchases

	Bought	Cost per share (p)	Total cost (£)
14 July 2006	150,000	124.00	185,436
17 October 2006	295,000	123.25	363,589
7 December 2006	200,000	128.75	258,788
23 May 2007	250,000	125.50	313,750
30 May 2007	225,000	125.00	283,412
26 June 2007	100,000	123.24	123,240
28 June 2007	100,000	122.75	122,750
9 July 2007	50,000	122.50	61,250
13 July 2007	250,000	122.00	305,000

Under the Petition granted by the Court on 21 March 2005, confirmation was granted for the reduction in the share premium account, and the creation of a distributable reserve, in order to fund the share buy back policy

During the year ended 31 May 2007, the Company bought back 1,120,000 ordinary shares for cancellation at a cost of £1,401,337.50. Since the year end, the Company has bought back a further 500,000 shares for holding in Treasury at a cost of £612,240.

At the date of this Report, the total issued share capital was 12,585,000 excluding those held in Treasury.

Notes to the Financial Statements

Continued

	For the year ended 31 May 2007					
	Capital reserve	Capital reserve	Capital redemption	Distributable	Capital reserve	Revenue
	realised £'000	unrealised £'000	reserve £'000	reserve £'000	total £'000	reserve £'000
13 Capital and reserves						
At 31 May 2006	2,519	1,398	—	10,437	14,354	(16)
Net gains on realisation of investments	1,486	—	—	—	1,486	—
Movement in unrealised appreciation	—	(1,371)	—	—	(1,371)	—
Investment management fees	(139)	—	—	—	(139)	—
Share repurchases	—	—	11	(1,412)	(1,401)	—
Retained net revenue for year	—	—	—	—	—	58
Dividends paid	—	—	—	—	—	—
At 31 May 2007	3,866	27	11	9,025	12,929	42

14 Net asset value per ordinary share

Total shareholder funds have been calculated in accordance with the provision of FRS 26. The figures for net asset value per ordinary share have been calculated on the basis of shareholder's rights to reserves as specified in the Articles of Association of the Company. There is no difference in these.

	31 May 2007		31 May 2006	
	Net asset value per share Pence	Net asset value attributable £'000	Net asset value per share Pence	Net asset value attributable £'000
Ordinary shares	130.2	17,038	129.6	18,410

15 Reconciliation of net return before finance costs and taxation to net cash outflow from operating activities

	For the year ended 31 May 2007 £'000	For the year ended 31 May 2006 £'000
Total return before finance charges and taxation	8	3,008
Less capital return before finance and taxation	24	(2,979)
Revenue return before finance charges and taxation	32	29
Investment management fees charged to capital	(139)	(137)
Accrued expense charged to capital	—	—
(Increase)/decrease in accrued franked income	(75)	29
Decrease/(increase) in prepayments	3	(6)
Decrease in accruals	(2)	(15)
Net cash outflow from operating activities	(181)	(100)

Notes to the Financial Statements

Continued

	At 31 May 2006 £'000	Cash flows £'000	At 31 May 2007 £'000
16 Analysis of changes in net funds			
Cash and cash equivalents	1,997	(1,248)	749
	At 31 May 2005 £'000	Cash flows £'000	At 31 May 2006 £'000
Cash and cash equivalents	660	1,337	1,997

17 Financial Instruments

The Company's financial instruments 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 year. 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,
- (d) liquidity risk, and
- (e) credit 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 year. 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.

Further information on the investment portfolio is set out in the Manager's Review on pages 6 and 7.

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 pages 4 and 5.

Fair value assets

All investments are valued on a fair value basis, this is deemed to be bid market value. Bonds are valued on an effective yield basis.

Notes to the Financial Statements

Continued

Interest rate risk

Financial assets

The interest rate risk of the portfolio of financial assets at the Balance Sheet date was as follows

	Fixed Interest		Floating Rate		Non Interest Bearing	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Sterling	1,455	—	749	1,997	15,396	16,652

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

The Company currently holds a UK Treasury Bond with a value of £1,454,930 at a coupon rate of 8.5% which matures on 17 July 2007

Foreign currency risk

The Company's investment portfolio includes overseas securities and the Balance Sheet can be significantly affected by movements in foreign exchange rates. No forward currency contracts were undertaken during the year under review. The revenue account is subject to fluctuation arising on overseas income. The Company does not hedge on 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.

Counter party

Counter party risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This is mitigated by the Managers reviewing the credit ratings of broker counterparties. The risk attached to dividend flows is mitigated by the Manager's research of potential investee companies. The Company's custodian bank is responsible for the collection of income on behalf of the Company and their performance is reviewed by the Board on a regular basis. The maximum credit risk at 31 May 2007 is £152,000 (31 May 2006 £32,000) consisting of £106,000 (2006 £31,000) dividends receivable from equity shares and £46,000 (2006 £1,000) from brokers for investments sold.

18 Capital commitments

At the Balance Sheet date, there were no capital commitments.

19 Related party transactions

Transactions with the Manager are disclosed in note 5. The amount due to the Manager at the period end was £16,265 (2006 £16,152). There were no other related party transactions.

No performance fee is payable to the Manager for the year ended 31 May 2007 (2006 nil).

Shareholder Information

Share Capital

Ordinary shares of 1p each 12,585,000 at the date of this Report, with 500,000 shares being held in Treasury

Share Price 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	January
Annual	August
Annual General Meeting	September
Annual dividend (if payable)	September

Annual and Interim Reports

Copies of the Annual and Interim Reports are available from the Company Secretary – Tel 020 7410 5971

In addition shareholders will be able to access these Reports on the Manager's website www.reverafunds.com

Notice of Meeting

Notice is hereby given that the third Annual General Meeting of Chameleon Trust plc will be held at The George Hotel, 19-21 George Street, Edinburgh EH2 2PB on Thursday, 20 September 2007 at 4.00 pm for the purpose of transacting the following business

To consider and, if thought fit, pass the following resolutions of the Company, resolutions 1 to 6 being ordinary resolutions and resolution 7 being a special resolution

Ordinary resolutions

- 1 To receive the Report of the Directors and audited Financial Statements for the year ended 31 May 2007
- 2 To approve the Directors' Remuneration Report for the year ended 31 May 2007
- 3 To declare a final dividend of 0.33p per ordinary share
- 4 To re-elect Mr Andrew Mickel*, as a Director, in accordance with the Company's Articles of Association
- 5 To re-appoint PricewaterhouseCoopers LLP as Independent Auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the Financial Statements are laid before Members
- 6 To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Independent Auditors of the Company

Special resolution

- 7 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 1,886,491,
 - (b) the minimum price which may be paid for an ordinary share is one penny,
 - (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 preceeding 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 2008 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



BNP Paribas Secretarial Services Limited
Secretary

Registered office
120 Bothwell Street
Glasgow
G2 7JS

2 August 2007

Registered in Scotland Number SC269598

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

*The biography of the Director is set out on page 3

Notice of Meeting

Continued

Notes

- 1) Pursuant to Regulation 41(i) 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 4.00 pm on Tuesday, 18 September 2007. 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 4.00 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, Capita Registrars, PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR, 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 (except 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 third Annual General Meeting of Chameleon Trust plc to be held on Thursday, 20 September 2007 at 4.00 pm at The George Hotel, 19-21 George Street, Edinburgh EH2 2PB

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 George Hotel, 19-21 George Street, Edinburgh EH2 2PB on Thursday, 20 September 2007 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 Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	To declare a final dividend of 0.33p per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	To re-elect Mr Andrew Mickel, as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	To re-appoint PricewaterhouseCoopers LLP as Independent Auditors of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Independent Auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special resolution				
7	To authorise the Directors to make market purchases of the Company's own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dated this _____ day of _____ 2007

Signature(s) _____ /

Notes

- 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.
- 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.
- 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.
- 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.
- 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.
- 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 the Company's Registrars, Capita Registrars, PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
- Completion of this form will not preclude you from attending and voting at the meeting if you so wish.
- Any alteration made to the form of proxy must be initialled.

First fold

Second fold

Business Reply Service
Licence Number MB122

Capita Registrars
(Registrars for **Chameleon Trust plc**)
PO Box 25
34 Beckenham Road
Beckenham
Kent
BR3 4BR

Third fold and tuck in

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