

# **Athelney Trust plc**

## **Annual Report**

**for the year ended 31 December 2006**

# Athelney Trust plc

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# Athelney Trust plc

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## CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

I have pleasure in enclosing the audited results for the twelve months to 31 December 2006. The salient points are as follows:

- Audited Net Asset Value ("NAV") is 189.7p per share (31 December 2005: 157.7p) a rise of 20.3 per cent.
- Gross Revenue increased by 10.8 per cent to £95,614 (31 December 2005: £86,265).
- On a like-for-like basis revenue increased by 12.5 per cent and dividend income rose by 15 per cent.
- Revenue return per ordinary share was 3.3p, an increase of 22.2 per cent (31 December 2005: 2.7p).
- Recommended dividend for the year of 3.25p per share (2005: 2.5p), a rise of 30 per cent.

### Review of 2006

This has been another excellent year for investors, despite all the problems and worries that many had at the start of the year. Could the world-wide bull market continue for an amazing fourth year, we all asked ourselves in January? Well, we now know that it could, thanks to no avian flu pandemic, a mild hurricane season, no successful terrorist attack on the West and no big hedge fund blow-up beyond Amaranth, which had wildly over-exposed itself to natural gas prices. There were plenty of nasty surprises, though, with Iraq and Palestine moving to the brink of civil war, the summer conflict between Israel and the Hezbollah, North Korea firing off nuclear weapons, Iran determined to acquire some of the same and Russia turning into the school-yard bully under its ex-KGB president. Despite these international factors, the price of crude oil failed to stay high: there were confident forecasts in January that it could spike at \$100 a barrel (from \$61) but, in the event, it hit \$77 during the Lebanon conflict and dropped to just over \$50 by the turn of the year. I believe that this fall in the oil price was critical to the health of world equity markets in 2006.

Interest rates rose in the U.S., the U.K., Europe and Japan: as a consequence, the new housing market in America was badly hit although the impact of two rate rises here at home was less marked, nor did they seem to have much effect on inflation which finished the year at 3 per cent. Indeed, there was considerable scepticism as to whether that figure was high enough although I do not seem to remember too many people pointing out that many consumer items have fallen in price these last six years, such as used cars (an average of 3.6 per cent a year), IT equipment (20 per cent), photographic stuff (8 per cent), clothing (6 per cent), toys (5 per cent) and new cars (2 per cent).

One constant and hugely positive factor last year was the tidal wave of global liquidity (the sum of corporate cash, funds available for investment by financial institutions and consumers' bank balances) which helped drive equities, bonds and gilts to ever higher levels. Investors' attitude to risk changed as well: the spread between emerging market bonds, corporate debt and U.S. Treasuries narrowed to all-time lows in December. The reason? Too many investors moving into ever-riskier areas of the market as returns in their traditional hunting grounds were squeezed.

Commodities on average fell by 15 per cent in 2006 but most other things did well: China was the top-performing equity market (up by 138.4 per cent in Dollar terms), followed by Venezuela (99 per cent), Russia (70.7 per cent) and India (51.3 per cent). Turkey, on the other hand, fell by 5.6 per cent and Saudi Arabia by a striking 52.5 per cent. In the U.K., the FTSE 100 Index rose by a rather sedate 11 per cent whereas small caps., typically, were 17-18 per cent higher over the year.

With an estimated \$300bn in 'dry powder' (funds available for investment to you and I), private equity had a major effect on 2006 and will again this year. At its crudest, a private equity deal is no more than an old-fashioned asset-strip (and paying themselves a huge dividend) and gearing up the balance sheet (and paying themselves another huge dividend). The aim is to 'strip and flip' in three years by selling the husk onto gullible

# Athelney Trust plc

## CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

### (CONTINUED)

investors. As gearing ratios rise higher and higher, and the asking price of suitable targets increases steadily, the risks of doing this type of business are enough to make one sleep uneasily in one's bed.

Hedge funds are private pools of capital that are lightly regulated, often borrow heavily to enhance returns and are sometimes paid enormous performance fees to undertake quite simple tasks, such as borrowing at very low rates of interest in Yen or Swiss Francs and lending at high rates in Australian or New Zealand Dollars for instance. Other strategies involve equities, bonds, distressed debt and so on. If 20 per cent of trading in equities on the New York Stock Exchange and 30 per cent in London is accounted for by hedge funds, as has been estimated, then I think that it is very natural to worry about this opaque area of the fund management business.

Yet another area of concern is the new issue market in London. The collapse of the London-listed internet gaming shares following the Senate's effective ban on their U.S. activities came just months after the controversial flotation of Rosneft. This Russian oil giant's prospectus included a 26-page risk statement which acknowledged allegations that its assets were obtained via a 'conspiracy.' AIM, the LSE's junior market, attracted companies as far apart as Silicon Valley and China but more than a handful, in my opinion, and particularly in mining, oil and gas, looked to be poorly put together with low governance standards and speculative business plans. The continued survival of such companies should not be taken for granted.

Proponents of private equity, hedge funds and new issues will no doubt think that the above comments are, to say the least, unkind. Nevertheless, I believe that all three should be watched extremely carefully in the coming year and beyond by all investors, large and small.

Am I the only one to be worried about the flood of take-overs of major British companies and the lack of reciprocity when our companies want to expand overseas? I suspect that I am. As the year finished (I will use the old names to remind you just how important they are), British Oxygen Company, British Airports Authority, Associated British Ports and Pilkington Brothers have all been absorbed by overseas buyers, British Steel, Scottish Power and Gallagher were headed in the same direction and even the London Stock Exchange was under attack by American rival NASDAQ. For good or ill, take-overs were a significant factor in 2006 and are likely to be so again this year. As the market in high quality equities continued to shrink, someone invented the word 'de-equitisation' when describing the short-term beneficial effect of take-overs and cash buy-backs on the remaining stock of equities.

Finally under this sub-heading, it is interesting to read that India, after years cast as China's underperforming neighbour, is now in hot pursuit. Over the past year, the Indian economy has grown by an impressive 9.2 per cent, not far behind China's 10.4 per cent.

### Results

Gross Revenue increased 10.8 per cent compared to 2005. A breakdown of the companies paying dividends is given below:

	<u>Number</u>
Companies paying dividends	82
Companies sold (therefore no true comparison)	9
Companies purchased (therefore no true comparison)	17
Increased total dividend in the calendar year	44
Reduced total dividend in the calendar year	7
No change in dividend	5

# Athelney Trust plc

## CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

(CONTINUED)

### Corporate Activity

Six of our companies were taken over in 2006: three were reported at the half-way stage, namely *PD Ports*, *Brandon Hire* and *Wyvale Garden Centres*. In the second half, cash offers were accepted in respect of *Richmond Foods* (a 24 per cent profit on book value), *MSB International* (60.6 per cent) and *Biotrace International* (44.6 per cent).

### Portfolio Review

A total of fifteen holdings were purchased for the first time or were existing holdings which were increased in the six months to 30 June; in the second half, the following investments were purchased: *Arden Partners*, *Dowgate Capital*, *Broker Network Holdings*, *Johnson Service Group*, *Somero Enterprises*, *Hitachi Capital (UK)*, *Macfarlane Group*, *XP Power*, *City of London Investment Group*, *Speymill Group* and *Tristel*. Five investments were sold, all in the first half.

### Dividend

The Board is pleased to recommend an increased annual dividend of 3.25p per ordinary share for the year ended 31 December 2006 (2005: 2.5p). This represents an increase of 30 per cent over the previous year. Subject to shareholder approval at the Annual General Meeting on 23 May 2007, the dividend will be paid on 25 May 2007 to shareholders on the register on 27 April 2007.

### Update

The unaudited NAV at 28 February 2007 was 192.6p per share, whereas the share price stood at 190p on the same date. Further updates can be found on [www.chelvertonam.com](http://www.chelvertonam.com).

### Outlook

I have already signposted my worries about hedge funds, private equity and the new issue market: other concerns include the possible trend in interest rates (particularly M. Trichet's propensity to push up rates in Euroland against all evidence of static/falling output in France, Italy and elsewhere). Mr. Greenspan, the former Chairman of the Federal Reserve Bank, has taken to musing in public about the likelihood (one chance in three, he believes) of America sliding into recession - certainly, the housing market looks to be in a dreadful mess in some states. Not just that, but so-called trailer-park lending is now throwing up huge bad debts. Having said all that, I remain positive on the long-term prospects of small caps. provided one stays away from the high risk sectors. Selected small caps. offer good value, rising dividends, strong balance sheets and are targets for larger competitors and financial buyers.

Donald Rumsfeld, the then U.S. Defense Secretary said, 'I would not say that the future is necessarily less predictable than the past. I think that the past was not predictable when it started.' However opaque prospects seem in the short-term, I am absolutely convinced that each and every investor should hold a strong portfolio of small caps. for long-term growth and a rising income.

**Hugo Deschampsneufs**  
Chairman

**2 April 2007**

# Athelney Trust plc

## INVESTMENT AND PORTFOLIO ANALYSIS AT 31 DECEMBER 2006

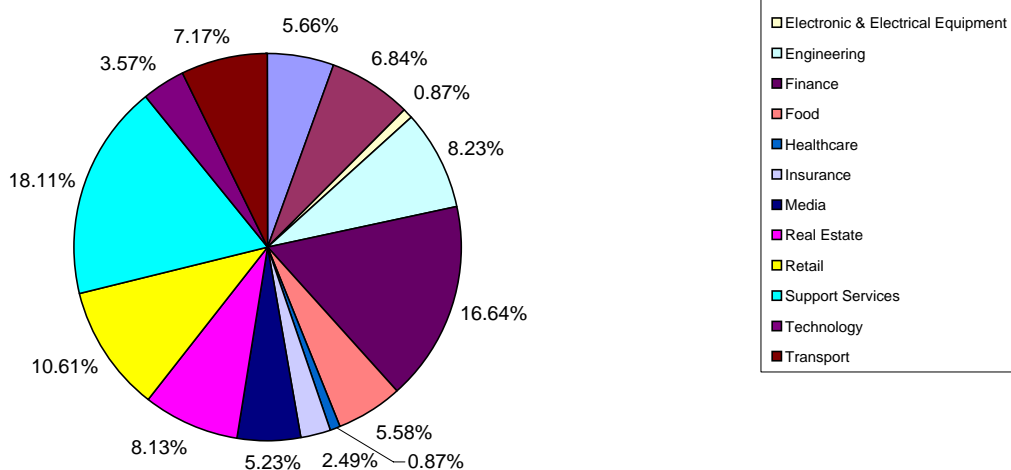
SECTOR	STOCK	HOLDING	VALUE (£)	£	SECTOR %
<b>Construction &amp; Building Materials</b>	Ben Bailey	6,800	43,044		
	Clarke (T)	18,000	35,685		
	Galliford Try	35,000	56,963		
	Gibbs & Dandy	10,000	39,000		
	Latham (James)	16,000	35,200	<b>209,892</b>	<b>5.66%</b>
<b>Drinks</b>	Enterprise Inns	9,000	121,770		
	Nichols	16,500	40,095		
	Shepherd Neame "A"	5,400	91,476	<b>253,341</b>	<b>6.84%</b>
<b>Electronic &amp; Electrical Equipment</b>	XP Power	8,000	32,400	<b>32,400</b>	<b>0.87%</b>
<b>Engineering</b>	Acertec	20,000	36,600		
	Gooch & Housego	15,000	59,250		
	Goodwin	12,000	92,400		
	Severfield-Rowen	5,000	68,700		
	Slingsby (H.C. )	4,000	48,000	<b>304,950</b>	<b>8.23%</b>
<b>Finance</b>	Albemarle & Bond	20,000	45,000		
	Arbuthnot Banking Group	10,000	54,000		
	Arden Partners	18,000	32,760		
	Camellia	1,200	108,000		
	Charles Taylor Consulting	8,000	31,060		
	City of London Investment Group	17,000	36,550		
	Corporate Synergy Group	100,000	24,500		
	Davenham Group	10,000	33,000		
	Dowgate Capital	4,000,000	23,200		
	Hitachi Capital (UK)	16,000	40,680		
	Jarvis Securities	20,000	18,600		
	Park Group	80,000	14,400		
	S & U	8,000	41,200		
	Tenon Group	50,000	24,750		
Vantis	36,667	89,101	<b>616,801</b>	<b>16.64%</b>	
<b>Food</b>	NWF Group	12,000	105,000		
	Treatt	10,500	33,600		
	Wynnstay Group	30,000	68,100	<b>206,700</b>	<b>5.58%</b>
<b>Healthcare</b>	Tristel	71,500	32,175	<b>32,175</b>	<b>0.87%</b>
<b>Insurance</b>	Domestic & General	3,300	40,887		
	Personal Group Holdings	22,000	51,260	<b>92,147</b>	<b>2.49%</b>
<b>Media</b>	Chime Communications	85,000	46,325		
	Huntsworth	35,000	34,563		
	International Greetings	18,000	77,400		
	Media Square	213,179	35,707	<b>193,995</b>	<b>5.23%</b>
<b>Real Estate</b>	City Lofts Group	35,000	37,800		
	Colliers C.R.E.	17,400	33,060		
	Erinaceous Group	13,000	44,850		
	Mountview Estates	1,750	116,375		
	Smart (J) & Co.	4,000	29,000		
	Unite Group	7,426	40,249	<b>301,334</b>	<b>8.13%</b>
<b>Retail</b>	Blacks Leisure Group	6,000	23,850		
	European Motor Holdings	7,160	34,816		
	Flying Brands	15,000	45,000		
	Havelock Europe	24,000	37,920		
	Lookers	30,000	51,900		
	Mallett	12,000	29,760		
	SCS Upholstery	10,000	51,000		
	Stanley Gibbons	70,000	119,000	<b>393,246</b>	<b>10.61%</b>
<b>Support Services</b>	Broker Network Holdings	14,000	35,000		
	Dawson Holdings	34,000	35,445		
	Enterprise	16,000	86,720		
	Genus	15,000	79,575		
	Johnson Service Group	8,000	27,960		
	Litho Supplies	50,500	29,290		
	Macfarlane Group	100,000	30,000		
	RWS Holdings	14,000	42,700		
	Somero Enterprises	27,550	35,815		
	Speymill Group	54,000	33,480		
	VP Group	17,000	53,210		
	Waterman Group	40,000	68,000		
	WSP Group	20,000	114,200	<b>671,395</b>	<b>18.11%</b>

# Athelney Trust plc

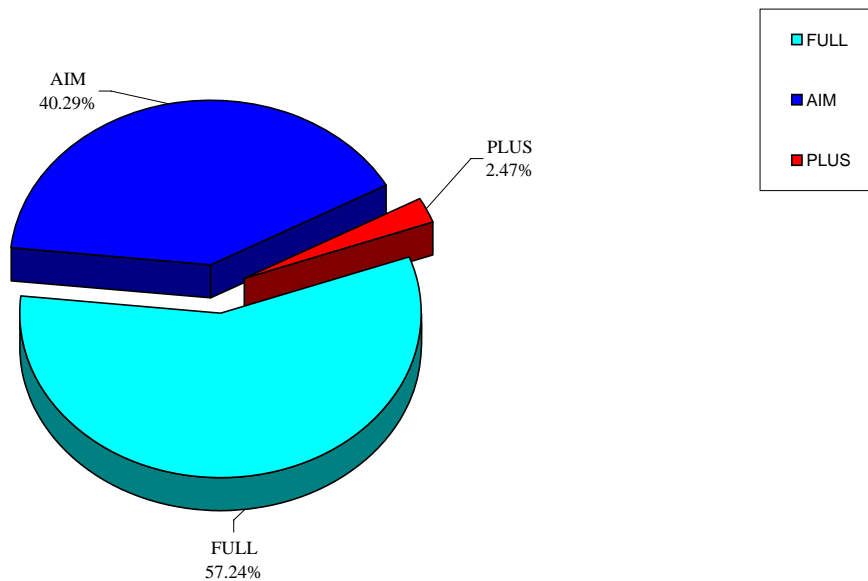
## INVESTMENT AND PORTFOLIO ANALYSIS AT 31 DECEMBER 2006 ( CONTINUED)

SECTOR	STOCK	HOLDING	VALUE (£)	SECTOR	
				£	%
Technology	AT Communications Group	50,000	18,500		
	Belgravium Technologies	200,000	27,000		
	Group NBT	19,000	38,950		
	Pennant International	116,000	22,040		
	Phoenix IT	8,500	25,904	<b>132,394</b>	<b>3.57%</b>
Transport	Air Partner	7,000	55,650		
	Braemar Seascope	2,000	78,800		
	Clarkson	7,000	56,735		
	Fisher (James)	12,500	74,438	<b>265,623</b>	<b>7.17%</b>
<b>Portfolio Value</b>			<b>£ 3,706,392</b>	<b>100.00%</b>	
<b>Net Current Assets</b>			<b>£ 87,292</b>		
<b>Deferred tax</b>			<b>£ (374,390)</b>		
<b>TOTAL VALUE</b>			<b>£ 3,419,294</b>		
<b>Shares in issue</b>			<b>1,802,802</b>		
<b>Audited NAV</b>			<b>189.7p</b>		

### Portfolio by Sectors



### Portfolio by Listing



# REPORT OF THE DIRECTORS OF

## Athelney Trust plc

The directors present their report and audited financial statements of the Company for the year ended 31 December 2006.

### Principal activity and business review

The principal activity of the Company is that of an investment company. The investment objectives of the Company are to achieve long term capital growth while at the same time producing a progressive income return.

Investments made by the Company are primarily in the equity securities of both unquoted and quoted UK companies, including smaller companies with a market capitalisation of below £50 million.

During the period, the Company followed the normal activities of an investment company. Details of these are given in the Chairman's Statement and Business Review on pages 2 to 4.

### Directors and their interests

The directors who held office during the year and their interest in the ordinary shares of the Company are stated below:-

	31 December 2006	1 January 2006
H.B. Deschampsneufs	69,913	108,750
R.G. Boyle	448,970	485,000
D.A. Horner	20,000	20,000

H.B. Deschampsneufs' interest includes 19,163 shares held in his Self-Invested Personal Pension. R.G. Boyle's interest includes 16,970 shares held in his Self-Invested Personal Pension. H.B. Deschampsneufs' and R.G. Boyle's previous interest included a holding of 58,000 shares owned by a pension fund in which they both had an interest. D.A. Horner's interest includes 20,000 shares (2005 - 20,000) owned by a pension fund in which D.A. Horner has an interest.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ( United Kingdom Accounting Standards and applicable law).The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the result for the company for that period.

In preparing those financial statements, the directors are required to :

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the directors is aware at the time the report is approved :

there is no relevant audit information of which the auditors are unaware, and the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Corporate governance

The Board continues to give careful consideration to the principles of corporate governance as set out in the Combined Code appended to the Listing Rules issued by the Financial Services Authority. However the Company is small and it is the opinion of the directors that not all the provisions of the Code are relevant or desirable for a company of Athelney's size.



# **REPORT OF THE DIRECTORS OF**

## **Athelney Trust plc**

**(CONTINUED)**

The Board meets regularly and has ultimate responsibility for the management of the Company, although the Remuneration Committee makes recommendations to the Board relating to the remuneration of the managing director and the non-executive directors.

The Audit Committee assists the Board in relation to matters concerning corporate governance and financial reporting. Both Committees, currently comprising H.B. Deschampsneufs and D.A. Horner, meet during the year as required, with the Audit Committee to include external auditors if appropriate.

The Audit Committee assists the Board in relation to matters concerning corporate governance and financial reporting. Both Committees, currently comprising H.B. Deschampsneufs and D.A. Horner, meet during the year as required, with the Audit Committee to include external auditors if appropriate.

### **Results and dividends**

The return on ordinary revenue activities before dividends for the year is £60,322 (2005: £48,825) as detailed on page 10. It is recommended that a final dividend of 3.25p (2005: 2.5p) per ordinary share be paid.

### **Payment of suppliers**

It is the Company's policy to obtain the best possible terms for all business and, therefore, there is no consistent policy as to the terms used. The Company contracts the terms on which business will take place throughout the year with its suppliers. There were no invoiced trade creditors outstanding at the end of the year, the amounts shown as creditors in the balance sheet comprise expenses and proposed dividends.

### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Clement Keys be re-appointed as auditors of the Company will be put to the annual general meeting.

**BY ORDER OF THE BOARD**

**J.M. Davies**

**Secretary**

2 Queen Anne's Gate Buildings  
Dartmouth Street  
LONDON  
SW1H 9BP

2 April 2007

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

## Athelney Trust plc

We have audited the financial statements of Athelney Trust plc for the year ended 31 December 2006, which comprise the Income Statement, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the Annual 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 in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. This information includes specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report. 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 the information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement and the Investment and Portfolio Analysis. 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 an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2006 and of the revenue, total return and cash flows for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985 and the information given in the Directors' Report is consistent with the financial statements.

### **Clement Keys**

#### **Chartered Accountants**

Registered Auditors

39 / 40 Calthorpe Road

Edgbaston

BIRMINGHAM

B15 1TS

2 April 2007

# Athelney Trust plc

## INCOME STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	31 December 2006			31 December 2005		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Profits on investments	8	-	708,480	708,480	-	460,306	460,306
Income	2	95,615	-	95,615	86,265	-	86,265
Investment management expenses	3	(8,216)	(24,164)	(32,380)	(7,266)	(21,362)	(28,628)
Other expenses	3	(35,355)	-	(35,355)	(37,753)	-	(37,753)
<b>Return on ordinary activities before taxation</b>		52,044	684,316	736,360	41,246	438,944	480,190
Taxation	5	8,278	(122,442)	(114,164)	7,579	(77,234)	(69,655)
<b>Return on ordinary activities after taxation</b>	13	60,322	561,874	622,196	48,825	361,710	410,535
<b>Return per ordinary share</b>	6	3.3p	31.2p	34.5p	2.7p	20.1p	22.8p
<b>Dividend per ordinary share paid during the year</b>		2.5p			2p		

The revenue column of this statement is the profit and loss account for the Company.  
 All revenue and capital items in the above statement derive from continuing operations.  
 No operations were acquired or discontinued during the above financial years.  
 A statement of movements of reserves is given in note 13.

There have been no recognised gains or losses, other than the results for the financial years shown above.

# Athelney Trust plc

## BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006	2005
		£	£
<b>Fixed assets</b>			
Investments	8	<u>3,706,392</u>	<u>2,985,922</u>
<b>Current assets</b>			
Debtors	9	105,603	145,109
Cash at bank and in hand		32,486	40,048
		<u>138,089</u>	<u>185,157</u>
<b>Creditors: amounts falling due within one year</b>	<b>10</b>	<u>(50,797)</u>	<u>(33,769)</u>
<b>Net current assets</b>		<u>87,292</u>	<u>151,388</u>
<b>Total assets less current liabilities</b>		3,793,684	3,137,310
<b>Provisions for liabilities and charges</b>	<b>11</b>	(374,390)	(295,142)
<b>Net assets</b>		<u><u>3,419,294</u></u>	<u><u>2,842,168</u></u>
<b>Capital and reserves</b>			
Called up share capital	12	450,700	450,700
Share premium account	13	405,605	405,605
Other reserves - non distributable			
Capital reserve - realised	13	719,086	520,007
Capital reserve - unrealised	13	1,723,399	1,360,604
Revenue reserve	13	120,504	105,252
<b>Shareholders' funds - all equity</b>	<b>14</b>	<u><u>3,419,294</u></u>	<u><u>2,842,168</u></u>
<b>Net Asset Value per share</b>	<b>16</b>	189.7p	157.7p

Approved by the board of directors on 2 April 2007

.....  
**R.G. Boyle**

The notes on pages 13 to 20 form part of these financial statements.

# Athelney Trust plc

## CASH FLOW STATEMENT

**FOR THE YEAR ENDED 31 DECEMBER 2006**

	2006		2005	
	£	£	£	£
<b>Net cash inflow from operating activities</b>		68,111		3,487
<b>Servicing of finance</b>				
Dividends paid		(45,070)		(36,056)
		(45,070)		(36,056)
<b>Net cash (outflow) from servicing of finance</b>		(45,070)		(36,056)
<b>Taxation</b>				
Corporation tax paid		(18,613)		(2,017)
<b>Investing activities</b>				
Purchases of investments		(1,103,978)		(529,075)
Sales of investments		1,091,988		542,398
		(11,990)		13,323
<b>Net cash (outflow)/inflow from investing activities</b>		(11,990)		13,323
<b>Decrease in cash in the year</b>		(7,562)		(21,263)
<b>Reconciliation of operating net revenue to net cash inflow from operating activities</b>		£		£
Revenue on ordinary activities before taxation		52,044		41,246
(Increase) / decrease in debtors		39,506		(28,595)
Increase in creditors		725		12,198
Management expenses charged to capital		(24,164)		(21,362)
		68,111		3,487
<b>Analysis of net debt</b>				
		<b>2005</b>	<b>Cashflow</b>	<b>2006</b>
		£	£	£
Cash at bank and in hand		40,048	(7,562)	32,486

The notes on pages 13 to 20 form part of these financial statements.

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 1. Accounting policies

##### 1.1 Basis of Preparation of Financial Statements

The financial statements are prepared under the historical cost convention modified to include fixed asset investments at valuation.

The financial statements are prepared in accordance with applicable accounting standards and, unless otherwise stated, the provisions of the Statement of Recommended Practice in 'Financial Statements of Investment Trust Companies' (SORP) in effect for this period.

##### Change in accounting policy

The company adopted the provisions of FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement' during the year ended 31 December 2006. The effect of this is to reduce the investment valuations from a mid-market price to a fair value price being market bid price. The impact of valuing the portfolio at market bid price as at 31 December 2005 would have resulted in a downward adjustment of £74,648, reducing the NAV at that date to 140.2p (previously stated 143.6p). Under the transitional provisions of FRS 26, the comparative figures for 2005 have not been restated.

##### 1.2 Income

Income from investments including taxes deducted at source is recognised as income on the date the dividend is due for payment. UK dividend income is reported net of tax credits in accordance with Financial Reporting Standard 16 'Current Tax'. Interest is dealt with on an accruals basis.

##### 1.3 Expenses

Expenses (including VAT) and interest payable are dealt with on an accruals basis and charged through the Revenue Account.

##### 1.4 Investment management expenses

Investment management expenses have been allocated 25% to revenue and 75% to capital, in line with the Board's expected long term split of returns, in the form of income and capital gains respectively, from the investment portfolio.

##### 1.5 Investments

Listed investments comprise those listed on the Official List of the London Stock Exchange. Profits and losses on sales of investments are taken to realised capital reserve. Any unrealised appreciation or depreciation is taken to unrealised capital reserve.

Investments have been classified as 'fair value through profit and loss' upon initial recognition.

Subsequent to initial recognition, investments are measured at fair value with changes in fair value recognised in the Income Statement.

Securities of companies quoted on a recognised stock exchange are valued by reference to their quoted bid prices at the close of the year.

##### 1.6 Taxation

The tax effect of different items of income and expenses is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the year.

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

### 1. Accounting policies (continued)

#### 1.7 Deferred taxation

Deferred taxation is provided in respect of all future obligations to pay additional tax arising as a result of past events. Tax is provided at rates expected to apply in the period in which timing differences reverse based on tax rates and laws substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

#### 1.8 Capital reserves

##### *Capital reserve- Realised*

Gains and losses on realisations of fixed asset investments are dealt with in this reserve.

##### *Capital reserve- Unrealised*

Increases and decreases in the valuations of fixed asset investments are dealt with in this reserve.

### 2. Income

	2006	2005
	£	£
<b>Income from investments</b>		
UK dividend income	91,470	80,987
Bank interest	4,145	5,219
Other income	-	59
<b>Total income</b>	<u>95,615</u>	<u>86,265</u>
	£	£
<b>UK dividend income</b>		
UK listed investments	57,800	54,506
AIM investments	32,566	25,365
Other investments	1,104	1,116
	<u>91,470</u>	<u>80,987</u>

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 3. Return on ordinary activities before taxation

	2006 £	2005 £
The following amounts (inclusive of VAT) are included within investment management and other expenses:-		
Directors' remuneration:-		
- Services as a director	9,000	8,000
- Otherwise in connection with management	25,000	22,000
Auditors' remuneration:-		
<i>Audit services</i>		
- Statutory audit	6,921	5,874
- Audit related regulatory reporting	881	752
<i>Further assurance services</i>		
-advice on accounting matters	<u>1,350</u>	<u>-</u>

#### 4. Employees

	2006 £	2005 £
Costs in respect of directors:-		
Wages and salaries	34,000	30,000
Social security costs	2,399	2,194
	<u>36,399</u>	<u>32,194</u>
Costs in respect of administrator:-		
Wages and salaries	7,000	3,500
Social security costs	253	134
	<u>7,253</u>	<u>3,634</u>
Total		
Wages and salaries	41,000	33,500
Social security costs	2,652	2,328
	<u>43,652</u>	<u>35,828</u>
Average number of employees		
	No.	No.
Chairman	1	1
Investment	2	2
Administration	1	1
	<u>4</u>	<u>4</u>



# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 5. Taxation

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£	£	£	£	£	£
<b>(i) The tax charge for the year is based on the return for the year</b>						
Corporation tax for current year	-	34,916	34,916	-	18,613	18,613
Tax relief on management expenses charged to income	(8,278)	8,278	-	(7,579)	7,579	-
Adjustment in respect of previous years	-	-	-	-	-	-
Deferred taxation	-	79,248	79,248	-	51,042	51,042
	<u>(8,278)</u>	<u>122,442</u>	<u>114,164</u>	<u>(7,579)</u>	<u>77,234</u>	<u>69,655</u>

#### (ii) Factors affecting the tax charge for the year

The tax charge for the period is lower than the average small company rate of corporation tax in the UK (19 per cent). The differences are explained below:

	2006 £	2005 £
Total return on ordinary activities before tax	<u>736,360</u>	<u>480,190</u>
Total return on ordinary activities multiplied by the average small company rate of corporation tax 19% (2005: 19%)	108,472	91,236
<i>Effects of:</i>		
UK dividend income not taxable	(17,379)	(15,388)
Revaluation of shares not taxable	(52,556)	(53,619)
Indexation relief for capital gains	(3,621)	(3,361)
Other	-	(255)
Current tax charge for the year	<u>34,916</u>	<u>18,613</u>

#### 6. Return per ordinary share

The calculation of earnings per share has been performed in accordance with FRS 22 'Earnings per share'.

	2006			2005		
	£	£	£	£	£	£
	Revenue	Capital	Total	Revenue	Capital	Total
Attributable return on ordinary activities after taxation	60,322	561,874	622,196	48,825	361,710	410,535
Number of shares		1,802,802			1,802,802	
Return per ordinary share	3.3p	31.2p	34.5p	2.7p	20.1p	22.8p

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 7. Dividend

	<b>2006</b>	<b>2005</b>
	£	£
Final dividend in respect of 2005 of 2.5p (2004 - 2.0p) per share.	<u>45,070</u>	<u>36,056</u>

A final dividend in respect of 2006 of 3.25p (2005 - 2.5p) per share amounting to a total of £58,591 (2005 - £45,070) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting.

#### 8. Investments

	<b>2006</b>	<b>2005</b>
	£	£
<b>Movements in year</b>		
Valuation at beginning of year	2,985,922	2,555,581
Purchases at cost	1,103,978	529,075
Sales - proceeds	(1,091,988)	(559,040)
- realised gains on sales	266,437	178,103
Increase in unrealised appreciation	442,043	282,203
Valuation at end of year	<u>3,706,392</u>	<u>2,985,922</u>
	£	£
Book cost at end of year	1,587,384	1,306,753
Unrealised appreciation at the end of the year	2,119,008	1,679,169
	<u>3,706,392</u>	<u>2,985,922</u>
UK Listed	2,121,748	1,884,678
AIM	1,493,168	1,027,444
PLUS	91,476	73,800
	<u>3,706,392</u>	<u>2,985,922</u>

#### Gains on investment

	<b>2006</b>	<b>2005</b>
	£	£
Realised gains on sales	266,437	178,103
Increase in unrealised appreciation	442,043	282,203
	<u>708,480</u>	<u>460,306</u>

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 9. Debtors

	<b>2006</b>	<b>2005</b>
	£	£
Amounts falling due within one year:		
Investment transaction debtors	103,452	142,046
Other debtors	2,151	3,063
	<u>105,603</u>	<u>145,109</u>
	<u>105,603</u>	<u>145,109</u>

#### 10. Creditors: amounts falling due within one year

	<b>2006</b>	<b>2005</b>
	£	£
Corporation tax	34,916	18,613
Social security and other taxes	5,649	3,731
Other creditors	148	146
Accruals and deferred income	10,084	11,279
	<u>50,797</u>	<u>33,769</u>
	<u>50,797</u>	<u>33,769</u>

#### 11. Deferred taxation

	<b>2006</b>		<b>2005</b>	
	Provided	Not Provided	Provided	Not Provided
	£	£	£	£
Tax on unrealised gains net of losses	374,390	-	295,142	-
	<u>374,390</u>	<u>-</u>	<u>295,142</u>	<u>-</u>
	<u>374,390</u>	<u>-</u>	<u>295,142</u>	<u>-</u>
		<b>2006</b>		<b>2005</b>
		£		£
Balance at beginning of year		295,142		244,100
Charge to the capital element of the Statement of Total Return		79,248		51,042
		<u>374,390</u>		<u>295,142</u>
		<u>374,390</u>		<u>295,142</u>

Tax is provided at the latest known rates on all taxable gains net of losses which would arise if investments were sold at the market value included in the balance sheet at the end of the financial year.

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 12. Called up share capital

	2006	2005
	£	£
<b>Authorised</b>		
10,000,000 Ordinary shares of 25p each	<u>2,500,000</u>	<u>2,500,000</u>
	£	£
<b>Allotted, called up and fully paid</b>		
1,802,802 Ordinary shares of 25p each	<u>450,700</u>	<u>450,700</u>

#### 13. Reserves

	2006			
	Share premium account	Capital reserve realised	Capital reserve unrealised	Revenue reserve
	£	£	£	£
Balance at 1 January 2006	405,605	520,007	1,360,604	105,252
Net gain on realisation of investments	-	266,437	-	-
Increase in unrealised appreciation	-	-	442,043	-
Management expenses allocated to capital	-	(24,164)	-	-
Taxation	-	(43,194)	(79,248)	-
Profit for the year	-	-	-	60,322
Dividend paid in year	-	-	-	(45,070)
Balance at end of year	<u>405,605</u>	<u>719,086</u>	<u>1,723,399</u>	<u>120,504</u>

#### 14. Reconciliation of movement on shareholders' funds

	2006	2005
	£	£
Retained net revenue for the year after taxation	60,322	48,825
Dividend	(45,070)	(36,056)
	<u>15,252</u>	<u>12,769</u>
Total recognised gains for the year	561,874	361,710
	<u>577,126</u>	<u>374,479</u>
Shareholders' funds at beginning of year	2,842,168	2,467,689
Shareholders' funds at end of year	<u>3,419,294</u>	<u>2,842,168</u>

# Athelney Trust plc

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 15. Risk management, financial assets and liabilities

The following information is given in accordance with Financial Reporting Standard 13.

##### **Risk management**

The major risks associated with the Company are market and liquidity risk. The Company has established a framework for managing these risks. The directors have guidelines for the management of investments and financial instruments.

Market risk arises from changes in interest rates, valuations awarded to equities, movements in prices and the liquidity of financial instruments.

The Company's portfolio is invested in UK securities.

##### **Financial assets and liabilities**

The Company's financial instruments comprise equity investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13.

Fixed asset investments (see note 8) are valued at market bid prices where available which equate to their fair values. The fair values of all other assets and liabilities are represented by their carrying values in the balance sheet.

#### 16. Net asset value per share

The net asset value per share is based on net assets of £3,419,294 (2005:£2,842,168) divided by 1,802,802 (2005 :1,802,802)ordinary shares in issue.

	2006	2005
Net asset value	<u>189.7p</u>	<u>157.7p</u>

# Athelney Trust plc

## OFFICERS AND FINANCIAL ADVISERS

<b>Directors:</b>	H.B. Deschampsneufs (Chairman) R.G. Boyle (Managing Director) Email: <a href="mailto:robin171@btinternet.com">robin171@btinternet.com</a> D.A. Horner (Non-Executive Director)
<b>Administrator:</b>	J. Girdlestone F.C.A. Waterside Court Falmouth Road Penryn Cornwall, TR10 8AW Email: <a href="mailto:john@girdlestone.org.uk">john@girdlestone.org.uk</a>
<b>Secretary:</b>	J.M. Davies 9 Limes Road Beckenham Kent, BR3 6NS
<b>Registered Office:</b>	2 Queen Anne's Gate Buildings Dartmouth Street London, SW1H 9BP
<b>Nominated Adviser:</b>	Noble & Company Limited 76 George Street Edinburgh, EH2 3BU
<b>Stockbroker:</b>	Speirs & Jeffrey Limited 36 Renfield Street Glasgow, G2 1NA
<b>Auditor:</b>	Clement Keys 39 /40 Calthorpe Road Edgbaston Birmingham, B15 1TS
<b>Banker:</b>	The Royal Bank of Scotland plc London City Office 62/63 Threadneedle Street London City Office, EC2R 8LA
<b>Registrar:</b>	Share Registrars Limited Craven House West Street Farnham Surrey, GU9 7EN
<b>Public Relations Consultants:</b>	CityRoad Communications 42 - 44 Carter Lane London, EC4V 5EA
<b>Company Number:</b>	2933559