

**Close Brothers
Development VCT PLC**



**Report & Accounts
for the year ended
31 December 2002**

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DIRECTORS AND ADMINISTRATION

Directors

R M Davidson, Chairman
F K Malcolm BSc
D C Pinckney MA FCA
J G T Thornton MA MBA FCA

Investment Manager

Close Venture Management
12 Appold Street
London EC2A 2AW
Tel: 020 7426 4000

Secretary and Registered Office

J M Gain
12 Appold Street
London EC2A 2AW

Registrar

Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 606664

Auditors

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Taxation Advisers

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

FINANCIAL HIGHLIGHTS

| | Ordinary Shares Year ended 31 December 2002 | ‘C’ Shares Period ended 31 December 2002 |
|--|---|--|
| Dividends per share | 4.50 pence | 0.00 pence |
| Net asset value per share | 80.26 pence | 94.64 pence |
| Shareholder value per share since launch: | Pence per share⁽ⁱⁱ⁾ | Pence per share⁽ⁱⁱ⁾ |
| Total dividends for the period ended 31 December 1999 ⁽ⁱ⁾ | 2.50 | – |
| Total dividends for the year ended 31 December 2000 | 3.75 | – |
| Total dividends for the year ended 31 December 2001 | 4.00 | – |
| Interim dividend for the year ended 31 December 2002 | 1.80 | – |
| Final dividend for the year ended 31 December 2002 | 2.70 | – |
| Net asset value at 31 December 2001 | 80.26 | 94.64 |
| Total | 95.01 | 94.64 |

Notes

- (i) *assuming subscription for Ordinary Shares by the First Closing on 26 January 1999.*
(ii) *excluding tax benefits received upon subscription.*

FINANCIAL CALENDAR

| | |
|---|------------------|
| Ex dividend date | 12 February 2003 |
| Record date for final dividend | 14 February 2003 |
| Annual General Meeting | 5 March 2003 |
| Posting of dividend cheques in respect of the final dividend | 6 March 2003 |
| Announcement of interim results for the six months ended 30 June 2003 | September 2003 |
| Payment of interim dividend | October 2003 |

INVESTMENT OBJECTIVES

Close Brothers Development VCT PLC is a venture capital trust which raised a total of £14.6 million through an issue of shares in the Spring and Summer of 1999 and is currently raising up to a further £20 million through a 'C' Share issue. The investment strategy of the Company is to establish a diversified portfolio of holdings in smaller, unquoted companies whilst at the same time selecting and structuring investments in such a way as to reduce the risk normally associated with investment in such companies. It is intended that this will be achieved as follows:

- Qualifying Investments will represent in excess of 80 per cent. of net funds raised and will comprise investments in established businesses across a broad spread of industries;
- approximately two thirds of the amount invested in Qualifying Investments will comprise debt secured on "bankable" assets. This debt will generate a significant proportion of the total anticipated return from individual investments; and
- up to 20 per cent. of net funds raised will be invested in Non-Qualifying Investments comprising fixed and floating interest rate securities, financial instruments and short term money market deposits with major banks with a Moody's credit rating of at least A.

CHAIRMAN'S STATEMENT**Introduction**

I present the results of your Company for the year to 31 December 2002, being the fourth year following the launch of Close Brothers Development VCT PLC. The period under review has been more volatile than we were anticipating, particularly towards the end of the year, as a more difficult economic environment led to tougher trading conditions for some of our investee companies. This has led to a reduction in net asset value to 80.3 pence per Ordinary Share, from 92.0 pence at the interim stage and 93.8 pence at 31 December 2001.

As anticipated at the time of the launch of the 'C' Share prospectus in September 2002, the Company is declaring a total dividend for the year of 4.5 pence per Ordinary Share, up from 4.0 pence the previous year. This reinforces your board's commitment, whenever possible, to provide shareholders with a strong dividend yield.

The following, therefore, is the total return of the Company since launch in January 1999.

| | Pence per Ordinary Share |
|---|---------------------------------|
| Dividends declared for the year to 31 December 1999 | 2.50 |
| Dividends declared for the year to 31 December 2000 | 3.75 |
| Dividends declared for the year to 31 December 2001 | 4.00 |
| Dividends declared for the year to 31 December 2002 | 4.50 |
| | <hr/> |
| | 14.75 |
| Net asset value at 31 December 2002 | 80.26 |
| | <hr/> |
| Total return at 31 December 2002 | 95.01 |
| | <hr/> |

This return from an opening net asset value of 95 pence on launch, compares to a 27.3 per cent. fall in the FTSE 100 index and a 24.3 per cent. fall in the AIM index over the period since the launch of the Company to 31 December 2002, in both cases with dividends reinvested.

Investment review

Despite the tougher trading conditions, a good proportion of the companies in our portfolio continue to perform well. These include Careforce Group (domiciliary care services to the elderly) and Dolphin Nurseries (children's day nurseries), which have both seen their value enhanced since the half year. The slowdown in consumer spending, however, has affected Odyssey Clubs Group (health clubs) and Leisure Links International (golf clubs), both of which have had provisions made against the equity element of our investment.

Most disappointing of all is Fastrack Resources Group (temporary recruitment services), which is being placed into creditors' voluntary liquidation. Although we had a first charge over a portion of the debtor book and over the goodwill of the business, we have deemed it prudent at this stage to make a full provision against our investment.

In addition to providing further resources to existing investee companies, investments were made in two new businesses during the year. The first was a £480,000 investment in Automotive Technik, a manufacturer of military off-road vehicles whose main clients are the UK Ministry of Defence and armed forces overseas. The second was a small investment of £50,000 in a new specialist three screen 'art house' cinema opening in February in the centre of Liverpool. Both of these investments were part of larger fundraisings, syndicated between one or more of the other Close Brothers VCT's.

Results and dividend

Ordinary Shares

As at 31 December 2002 the net asset value of the Ordinary Shares of your Company was £11.8 million, compared to £13.7 million at 31 December 2001. This equates to a net asset value per share of 80.3 pence (2001: 93.8 pence). Net income after taxation for the year amounted to £642,000 (2001: £635,000) enabling the board to declare a net final dividend of 2.7 pence per share (2001: 2.4 pence). This is in addition to the interim dividend of 1.8 pence per Ordinary Share (2001: 1.6 pence) and brings the total dividend for the year to 4.5 pence (2001: 4.0 pence). The final dividend will be paid on 6 March 2003 to shareholders on the register on 14 February 2003.

'C' Shares

As at 31 December 2002 the net asset value of the 'C' Shares of your Company was £2.3 million. This equates to net asset value per share of 94.6 pence from an initial subscription price of 95 pence after taking account of issue costs. Net income after taxation for the period amounted to a loss of £3,000. The first dividend in respect of the 'C' Shares is expected to be in respect of the interim period to 30 June 2003.

'C' Share issue and future prospects

During the Autumn of last year we launched a fundraising of up to £20 million in a new class of 'C' Shares. Applications totalling £3.6 million have been received to date and the offers for subscription will remain open until April. We are reviewing a variety of prospects for investment by both the Ordinary Shares and the new 'C' Shares. We anticipate that the current climate will give rise to interesting investment opportunities at attractive valuations though particular attention will be paid to trading prospects. We look forward to continuing our strategy of seeking to limit investment risk whilst generating an attractive tax free dividend yield.

Roderick Davidson

Chairman

4 February 2003

THE BOARD OF DIRECTORS

The following are the Directors of the Company, all of whom operate in a non-executive capacity.

Roderick Davidson (65), is the chairman of the Company. He joined B S Stock & Co., stockbrokers, in Bristol in 1960, becoming a partner in 1965, and managing director of Stock Beech & Co. Limited in 1985. In 1990 he joined Albert E Sharp where he was a director of Albert E Sharp Holdings Limited and managed investment portfolios on behalf of pension funds, charitable trusts and private investors. Throughout his stockbroking career, he had broad experience of investment in smaller companies. He retired in 1998. He is a director of Close Brothers Venture Capital Trust PLC, a £40 million VCT which invests in unquoted, asset backed businesses.

Francis Malcolm (59), BSc. Frank Malcolm joined the Inland Revenue as an Inspector of Taxes in 1967. He joined Edinburgh Investment Trust as an investment analyst in 1969 before joining Brewin Dolphin Securities Limited in 1972. Over the past 28 years he has been successively head of research, head of research and institutional sales and, latterly, a director in the corporate finance department where his work includes the raising of finance from venture and development capital institutions on behalf of unquoted companies. He is a director of Close Brothers AIM VCT PLC, a £30 million VCT which invests in companies quoted on AIM, and of Edinburgh Income and Value Trust PLC and the UK Balanced Property Trust Limited.

David Pinckney (62), MA, FCA. He was with Peat Marwick Mitchell & Co. (now KPMG) in London from 1963 to 1968 and from 1969 to 1983 in France. He became a partner in 1975 and Senior Audit Partner of France in 1978. He was then Managing Director of Wrightson Wood Financial Services Limited, where his work involved the provision of advice to companies seeking venture capital. In 1987 he joined Thornton Management Limited, an international equity fund management group with a proportion of funds invested in smaller unquoted companies, first as Group Finance Director and subsequently Joint Managing Director. He is now vice chairman of AXA Investment Managers, an investment management arm of the AXA Group.

Jonathan Thornton (55), MA, MBA, FCA, has extensive experience in the management of unquoted investments. He was a director of Close Brothers Group plc from 1984 to 1998 and was responsible for establishing Close Brothers Private Equity Limited, the venture capital fund management arm of Close Brothers Group. Prior to this he worked for 3i plc and Cinven. Over the past 22 years he has been a non-executive director of a number of smaller unquoted companies which have raised institutional capital and he is a director of Close Brothers Venture Capital Trust PLC.

THE MANAGER

Close Venture Management, a division of Close Brothers Investment Limited which is authorised and regulated by the Financial Services Authority, is the Manager of Close Brothers Development VCT. In addition to Close Brothers Development VCT it manages three further venture capital trusts: Close Brothers Venture Capital Trust PLC raised approximately £40 million in 1996 and 1997 which now invests in asset-based businesses; whilst Close Brothers Protected VCT PLC raised approximately £28 million in 1997 which now invests in qualifying loans guaranteed by the Royal Bank of Scotland, asset-based businesses and in shares issued by companies quoted on AIM; and Close Technology & General VCT PLC which has raised £14 million to invest half its funds in technology stocks, including international quoted securities, and half in non-technology sectors of the UK economy.

The Manager's ultimate parent company is Close Brothers Group plc, a substantial independent merchant banking group listed on the London Stock Exchange.

The following are specifically responsible for the management and administration of the VCTs managed by Close Venture Management, including Close Brothers Development VCT:

Patrick Reeve, (42), MA, ACA. He qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined the Close Brothers Group in 1989, initially in the development capital subsidiary, where he was a director specialising in the financing of smaller unquoted companies. He joined the corporate finance division in 1991, where he was also a director. He established Close Venture Management with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

Ole Bettum, (39), BSc, MBA. After three years as a research economist for the Saudi Government, he graduated from Columbia Business School with an MBA. He worked in the corporate finance department of Price Waterhouse from 1994 and joined Close Brothers Investment in 1996 to help establish Close Venture Management .

Henry Stanford, (37), MA, ACA. He qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group in 1992. He became an assistant director in 1996 and transferred to Close Venture Management in 1998 to concentrate on VCT investment.

Will Fraser-Allen, (31), BA (Hons), ACA qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Venture Management in 2001.

Emil Gigov, (32), BA (Hons), ACA qualified as a chartered accountant with KPMG in 1997 and subsequently worked in KPMG's corporate finance division. He joined Close Venture Management in 2000.

THE PORTFOLIO OF INVESTMENTS

| | At 31 December 2002 | | | |
|--|----------------------------|------------------------|---|----------------------|
| | Percentage of equity owned | Invested at cost £'000 | Unrealised appreciation/ (depreciation) £'000 | Total £'000 |
| Qualifying investments | | | | |
| Automotive Technik (Holdings) Limited | 8.9% | 480 | 6 | 486 |
| Careforce Group Limited | 37.2% | 1,500 | 602 | 2,102 |
| City Screen (Liverpool) Limited | 4.5% | 50 | – | 50 |
| Consolidated Communications Management Limited | 10.8% | 1,000 | 69 | 1,069 |
| Dolphin Nurseries Limited | 20.0% | 1,049 | 145 | 1,194 |
| Fastrack Resources Group Limited | 32.7% | 1,090 | (1,090) | – |
| Leisure Links International Limited | 26.3% | 1,100 | (290) | 810 |
| Odyssey Clubs Group Limited | 16.0% | 1,700 | (352) | 1,348 |
| Peakdale Molecular Limited | 7.8% | 1,000 | – | 1,000 |
| Swetenhams Marketing Services Limited | 16.2% | 1,500 | 157 | 1,657 |
| The Q Garden Company Limited | 15.0% | 500 | (23) | 477 |
| Total qualifying investments | | <u>10,969</u> | <u>(776)</u> | <u>10,193</u> |
| Non-qualifying investments | | | | |
| Royal Bank of Scotland FRN due January 2003 | | 1,499 | – | 1,499 |
| Total investments | | <u>12,468</u> | <u>(776)</u> | <u>11,692</u> |

Automotive Technik (Holdings) Limited

The company holds the licence to manufacture the Pinzgauer off-road vehicle, whose main clients are the UK Ministry of Defence and overseas armed forces.

Careforce Group Limited

Careforce Group was established in 1999 to build, both organically and through acquisition, a group providing home care services to the elderly, principally on behalf of local authorities. Careforce currently operates nine branches around the UK.

City Screen (Liverpool) Limited

The company was formed to own and operate a three screen 'art house' cinema in the centre of Liverpool, which is due to open in February 2003.

Consolidated Communications Management Limited

Consolidated Communications is a management buy-out of an established public relations agency, formed in 1991, with a broad range of 'blue-chip' clients. In 2001 the Company was named "Consultancy of the Year" at the PR Week Awards.

Dolphin Nurseries Limited

Dolphin is building a group of private children's day nurseries in and around Greater London. The company currently operates four nurseries at Upminster, Chigwell, Bracknell and Tooting.

Fastrack Resources Group Limited

Fastrack provided recruitment services in respect of both temporary and permanent staff, with a particular specialisation in the rail sector. The company is being placed into creditors' voluntary liquidation.

Leisure Links International Limited

Leisure Links owns and operates two golf courses at Test Valley in Hampshire and Chesfield Downs outside Stevenage.

Odyssey Clubs Group Limited

Odyssey owns a 30,000 sq.ft. health and fitness club on an 11 acre site outside Stevenage, a 20,000 sq.ft. club in Henley and has a 50 per cent. stake in a company which owns a 30,000 sq.ft. club on a six acre site outside Beaconsfield in Buckinghamshire.

Peakdale Molecular Limited

Peakdale Molecular is principally engaged in research, processing and the supply of chemical compounds to the major pharmaceutical companies. It operates from a substantial freehold site in Chapel-en-le-Frith, Derbyshire.

Swetenhams Marketing Services

Swetenhams provides data-related marketing services to the direct marketing industry, comprising list broking and management services, hosting and market automation systems.

The Q Garden Company Limited

The Q Garden Company is a chain of garden centres based in the south of England. It currently owns four centres in Fareham (Hampshire), Chinnor (Oxfordshire), Stow-on-the-Wold (Gloucestershire) and Nazeing (Essex).

REPORT OF THE DIRECTORS

The Directors submit the Report and Accounts of the Company for the year ended 31 December 2002.

Principal activity and status

The principal activity of the Company is that of a venture capital trust. It was approved by the Inland Revenue as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2001. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 December 2001 is subject to review should there be any subsequent enquiry under corporation tax self assessment. The company is not a close company for taxation purposes. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the year is contained in the Chairman's Statement.

The Company is an investment company as defined in Section 266 of the Companies Act 1985.

Results and dividends

| | Ordinary Shares £'000 | 'C' Shares £'000 |
|--|--------------------------------------|---------------------------------|
| Revenue return for the year ended 31 December 2002 available for distribution | 642 | (3) |
| Interim dividend of 1.80 pence per Ordinary Share | (264) | – |
| Final dividend for the year of 2.70 pence per Ordinary Share payable on 6 March 2003 to shareholders on the register at the close of business on 14 February 2003. | (396) | – |
| Transferred from revenue reserves | (18) | (3) |

Future prospects

Details on the future prospects of the Company are discussed by the Chairman in his statement on pages 4 to 5.

Directors

The Directors who held office throughout the period, and their interests in the shares of the Company (together with those of their immediate family) at 31 December 2002 were:

| | 2002 | | 2001 | |
|-------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Roderick Davidson | 5,000 | – | 5,000 | – |
| Jonathan Thornton | 20,000 | – | 10,000 | – |
| David Pinckney | 5,000 | – | 5,000 | – |
| Frank Malcolm | 5,000 | – | 5,000 | – |

There have been no changes in the holdings of the Directors between 31 December 2002 and the date of this document.

Jonathan Thornton purchased 10,000 shares in the Company on 4 April 2002 at 100 pence per share.

No Director has a service contract with the Company.

All Directors are members of the Audit Committee of which Mr. Pinckney is Chairman.

The Company does not have any employees

Management agreement

The Company and Close Brothers Investment Limited, of which Close Venture Management, the Manager, is a division, on 24 September 2002 entered into a supplementary management agreement which may be terminated by either party on 12 months' notice. Under this agreement, the Manager will also provide secretarial and administrative services to the Company. The Management Agreement is subject to earlier termination in the event of certain breaches or on the insolvency of either party. Under the terms of the Management Agreement, the Manager will be paid an annual fee equal to 2 per cent. (plus any applicable VAT) of the net asset value of the Company. The fee will be payable quarterly in arrears. The Manager will also be entitled to a secretarial and administration fee of 0.25 per cent. (plus any applicable VAT) per annum of the net asset value of the Company.

Management performance incentive

In order to reward the Manager for the maximisation of returns to investors, the Manager will, under the Supplementary Management Agreement, be entitled to an incentive fee in the event that returns exceed minimum target levels per Ordinary Share and 'C' Share. These minimum target levels, comprising all dividends paid and capital (capital being the average of net assets per Ordinary Share and the mid market price of the Ordinary Shares for the period from the announcement of the preliminary results to the day prior to the Annual General Meeting for the year in question), will be equivalent to an annualised rate of return of 8 per cent. per annum on the original subscription price of 100 pence per Share before taking account of the impact on returns of the initial income tax relief and any capital gains tax deferred. In order to reward the Manager for a consistent, above-target level of return over the life of the Company, the fee will be payable in stages over four years in respect of the financial years ending 31 December 2003 to 2006 in respect of Ordinary Shares and the financial years ending 31 December 2007 to 2010 in respect of 'C' Shares, and will amount in the case of each class of share, in aggregate to a maximum of 20 per cent. of the excess return achieved by the Company over the target levels.

Auditors

Deloitte & Touche were reappointed as auditors during the year. They have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Substantial interests

As at 31 December 2002 the Company was not aware of any beneficial interest exceeding 3 per cent. of the issued share capital.

Statement of directors' responsibilities

United Kingdom and company law 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 as at the end of the financial year and of the profit or loss of 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;
- state whether all applicable accounting standards have been followed; 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which 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, for the system of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that applicable accounting standards have been followed in the financial statements which accompany this report.

Suppliers payment policy

The Company's policy is to pay all suppliers within 30 days of the invoice date, or as otherwise agreed. There were no overdue trade creditors at 31 December 2002 (2001: nil)

Reappointment of directors

At the forthcoming Annual General Meeting, as required by the Articles of Association, all directors retire and being eligible offer themselves for re-election.

Cancellation of Share Premium

A special resolution was passed at an EGM of the Company on 21 October 2002 to petition the High Court to cancel the share premium account relating to 'C' Shares shortly after the final closing. On the basis that the 'C' Share Offer closes by 31 May 2003 it is anticipated that a Court Order confirming the cancellation will be made during July 2003. The cancellation of the share premium account will only take effect on an office copy of the Court Order being duly registered by the Registrar of Companies which is expected to take place by the end of July 2003.

'C' Share Offer

During the year the Company authorised the raising of up to £20 million through an issue of 'C' Shares.

Until 31 March 2007 'C' Shares shall be treated as a separate pool with reference to investments and returns attributable to those investments. Residual expenses shall be allocated between the existing Ordinary Shares and new 'C' Shares on the basis of total funds raised for each class. As to the rights to attend and vote at any general meeting of the Company the Ordinary Shares and 'C' Shares rank *pari passu*.

Conversion of 'C' Shares on 31 March 2007 will be carried out in accordance with the procedures contained in the Company's Articles of Association.

Annual General Meeting

The Annual General Meeting will be held at 12 Appold Street, London EC2A 2AW at 12 noon on 5 March 2003. The notice of the Annual General Meeting is at the end of this document. A resolution will be proposed as special business at the Annual General Meeting for the following purpose:

Purchase of own shares

A special resolution, number 6 in the notice of meeting, will give the Company authority to purchase in the market and cancel up to 1,466,651 of the Company's Ordinary issued shares and 245,147 'C' issued shares (equivalent to 10 per cent. of the share capital currently in issue).

Purchases of shares will be made within guidelines established from time to time by the Board, but only if it is considered that such purchases would be to the advantage of the Company and its shareholders taken as a whole. Purchases will only be made in the market for cash at prices below the prevailing net asset value per Ordinary Share. Under the rules of the London Stock Exchange the maximum price which can be paid by the Company is 5 per cent. above the average of the relevant market value of the

shares for the 5 business days preceding the purchase. Shares which are purchased will be cancelled. In making purchases the Company will deal only with member firms of the London Stock Exchange. Purchases of shares will be funded from distributable reserves. To the extent that the Company purchases shares at a discount to net asset value, the net asset value of the remaining shares in issue will increase.

By Order of the Board,

J M Gain
Secretary
12 Appold Street
London EC2A 2AW

4 February 2003

STATEMENT OF CORPORATE GOVERNANCE

Background

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code (“the Code”).

Application of the Principles of the Code

The Board attaches importance to matters set out in the Code and applies its principles. However, as a venture capital trust company, most of the Company’s day-to-day responsibilities are delegated to third parties and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

Board of directors

The Board consists solely of non-executive Directors. Mr Davidson is the senior independent Director and Chairman. Messrs Pinckney, Malcolm and Thornton are also independent directors. All Directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved for it and meets at least four times a year. The management agreement between the Company and its Manager sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. These include the management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. All other matters are reserved for the approval of the Board of Directors.

The Articles of Association require that all Directors are subject to re-election procedures at the Annual General Meeting.

Remuneration Committee

Since the Company has no executive directors, the detailed Directors’ Remuneration disclosure requirements set out in Listing Rules 12.43A(a), 12.43A(b) and 12.43A(c) as they relate to Combined Code Provisions B.1 to B.3, B1.1 to B1.10, B2.1 to B2.6 and B3.1 to B3.5 are not relevant.

Audit Committee

The Audit Committee consists of all directors, with Mr Pinckney as Chairman. Written terms of reference have been constituted for the Audit Committee. It meets as required throughout the year. The Committee oversees the Company’s accounting policies and financial reporting and provides a forum through which the Company’s external auditors report to the Board. The Audit Committee also undertakes the duties of the Engagement Committee, and therefore also reviews all matters arising under the management agreement.

Nomination Committee

A Nomination Committee has not been formed as it is not warranted given the size of the Board.

Internal control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 (“the Turnbull guidance”). The Board is responsible for the Company’s system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company’s business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertakes a full review of the Company’s business risks. The Board receives each year from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which comes to management’s and the Board’s attention.

The Company does not have an internal audit function but it does have access to the internal audit department of Close Brothers Group which reports on the Manager’s activities. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

Going concern

After making reasonable enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the accounts.

Statement of compliance

The Directors consider that the Company has complied throughout the year ended 31 December 2002 with all the relevant provisions set out in Section 1 of the Code on Corporate Governance issued by the Financial Services Authority. The Company continues to comply with the Code as at the date of this report.

DIRECTORS REMUNERATION REPORT

Introduction

This report is submitted in accordance with the Directors Remuneration Report Regulations 2002 in respect of the year ended 31 December 2002.

Remuneration Committee

Since the Company has no executive directors and consists solely of non-executive directors, a remuneration committee is not warranted.

Directors remuneration policy

The Company's policy is that fees payable to non-executive directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration market equivalents are considered in comparison to the overall activities and size of the Company.

The maximum level of non-executive directors' remuneration is fixed by the Company's Articles of Association, amendment to which is by way of a special resolution subject to ratification by shareholders.

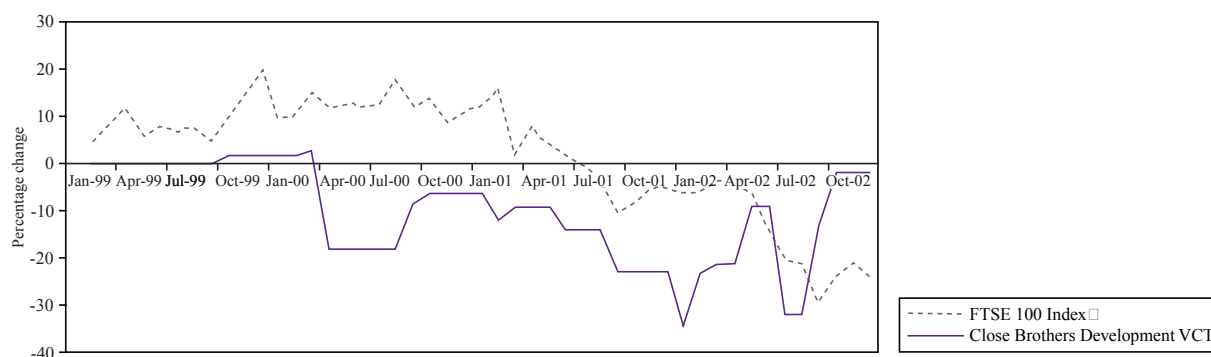
Approval to alter the Articles of Association was received on 21 October 2002 providing for aggregate non-executive directors fees not to exceed £100,000 per annum. In the forthcoming year the directors will each receive an increase in their current fee equal to 0.045 per cent. of the total funds raised under the 'C' Share issue upon final closing of the Offer.

Performance graph

The below graph shows the performance of Close Brothers Development VCT PLC's Ordinary Share price against the FTSE 100 index, in both instances with dividends reinvested, for the four years since the launch of the fund in January 1999. The directors consider this to be the nearest equivalent benchmark, however, would remind investors that shares in VCT's generally continue to trade at a discount to the actual net asset value of the Company.

The directors consider it inappropriate to provide for the performance of the 'C' Shares in light of the fact that funds are still being raised and no investments have as yet been made in respect of this class of share.

There are no options, issued or excisable, in the Company which would distort the graphical representation below.



Service contracts

No director has a service contract with the Company.

Directors remuneration

The following items have been audited.

The following table shows a breakdown of the remuneration of individual directors:

| | Year ended 31 December 2002 | | | Year ended 31 December 2001 | | |
|-------------------|-----------------------------|-------------------|----------------|-----------------------------|-------------------|----------------|
| | Fees £'000 | Expenses £'000 | Total £'000 | Fees £'000 | Expenses £'000 | Total £'000 |
| Roderick Davidson | 14 | – | 14 | 13 | – | 13 |
| Jonathan Thornton | 13 | – | 13 | 13 | – | 13 |
| David Pinckney | 14 | – | 14 | 13 | – | 13 |
| Frank Malcolm | 14 | 3 | 17 | 13 | 2 | 15 |
| | <u>55</u> | <u>3</u> | <u>58</u> | <u>52</u> | <u>2</u> | <u>54</u> |

The Company does not confer any share options, long term incentives or retirement benefits to any director, nor does it make a contribution to any pension scheme on behalf of the directors.

Each director of the Company is remunerated personally, save for Jonathan Thornton who's services are provided by Jonathan Thornton Limited.

In addition to directors remuneration the Company pay annual premiums in respect of directors liability insurance.

By Order of the Board

J M Gain
 Secretary

4 February 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS DEVELOPMENT VCT PLC

We have audited the financial statements of Close Brothers Development VCT PLC for the year ended 31 December 2002 which comprise the statement of total return, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. 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 circumstances of the company, 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 described as having been 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 described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and the total return for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

4 February 2003

Close Brothers Development VCT PLC
Statement of Total Return (incorporating the revenue account)
for the year to 31 December 2002

| | Notes | Ordinary Shares Year ended 31 December 2002 | | | 'C' Shares Period ended 31 December 2002 | | | Total Year ended 31 December 2002 | | |
|---|-------|---|------------------|----------------|--|------------------|----------------|---|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Losses on investments | 1 & 2 | – | (1,771) | (1,771) | – | – | – | – | (1,771) | (1,771) |
| Income | 3 | 1,059 | – | 1,059 | 4 | – | 4 | 1,063 | – | 1,063 |
| Investment management fees | 1 & 4 | (77) | (231) | (308) | (3) | (7) | (10) | (80) | (238) | (318) |
| Other expenses | 1 & 5 | (113) | (29) | (142) | (4) | (1) | (5) | (117) | (30) | (147) |
| Return on ordinary activities before tax | | 869 | (2,031) | (1,162) | (3) | (8) | (11) | 866 | (2,039) | (1,173) |
| Tax on ordinary activities | 7 | (227) | 68 | (159) | – | 2 | 2 | (227) | 70 | (157) |
| Return attributable to equity shareholders | | 642 | (1,963) | (1,321) | (3) | (6) | (9) | 639 | (1,969) | (1,330) |
| Dividends | 8 | (660) | – | (660) | – | – | – | (660) | – | (660) |
| Transfer from reserves | | (18) | (1,963) | (1,981) | (3) | (6) | (9) | (21) | (1,969) | (1,990) |
| Return per share | 9 | 4.4p | (13.4)p | (9.0)p | (0.2)p | (0.4)p | (0.6)p | 4.2p | (13.8)p | (9.6)p |

The revenue columns of this statement represent the profit and loss account of the Company.

The 'C' share return covers the period from 25 October 2002 to 31 December 2002.

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued in the year.

Close Brothers Development VCT PLC
Statement of Total Return (incorporating the revenue account)
for the year to 31 December 2001

| | Notes | Ordinary Shares Year ended 31 December 2001 | | | 'C' Shares Period ended 31 December 2001 | | | Total Year ended 31 December 2001 | | |
|---|-------|---|------------------|----------------|--|------------------|----------------|---|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Losses on investments | 1 & 2 | – | (321) | (321) | – | – | – | – | (321) | (321) |
| Income | 3 | 1,045 | – | 1,045 | – | – | – | 1,045 | – | 1,045 |
| Investment management fees | 1 & 4 | (80) | (239) | (319) | – | – | – | (80) | (239) | (319) |
| Other expenses | 1 & 5 | (107) | (30) | (137) | – | – | – | (107) | (30) | (137) |
| Return on ordinary activities before tax | | 858 | (590) | 268 | – | – | – | 858 | (590) | 268 |
| Tax on ordinary activities | 7 | (223) | 70 | (153) | – | – | – | (223) | 70 | (153) |
| Return attributable to equity shareholders | | 635 | (520) | 115 | – | – | – | 635 | (520) | 115 |
| Dividends | 8 | (581) | – | (581) | – | – | – | (581) | – | (581) |
| Transfer to/(from) reserves | | 54 | (520) | (466) | – | – | – | 54 | (520) | (466) |
| Return per share | 9 | 4.3p | (3.6)p | (0.7)p | 0.0p | 0.0p | 0.0p | 4.3p | (3.6)p | 0.7p |

The revenue columns of this statement represent the profit and loss account of the Company.

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued in the year.

Close Brothers Development VCT PLC
Balance Sheet at 31 December 2002

| | Notes | Ordinary Shares 31 December 2002 £'000 | 'C' Shares 31 December 2002 £'000 | Total 31 December 2002 £'000 |
|---|-------|---|--|---------------------------------------|
| Fixed asset investments | | | | |
| Qualifying | | 10,193 | – | 10,193 |
| Non-qualifying | | 1,499 | – | 1,499 |
| Total fixed asset investments | 10 | 11,692 | – | 11,692 |
| Current assets | | | | |
| Debtors | 12 | 48 | 862 | 910 |
| Short-term money market deposits | | 694 | 1,487 | 2,181 |
| | | 742 | 2,349 | 3,091 |
| Creditors: due within one year | 13 | (663) | (29) | (692) |
| Net current assets | | 79 | 2,320 | 2,399 |
| Net assets | | 11,771 | 2,320 | 14,091 |
| Represented by: | | | | |
| Called up share capital | 14 | 7,333 | 1,226 | 8,559 |
| Share premium | 15 | 48 | 1,103 | 1,151 |
| Special reserve | 15 | 6,513 | – | 6,513 |
| Capital redemption reserve | 15 | 51 | – | 51 |
| Capital reserve | 15 | | | |
| <i>realised</i> | | (779) | (6) | (785) |
| <i>unrealised</i> | | (1,458) | – | (1,458) |
| Revenue reserve | 15 | 63 | (3) | 60 |
| Total equity shareholders' funds | 17 | 11,771 | 2,320 | 14,091 |
| Net asset value per share | 16 | 80.3p | 94.6p | 82.3p |

Close Brothers Development VCT PLC
Balance Sheet at 31 December 2001

| | Notes | Ordinary Shares 31 December 2001 £'000 | 'C' Shares 31 December 2001 £'000 | Total 31 December 2001 £'000 |
|---|-------|---|--|---------------------------------------|
| Fixed asset investments | | | | |
| Qualifying | | 10,630 | — | 10,630 |
| Non-qualifying | | 3,001 | — | 3,001 |
| Total fixed asset investments | 10 | 13,631 | — | 13,631 |
| Current assets | | | | |
| Debtors | 12 | 86 | — | 86 |
| Short-term money market deposits | | 448 | — | 448 |
| | | 534 | — | 534 |
| Creditors: due within one year | 13 | (514) | — | (514) |
| Net current assets | | 20 | — | 20 |
| Net assets | | 13,651 | — | 13,651 |
| Represented by: | | | | |
| Called up share capital | 14 | 7,280 | — | 7,280 |
| Special reserve | 15 | 6,513 | — | 6,513 |
| Capital redemption reserve | 15 | 51 | — | 51 |
| Capital reserve | 15 | | | |
| <i>realised</i> | | (589) | — | (589) |
| <i>unrealised</i> | | 315 | — | 315 |
| Revenue reserve | 15 | 81 | — | 81 |
| Total equity shareholders' funds | 17 | 13,651 | — | 13,651 |
| Net asset value per share | 16 | 93.8p | — | 93.8p |

The financial statements on pages 20 to 37 were approved by the Board of Directors on 4 February 2003.

Signed on behalf of the Board of Directors

Roderick Davidson
Chairman

Close Brothers Development VCT PLC
Cash Flow Statement
for the year ending 31 December 2002

| | Notes | Ordinary Shares Year ended 31 December 2002 £'000 | 'C' Shares Period ended 31 December 2002 £'000 | Total Year ended 31 December 2002 £'000 |
|--|-------|--|---|--|
| Operating activities | | | | |
| Investment income received | | 713 | – | 713 |
| Deposit interest received | | 25 | 4 | 29 |
| Investment management fees paid | | (250) | – | (250) |
| Other cash payments | | (152) | – | (152) |
| Net cash inflow from operating activities | 19 | 336 | 4 | 340 |
| Taxation | | | | |
| UK corporation tax paid | | (108) | – | (108) |
| Capital expenditure and financial investments | | | | |
| Purchase of qualifying investments | | (1,269) | – | (1,269) |
| Purchase of non-qualifying investments | | – | – | – |
| Disposal of non-qualifying investments | | 300 | – | 300 |
| Disposals of non-qualifying investments | | 1,500 | – | 1,500 |
| Net cash inflow from investing activities | | 531 | – | 531 |
| Equity dividends paid | | | | |
| Dividends paid on Ordinary Shares | | (614) | – | (614) |
| Net cash inflow before financing | | 145 | 4 | 149 |
| Financing | | | | |
| Issue of equity net of expenses | | 101 | 1,483 | 1,584 |
| Increase in cash | 18 | 246 | 1,487 | 1,733 |

The accompanying notes are an integral part of these statements.

Close Brothers Development VCT PLC
Cash Flow Statement
for the year ending 31 December 2001

| | Notes | Ordinary Shares Year ended 31 December 2001 £'000 | 'C' Shares Period ended 31 December 2001 £'000 | Total Year ended 31 December 2001 £'000 |
|--|-------|--|---|--|
| Operating activities | | | | |
| Investment income received | | 668 | — | 668 |
| Deposit interest received | | 86 | — | 86 |
| Investment management fees paid | | (391) | — | (391) |
| Other cash payments | | (150) | — | (150) |
| Net cash inflow from operating activities | 19 | 213 | — | 213 |
| Taxation | | | | |
| UK corporation tax paid | | — | — | — |
| Capital expenditure and financial investments | | | | |
| Purchase of qualifying investments | | (7,140) | — | (7,140) |
| Purchase of non-qualifying investments | | — | — | — |
| Disposals of non-qualifying investments | | 5,994 | — | 5,994 |
| Net cash inflow from investing activities | | (1,146) | — | (1,146) |
| Equity dividends paid | | | | |
| Dividends paid on Ordinary Shares | | (576) | — | (576) |
| Net cash inflow before financing | | (1,509) | — | (1,509) |
| Financing | | | | |
| Redemption of own shares | | (80) | — | (80) |
| Decrease in cash | 18 | (1,589) | — | (1,589) |

The accompanying notes are an integral part of these statements.

Close Brothers Development VCT PLC
Notes to the financial statements
For the year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) in all material aspects. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain investments.

Capital reserves

Realised reserves

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses and finance costs, together with the related taxation effect; and
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Unrealised reserve

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Special reserve

This reserve is distributable and is primarily used for the cancellation of the Company's share capital.

Financial period

The financial period of the Ordinary Shares is for the year to 31 December 2002. The financial information in relation to the 'C' Shares covers the period from first allotment on 25 October 2002 to 31 December 2002.

Investments

Listed investments are stated at market value based upon middle market prices at the end of the accounting period. Unquoted investments are stated at a valuation determined by the directors in accordance with the British Venture Capital Association guidelines. Other than amounts accrued under redemption premium on secured loan stock, the unrealised depreciation or appreciation on the valuation of investments is dealt with in the unrealised capital reserve and gains and losses arising on the disposal of investments are dealt with in the realised capital reserve. Amounts accrued under the redemption premium are accounted for in the revenue return.

It is not the Company's policy to exercise controlling or significant influences over investee companies. Therefore the results of these companies are not incorporated into the revenue account except to the extent of any income accrued.

Income and expenses

All income and expenses are treated on the accruals basis and dividend income (other than on non-equity shares) is included in revenue when the investment is quoted ex-dividend. The fixed returns on non-equity shares and on debt securities are recognised on a time apportionment basis. Amounts accrued under redemption premium are recognised on a time apportioned basis in the revenue return.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

Management, secretarial and administrative expenses

75 per cent. of management, secretarial and administrative expenses, representing the proportion of the investment management fee and other expenses attributable to the enhancement of the value of the investments of the company, has been charged to capital reserves, net of corporation tax. The balance of expenses is charged to the revenue account.

Taxation

The interim financial information has been prepared on the basis of accounting policies consistent with those applied in the 2001 financial statements. Taxation associated to capital expenses is applied in accordance with recommended practice.

Deferred taxation is considered in accordance with FRS 19 on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

The specific nature regarding the taxation of VCTs means that it is unlikely any deferred tax will arise. The directors have considered the requirements of FRS 19 and do not believe any provision should be made.

‘C’ Shares

Until such time that ‘C’ Shares are converted into Ordinary Shares in 2007, all investments and returns attributable to this class of share will be separately identifiable from the existing Ordinary Shares. All residual expenses will be allocated on the basis of total funds raised for each class of share.

2. Gains/(losses) on investments

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|-------------------|---|--------------|---|--------------|
| | Ordinary Share | ‘C’ Share | Ordinary Share | ‘C’ Share |
| Realised gains | 2 | – | 8 | – |
| Unrealised losses | (1,773) | – | (329) | – |
| | <u>(1,771)</u> | <u>–</u> | <u>(321)</u> | <u>–</u> |

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

3. Income

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|--------------------------------------|---|--------------|---|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Income from investments | | | | |
| UK unfranked investment income | 671 | – | 728 | – |
| Redemption premium | 363 | – | 247 | – |
| | <u>1,034</u> | <u>–</u> | <u>975</u> | <u>–</u> |
| Other income | | | | |
| Deposit income | 25 | 4 | 70 | – |
| | <u>25</u> | <u>4</u> | <u>70</u> | <u>–</u> |
| Total income | <u>1,059</u> | <u>4</u> | <u>1,045</u> | <u>–</u> |
| Total income comprises: | | | | |
| Interest | 696 | 4 | 798 | – |
| Redemption premium | 363 | – | 247 | – |
| | <u>696</u> | <u>4</u> | <u>798</u> | <u>–</u> |
| Total income | <u>1,059</u> | <u>4</u> | <u>1,045</u> | <u>–</u> |
| Income from investments: | | | | |
| Listed | 78 | – | 332 | – |
| Unlisted | 956 | – | 643 | – |
| | <u>956</u> | <u>–</u> | <u>643</u> | <u>–</u> |
| Total income from investments | <u>1,034</u> | <u>–</u> | <u>975</u> | <u>–</u> |

4. Investment management fee

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|--------------------|---|--------------|---|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Charged to revenue | 77 | 3 | 80 | – |
| Charged to capital | 231 | 7 | 239 | – |
| | <u>231</u> | <u>7</u> | <u>239</u> | <u>–</u> |
| Total | <u>308</u> | <u>10</u> | <u>319</u> | <u>–</u> |

Total management fees include irrecoverable VAT amounting to £47,378. Further details of the Management Agreement under which the investment management fee is paid are given in the Report of the Directors.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

5. Other expenses

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|-------------------------------------|---|--------------|---|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Secretarial and Administrative fee | 38 | 2 | 40 | – |
| Directors' fees | 56 | 2 | 54 | – |
| Auditors' remuneration – audit fees | 14 | – | 13 | – |
| Other | 34 | 1 | 30 | – |
| Less: charged to capital | (29) | (1) | (30) | – |
| | <u>113</u> | <u>4</u> | <u>107</u> | <u>–</u> |

6. Directors' fees

The amounts paid on behalf of directors during the year are as follows;

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|----------------|---|--------------|---|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Directors' fee | 53 | 2 | 52 | – |
| Expenses | 3 | – | 2 | – |
| | <u>56</u> | <u>2</u> | <u>54</u> | <u>–</u> |

Mr. Thornton's services are provided by Jonathan Thornton Limited.

Expenses charged relate to travel expenses in furtherance of their duties as directors.

Further information regarding directors remuneration can be found on page 17.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

7. Tax on ordinary activities

| | Year ended 31 December 2002 | | | Year ended 31 December 2001 | | |
|--------------------------------------|--------------------------------|------------------|----------------|--------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| UK corporation tax at 30% | 157 | – | 157 | 153 | – | 153 |
| Tax attributable to capital expenses | 70 | (70) | – | 70 | (70) | – |
| | <u>227</u> | <u>(70)</u> | <u>157</u> | <u>223</u> | <u>(70)</u> | <u>153</u> |

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year is below the standard rate for the reasons set out in the following reconciliation.

| | Year ended 31 December 2002 | | | Year ended 31 December 2001 | | |
|-------------------------------------|--------------------------------|------------------|----------------|--------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Profit before taxation | 866 | (2,039) | (1,173) | 858 | (590) | 268 |
| Tax on profit at the standard rate | 260 | (612) | (352) | 257 | (177) | 80 |
| Factors affecting the charge | | | | | | |
| Losses on investments | – | 531 | 531 | – | 96 | 96 |
| Fractional relief | (33) | 11 | (22) | (34) | 11 | (23) |
| | <u>227</u> | <u>(70)</u> | <u>157</u> | <u>223</u> | <u>(70)</u> | <u>153</u> |

Notes

- (i) Venture Capital Trusts are not subject to corporation tax on capital gains.
- (ii) Tax relief on expenses charged to capital has been determined by allocating tax relief to all expenses proportionately by reference to the applicable corporation tax rate of 30% and allocating the relief in the same ratio as expenses between revenue and capital.
- (iii) No deferred tax asset or liability has arisen in the year.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

8. Dividends

| | Year ended 31 December 2002 £'000 | | Year ended 31 December 2001 £'000 | |
|---|---|--------------|---|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Dividends on equity shares: | | | | |
| Interim paid of 1.80p per share (2001: 1.60p) | 264 | — | 232 | — |
| Final proposed of 2.70p per share (2001: 2.40p) | 396 | — | 349 | — |
| Total dividends | <u>660</u> | <u>—</u> | <u>581</u> | <u>—</u> |

9. Return per share

| | Year ended 31 December 2002 | | | Year ended 31 December 2001 | | |
|-----------------|--------------------------------|--------------|-------------|--------------------------------|-------------|-----------|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| Ordinary Shares | 4.4 pence | (13.4) pence | (9.0) pence | 4.3 pence | (3.6) pence | 0.7 pence |
| 'C' Shares | (0.2) pence | (0.4) pence | (0.6) pence | — | — | — |

Ordinary Shares

Revenue return per share is based on the net revenue profit on ordinary activities after taxation but before deduction of dividends and other appropriations of £642,000 (2001: £635,000) in respect of the weighted number of shares in issue during the year, being 14,623,692 shares (2001: 14,611,142 shares).

Capital return per ordinary share is based on net capital loss for the financial year of £1,963,000 (2001: £520,000) and based on the same weighted average number of shares as for revenue return shown above.

'C' Shares

Revenue return per share is based on the net revenue loss on ordinary activities after taxation but before deduction of dividends and other appropriations of £3,000 (2001: £nil) in respect of the weighted number of shares in issue during the period, being 1,511,548 shares (2001: nil shares).

Capital return per ordinary share is based on net capital loss for the financial period of £6,000 (2001: £nil) and based on the same weighted average number of shares as for revenue return shown above.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

10. Investments

| | 31 December 2002 £'000 | 31 December 2001 £'000 | |
|--|--|---------------------------------------|------------------------|
| Ordinary shares | | | |
| Investments listed on a recognised investment exchange | 1,499 | 3,001 | |
| Qualifying unlisted investments | 10,193 | 10,630 | |
| Total | <u>11,692</u> | <u>13,631</u> | |
| | Qualifying unlisted £'000 | Listed £'000 | Total £'000 |
| Valuation basis | | | |
| Opening valuation: 1 January 2002 | 10,630 | 3,001 | 13,631 |
| Purchases at cost | 1,269 | – | 1,269 |
| Disposal | | | |
| – proceeds | (300) | (1,500) | (1,800) |
| – realised profit | – | 2 | 2 |
| Redemption premium appreciation in the year | 363 | – | 363 |
| Unrealised depreciation in the year | (1,769) | (4) | (1,773) |
| | <u>10,193</u> | <u>1,499</u> | <u>11,692</u> |
| Closing valuation: 31 December 2002 | | | |
| Opening unrealised appreciation | 630 | 4 | 634 |
| Redemption premium appreciation in the year | 363 | – | 363 |
| Depreciation of investments in the year | (1,769) | (4) | (1,773) |
| Closing unrealised depreciation | <u>(776)</u> | <u>–</u> | <u>(776)</u> |
| <i>Closing unrealised depreciation represented by:</i> | | | |
| Accumulated redemption reserve | 682 | – | 682 |
| Unrealised depreciation | (1,458) | – | (1,458) |
| | <u>(776)</u> | <u>–</u> | <u>(776)</u> |
| Historical cost basis | | | |
| Opening book cost | 10,000 | 2,997 | 12,997 |
| Additions at cost | 1,269 | – | 1,269 |
| Disposals at cost | (300) | (1,498) | (1,798) |
| Closing book cost | <u>10,969</u> | <u>1,499</u> | <u>12,468</u> |

In addition Close Brothers Development VCT PLC holds 15,000 Warrants in Consolidated Communications Management Ltd exercisable for 15,000 shares at £15 per share. The directors' valuation of the Warrants is nil.

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

11. Significant interests

Details of investments in which the Company has an interest of 10 per cent. or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows. It is considered that, as permitted by FR S9, the below investments are held as part of an investment portfolio and their value to the Company is through their marketable value as part of a portfolio of investments. Therefore, the investments are not considered to be associated undertakings.

| | Percentage of ordinary share capital | Country of incorporation |
|--|--|-----------------------------|
| Careforce Group Limited | 37% | United Kingdom |
| Fastrack Resources Group Limited | 33% | United Kingdom |
| Leisure Links International Limited | 26% | United Kingdom |
| Dolphin Nurseries Limited | 20% | United Kingdom |
| Odyssey Clubs Group Limited | 16% | United Kingdom |
| Swetenhams Marketing Services Limited | 16% | United Kingdom |
| The Q Garden Company Limited | 15% | United Kingdom |
| Consolidated Communications Management Limited | 11% | United Kingdom |

| | Unaudited results | | Capital and reserves £'000 | Loss after taxation £'000 |
|-------------------------------------|-------------------|-----|----------------------------------|---------------------------------|
| Careforce Group Limited | 31 July 2002 | 319 | 76 | |
| Leisure Links International Limited | 31 March 2002 | 923 | 260 | |
| Dolphin Nurseries Limited | 30 September 2002 | 396 | 330 | |

12. Debtors

| | 31 December 2002 £'000 | | 31 December 2001 £'000 | |
|--------------------------------|---------------------------|--------------|---------------------------|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Prepayments and accrued income | 10 | – | 86 | – |
| Debtors | 51 | 862 | – | – |
| Provision for bad debts | (13) | – | – | – |
| | <u>48</u> | <u>862</u> | <u>86</u> | <u>–</u> |

13. Creditors: amounts falling due within one year

| | 31 December 2002 £'000 | | 31 December 2001 £'000 | |
|----------------------------|---------------------------|--------------|---------------------------|--------------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| UK corporation tax payable | 159 | (2) | 109 | – |
| Proposed dividend | 396 | – | 349 | – |
| Other creditors | 108 | 31 | 56 | – |
| | <u>663</u> | <u>29</u> | <u>514</u> | <u>–</u> |

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

14. Share Capital

| | 31 December 2002 £'000 | 31 December 2001 £'000 |
|--|------------------------------|------------------------------|
| Ordinary Shares | | |
| Authorised: | | |
| 25,000,000 Ordinary Shares of 50p each | 12,500 | 12,500 |
| Allotted, called-up and fully-paid: | | |
| 14,666,512 Ordinary Shares of 50p each | 7,333 | 7,280 |
| 'C' Shares | | |
| Authorised: | | |
| 25,000,000 'C' Ordinary Shares of 50p each | 12,500 | — |
| Allotted, called-up and fully-paid: | | |
| 2,451,474 'C' Ordinary Shares of 50p each | 1,226 | — |

During the year the Company issued the following shares at 100 pence per share each with a nominal value of 50 pence per share. Issue costs of 5 pence per share have been taken against the share premium account in accordance with FRS 4.

| | |
|-----------------|-----------|
| Ordinary Shares | 106,570 |
| 'C' Shares | 2,451,474 |

15. Reserves

| | Share premium £'000 | Special reserve £'000 | Capital redemption reserve £'000 | Realised capital reserve £'000 | Unrealised capital reserve £'000 | Revenue reserve £'000 |
|---------------------------------|---------------------------|-----------------------------|---|---|---|-----------------------------|
| Ordinary shares | | | | | | |
| Beginning of year | — | 6,513 | 51 | (589) | 315 | 81 |
| Issue of equity net of expenses | 48 | — | — | — | — | — |
| Gains/(losses) on investments | — | — | — | 2 | (1,773) | — |
| Capitalised expenses net of tax | — | — | — | (192) | — | — |
| Retained net revenue | — | — | — | — | — | (18) |
| End of year | 48 | 6,513 | 51 | (779) | (1,458) | 63 |
| 'C' Shares | | | | | | |
| Beginning of year | — | — | — | — | — | — |
| Issue of equity net of expenses | 1,103 | — | — | — | — | — |
| Gains/(losses) on investments | — | — | — | — | — | — |
| Capitalised expenses net of tax | — | — | — | (6) | — | — |
| Retained net revenue | — | — | — | — | — | (3) |
| End of year | 1,103 | — | — | (6) | — | (3) |

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

16. Net asset value per share

The net asset value per share at the year end calculated in accordance with the Articles of Association were as follows, based upon 14,666,512 Ordinary Shares and 2,451,474 'C' Shares in issue at 31 December 2002 (2001: 14,559,942 Ordinary Shares):

| | 31 December 2002 | | 31 December 2001 | |
|--|------------------|------------|------------------|-----------|
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Net asset value per share attributable | 80.3 pence | 94.6 pence | 93.8 pence | — |

The movements during the period of the assets attributable were as follows:

| | 31 December 2002 | | 31 December 2001 | |
|--|------------------|--------------|------------------|-----------|
| | £'000 | | £'000 | |
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Total assets attributable at beginning of the year | 13,651 | — | 14,197 | — |
| Issue of equity net of expenses | 101 | 2,329 | — | — |
| Redemption of own shares | — | — | (80) | — |
| Total return for the year | (1,321) | (9) | 115 | — |
| Dividends appropriated in the year | (660) | — | (581) | — |
| Total net assets attributable at end of year | <u>11,771</u> | <u>2,320</u> | <u>13,651</u> | <u>—</u> |

Net asset value per share is based on net assets at the year end.

17. Reconciliation of movements in shareholders' funds

| | 31 December 2002 | | 31 December 2001 | |
|---|------------------|--------------|------------------|-----------|
| | £'000 | | £'000 | |
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Opening shareholders' funds | 13,651 | — | 14,197 | — |
| Increase in share capital | 53 | 1,226 | — | — |
| Increase in share premium | 48 | 1,103 | — | — |
| Redemption of own shares | — | — | (80) | — |
| Total return to shareholders before dividends | (1,321) | (9) | 115 | — |
| Dividends | (660) | — | (581) | — |
| Closing shareholders' funds | <u>11,771</u> | <u>2,320</u> | <u>13,651</u> | <u>—</u> |

18. Analysis of changes in cash during the year

| | 31 December 2002 | | 31 December 2001 | |
|---------------------------|------------------|--------------|------------------|-----------|
| | £'000 | | £'000 | |
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Beginning of the year | 448 | — | 2,037 | — |
| Net cash inflow/(outflow) | 246 | 1,487 | (1,589) | — |
| End of the year | <u>694</u> | <u>1,487</u> | <u>448</u> | <u>—</u> |

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

19. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

| | 31 December 2002 | | 31 December 2001 | |
|---|-------------------|--------------|-------------------|--------------|
| | £'000 | | £'000 | |
| | Ordinary Share | 'C' Share | Ordinary Share | 'C' Share |
| Net revenue before finance costs and taxation | 869 | (3) | 858 | — |
| Investment management fee charged to capital | (231) | (7) | (239) | — |
| Other expenses charged to capital | (29) | (1) | (30) | — |
| Increase in redemption premium | (363) | — | (247) | — |
| Decrease/(increase) in debtors | 38 | (1) | (4) | — |
| Increase/(decrease) in creditors | 52 | 16 | (86) | — |
| Tax on investment income | — | — | (39) | — |
| Net cash inflow from operating activities | <u>336</u> | <u>4</u> | <u>213</u> | <u>—</u> |

20. Financial instruments and risk management

The Company's financial assets comprise equity and loan stock investments in unquoted companies, loan investments listed on recognised exchanges, cash balances and short term debtors which arise from its operations. The main purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations.

The company has no financial liabilities other than short term creditors.

The company does not use any derivatives and numerical disclosures below exclude short term debtors and creditors.

The principal risks arising from the Company's operations are:

- interest rate risk;
- market price risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies remain unchanged since the formation of the Company.

Borrowing facilities

The Company had no committed borrowing facilities as at 31 December 2002 (2001: nil).

Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 31 December 2002 are stated at fair value as determined by the directors, unless otherwise stated. See note 1 of the financial statements.

Interest rate risk

It is the Company's policy to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced profit before tax for the period to 31 December 2002 by approximately 11 per cent (2001: 19 per cent.)

Close Brothers Development VCT PLC
Notes to the financial statements (continued)

20. Financial instruments and risk management (continued)

The Company's financial assets at 31 December 2002, all denominated in sterling, consist of the following;

| | 31 December 2002 | | | | 31 December 2001 | | | |
|-----------------|------------------------|---------------------------|---------------------------|----------------|------------------------|---------------------------|---------------------------|----------------|
| | Fixed Rate £'000 | Floating Rate £'000 | Interest Free £'000 | Total £'000 | Fixed Rate £'000 | Floating Rate £'000 | Interest Free £'000 | Total £'000 |
| Ordinary Shares | 235 | 9,238 | 3,690 | 13,163 | – | 10,196 | 3,252 | 13,448 |
| 'C' Shares | – | 1,487 | – | 1,487 | – | – | – | – |
| Total | <u>235</u> | <u>10,725</u> | <u>3,690</u> | <u>14,650</u> | <u>–</u> | <u>10,196</u> | <u>3,252</u> | <u>13,448</u> |

Foreign currency exposure risk

As at 31 December 2002 the Company had no foreign currency exposures (2001: nil).

Market price risk

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio in unquoted investments, the results of which are detailed in the Portfolio Review. The manager and board regularly monitor this risk.

Investment risk

As a venture capital trust, it is the Company's specific business to evaluate and control the investment risk in its portfolio of unquoted companies, the results of which are detailed in the Chairman's statement.

21. Contingencies, guarantees and financial commitments

There are no contingencies, guarantees or financial commitments made by or to the Company at the year end which have not been accrued.

22. Post balance sheet events

Subsequent to the year end, as discussed in the Chairman's statement a resolution was taken to place Fastrack Resources Group into creditors's voluntary liquidation. This event however has been fully accounted for in these financial statements.

On 10 January 2002 the company issued a further 255,000 'C' Shares at 100 pence per share.

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Close Brothers Development VCT PLC will be held at 12 noon at 12 Appold Street, London EC2A 2AW on 5 March 2003 for the purpose of dealing with the following business, of which item 6 is special business.

Ordinary Business

1. To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 31 December 2002.
2. To reappoint Deloitte & Touche as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
3. To declare a final dividend of 2.70 pence net per Ordinary Share of 50p each for the year ended 31 December 2002 payable to shareholders on the register at the close of business on 14 February 2003.
4. To approve the directors remuneration report.
5. To reappoint each of the following directors who retire by rotation.

Mr R Davidson
Mr F Malcolm
Mr D Pinckney
Mr J Thornton

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

6. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985), of Ordinary Shares of 50p each in the capital of the Company ("Shares") provided that:
 - (a) the maximum aggregate number of shares authorised to be purchased is 1,466,651 Ordinary Shares and 245,147 'C' Shares (representing 10 per cent. of the current issued share capital of each class);
 - (b) the minimum price which may be paid for a share is 50p;
 - (c) the maximum price which may be paid for a share is an amount equal to 5 per cent. above the average of the middle market quotations for that share in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased;
 - (d) this authority expires at the conclusion of the next Annual General Meeting of the Company or eighteen months from the date of the passing of this resolution whichever is earlier; and
 - (e) the Company may make a contract or contracts to purchase shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

J M GAIN
Secretary
Registered Office
12 Appold Street, London EC2A 2AW

Date: 4 February 2003

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. The register of interests of directors kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.
4. No director has a service contract or contract for services with the Company.
5. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered in the register of members of the Company as at 12 noon on 3 March 2003 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at this meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 12 noon on 3 March 2003 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Company's existing Articles of Association are available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until close of business on 5 March 2003 and will also be available for inspection at the place of the meeting for at least 15 minutes before, and during the meeting until the close of, the meeting.

