

CLOSE BROTHERS

Development
VCT PLC

Interim Report
for the six months to
30 June 2002

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CONTENTS

	Page
Directors and administration	2
Chairman's Statement	3
Portfolio Summary	4
Independent review report on the interim information	6
Unaudited Statement of Total Return (incorporating the profit and loss account) to 30 June 2002	7
Unaudited Summary Balance Sheet at 30 June 2002	8
Unaudited Cashflow Statement to 30 June 2002	9
Notes to the interim results	10

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
(a division of Close Brothers Investment Limited)
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London EC2A 2AW
Tel: 020 7426 4000

Secretary and Registered Office

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London EC2A 2AW

Registrar

Northern Registrars Limited
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Independent Reporting Accountants

Deloitte & Touche
London

Taxation Adviser

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

Chairman's Statement

Introduction

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. This is achieved as follows:

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

Investment Progress

The period since 31 December 2001 has seen a number of developments in your Company, and it is pleasing to see a 12.5 per cent. increase in the interim dividend to 1.8 pence per share. This underlines your Company's strategy of providing a strong dividend yield to investors. We therefore anticipate, in the absence of unforeseen circumstances, that the Company will be paying a total dividend for the year of 4.5 pence per Ordinary share compared to 4 pence last year though this should not be taken as a profit forecast.

During the six months to 30 June 2002 the Company made one new qualifying investment in an existing investee company, totalling £400,000. This was in Leisure Links International, to enable it to purchase the 27 hole Chesfield Downs Golf Club outside Stevenage. Subsequent to the half year, £90,000 was invested to provide further working capital to Fastrack Resources, the temporary and permanent recruitment specialist, £480,000 was invested in Automotive Technik, a manufacturer of military off road vehicles, and a further £200,000 was invested to provide additional resources to Odyssey Clubs Group. Three of these investments were syndicated with Close Technology & General VCT PLC.

Strong progress at Careforce Staffing and Peakdale Molecular, in both cases supported by third party investment at an increased valuation, has led to a higher holding values, which go some way to counterbalancing partial provisions made on our investments in Fastrack Resources and Odyssey Clubs Group.

Results and Dividend

As at 30 June 2002 the net asset value of the company was £13.5 million, (2001: £13.2 million), equivalent to 92.0 pence per share (2001: 90.4 pence). Net income after taxation was £339,000 for the six months, (2001: £296,000) enabling the board to declare an increased net interim dividend of 1.8 pence per share (2001: 1.6 pence per share), payable on 22 October 2002 to those shareholders registered on 4 October 2002.

R M Davidson
Chairman

24 September 2002

Portfolio Summary

Company	% owned and voting rights	Invested to date £'000	Unrealised appreciation/ (depreciation) £'000	Total £'000
<p>Careforce Staffing Ltd Careforce Staffing 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 in the UK.</p>	37%	1,500	581	2,081
<p>Swetenhams Marketing Services Ltd Swetenhams provides data-related marketing services to the direct marketing industry, comprising list broking and management services, hosting and market automation systems.</p>	16%	1,500	134	1,634
<p>Odyssey Clubs Group Ltd 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% stake in a company which owns a 30,000 sq.ft. club on a 6 acre site outside Beaconsfield in hosting and hosting and market automation systems.</p>	18%	1,500	(190)	1,310
<p>Dolphin Nurseries Ltd Dolphin aims at building a group of private children's day nurseries in and around Greater London. The Company currently operates three nurseries at Upminster, Chigwell, and Bracknell, and is developing a fourth in Tooting.</p>	20%	1,300	–	1,300
<p>Peakdale Molecular Ltd Peakdale is principally engaged in research, processing and the supply of organic chemicals, to the major pharmaceutical companies. It operates from a substantial freehold site in Chapel-en-le-frith, High Peak.</p>	7%	1,000	150	1,150
<p>Leisure Links International Ltd Leisure Links was formed to own and operate golf courses with two courses now acquired at Test Valley in Hampshire and Chesfield Downs outside Stevenage.</p>	26%	1,100	40	1,140

Company	% owned and voting rights	Invested to date £'000	Unrealised appreciation/ (depreciation) £'000	Total £'000
Consolidated Communications Management Ltd				
Consolidated Communications is a management buy-out of an established public relations company, formed in 1991, with a broad range of 'blue-chip' clients. In 2001 the Company was named "PR Company of the Year" at the PR Week Consultancy of the Year Awards.	7%	1,000	40	1040
Fastrack Resources Group Ltd				
Fastrack provides recruitment services in respect of both temporary and permanent staff, with a particular specialisation in the rail sector.	33%	1,000	(146)	854
The Q Gardens Company Ltd				
The Company was formed to own and operate garden centres, and now has four sites in Fareham, Chinnor, Stow-on-the Wold and Nazeing in Essex.	15%	500	6	506
Total Qualifying investments made at 30 June 2002		10,400	615	11,015
Investments made subsequently				
Automotive Technik Ltd				
The company holds the licence to manufacture the Pinzgauer cross-country vehicle, which it sells principally to the armed forces in the UK and the Middle East.	9%	480		
Odyssey Clubs Group Ltd		200		
Further refinancing.				
Fastrack Resources Group Ltd		90		
Further refinancing.				
Non Qualifying at 30 June 2002				
Royal Bank of Scotland				
Floating rate note due 25 January 2003		1,499	(6)	1,493

Independent review report on the interim information to Close Brothers Development VCT PLC.

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2002 which comprises the statement of total return, the balance sheets, the cash flow statement and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reason for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

Deloitte & Touche

Chartered Accountants
London

24 September 2002

Unaudited Statement of Total Return
(incorporating the profit and loss account)
for the six months to 30 June 2002

	Note	Six months to 30 June 2002			Six months to 30 June 2001			Year to 31 December 2001		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments		–	(232)	(232)	–	(897)	(897)	–	(321)	(321)
Income	3	563	–	563	497	–	497	1,045	–	1,045
Investment management fees	2	(40)	(119)	(159)	(40)	(121)	(161)	(80)	(239)	(319)
Other expenses	2	(53)	(15)	(68)	(53)	(15)	(68)	(107)	(30)	(137)
Return/(loss) on ordinary activities before tax		470	(366)	104	404	(1,033)	(629)	858	(590)	268
Tax (charge)/credit on ordinary activities	2&4	(131)	37	(94)	(108)	36	(72)	(223)	70	(153)
Return/(deficit) attributable to shareholders		339	(329)	10	296	(997)	(701)	635	(520)	115
Dividends	5	(264)	–	(264)	(232)	–	(232)	(581)	–	(581)
Transfer to/(from) reserves		75	(329)	(254)	64	(997)	(933)	54	(520)	(466)
Return per share	6	2.3p	(2.2)p	0.1p	2.0p	(6.8)p	(4.8)p	4.3p	(3.6)p	0.7p

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

Unaudited Balance Sheet
at 30 June 2002

Note	30 June 2002 £'000	30 June 2001 £'000	31 December 2001 £'000
Fixed asset investments	2		
Qualifying	11,015	6,094	10,630
Non-Qualifying	1,493	4,498	3,001
	<u>12,058</u>	<u>10,592</u>	<u>13,631</u>
Current assets			
Debtors	174	64	86
Short term money market deposits	1,411	2,958	448
	<u>1,585</u>	<u>3,022</u>	<u>534</u>
Creditors: due within one year	(595)	(391)	(514)
Net current assets	<u>990</u>	<u>2,631</u>	<u>20</u>
Net assets	<u>13,498</u>	<u>13,223</u>	<u>13,651</u>
Represented by:			
Called up share capital	7,333	7,308	7,280
Share premium	48	–	–
Special reserve	6,513	6,552	6,513
Capital redemption reserve	51	23	51
<i>realised</i>	(684)	(492)	(589)
<i>unrealised</i>	81	(259)	315
Profit and loss account	156	91	81
	<u>13,498</u>	<u>13,223</u>	<u>13,651</u>
Total equity shareholders funds	<u>13,498</u>	<u>13,223</u>	<u>13,651</u>
Net asset value per share	92p	90.4p	93.8p

This interim report was approved by the Board of Directors on 24 September 2002.

Signed on behalf of the Board of Directors by

J G T Thornton
Director

Unaudited Cashflow Statement

for the six months to 30 June 2002

	Six months ended 30 June 2002 £'000	Six months ended 30 June 2001 £'000	Year ended 31 December 2001 £'000
Operating activities			
Investment income received	362	337	668
Deposit interest received	11	53	86
Investment management fees paid	(91)	(167)	(391)
Other cash payments	(65)	(64)	(150)
	<hr/>	<hr/>	<hr/>
Net cash inflow from operating activities	217	159	213
Taxation			
UK corporation tax repaid	6	–	–
Capital expenditure and financial investments			
Purchase of investments	(410)	(3,350)	(7,140)
Disposals of investments	1,500	4,495	5,994
	<hr/>	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	1,090	1,145	(1,146)
Equity dividends paid			
Dividends paid on ordinary shares	(350)	(342)	(576)
	<hr/>	<hr/>	<hr/>
Net cash inflow/(outflow) before financing	963	962	(1,509)
Financing			
Purchase of own shares	–	(41)	(80)
	<hr/>	<hr/>	<hr/>
Net cash outflow from financing	–	(41)	(80)
Increase/(decrease) in cash and cash equivalents			
	<hr/>	<hr/>	<hr/>
	963	921	(1,589)

Notes to the interim results

1. Principal activity

The principal activity of the Company is that of a venture capital trust. The Company is an investment company within the meaning of s266, Companies Act 1985.

2. Accounting policies

The principal accounting policies of the Company, all of which have been applied consistently throughout the period in the preparation of its accounts are set out below.

Accounting convention

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain investments. The financial statements are prepared in accordance with applicable United Kingdom law and 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.

Investments

Investments listed on recognised exchanges 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. Amounts accrued under redemption premium on secured loan stock are dealt with in the fixed asset investments of the Company, the unrealised depreciation or appreciation on the valuation of investments and gains and losses arising on the disposal of investments are dealt with in the capital reserve.

It is not the Company’s policy to exercise controlling or significant influence 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 is included in revenue when an investment is quoted ex-dividend. Any fixed returns on non-equity shares or debt securities are recognised on a time apportionment basis.

Management and secretarial expenses

75 per cent. of management and secretarial administrative expenses, representing the proportion of the fees attributable to the enhancement of the value of the investments of the company, have been charged to capital reserves, net of corporation tax. All other expenses are charged to the revenue account.

Issue costs

Issue costs associated with the allotment of ordinary share capital have been deducted from the share premium account in accordance with Financial Reporting Standard No. 4.

Notes to the interim results (continued)

Taxation

Taxation is applied on a current basis in accordance with Financial Reporting Standard No.16. Taxation associated to capital expenses is applied in accordance with the SORP.

Reserves

Capital reserves – realised

The following are taken to this reserve:

- (i) gains and losses on the realisation of investments;
- (ii) expenses, together with the related taxation effect, charged in accordance with the above policies.

Capital reserves – unrealised

The following are taken to this reserve:

- (i) increases and decreases in the valuation of investments held at the year end.

3. Income

	Six months to 30 June 2002 £'000	Six months to 30 June 2001 £'000
Interest from investments		
Qualifying investments	503	230
Non-qualifying investments	49	230
Bank deposit interest	11	37
	563	497

4. Tax on ordinary activities

	Six months to 30 June 2002			Six months to 30 June 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 30%	94	–	94	72	–	72
Tax attributable to capital expenses	37	(37)	–	36	(36)	–
	131	(37)	94	108	(36)	72

Notes

- (i) Venture Capital Trusts are not subject to corporation tax upon any 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 per cent. and allocating the relief in the same ratio as expenses between revenue and capital.
- (iii) No deferred tax on any asset or liability has arisen in the year.
- (iv) Tax is provided at the average rate of 28 per cent.

5. Dividends

The interim dividend of 1.8 pence per share, amounting in total to £263,987, will be paid on 22 October 2002 to those shareholders who are on the register on 4 October 2002.

6. Return per share

	Six months to 30 June 2002			Period ended 30 June 2001		
	Revenue	Capital	Total	Revenue	Capital	Total
Equity shares	2.3p	(2.2)p	0.1p	2.0p	(6.8)p	(4.8)p

The revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends of £339,000 in respect of 14,580,116 shares (2001:14,635,130 shares), being the weighted average number of shares in issue during the six months. The capital return per share is based on net capital loss for the period of £329,000 (2001:997,000) in respect of the same weighted average number of shares in issue over the six months.

7. Other information

The information for the six months ended 30 June 2002 and the period ended 30 June 2001 does not constitute statutory accounts within the terms of section 240 of the Companies Act 1985 and is unaudited. The information for the period ended 31 December 2001 does not constitute statutory accounts within the terms of section 240 of the Companies Act 1985 and is derived from statutory accounts for that financial period, which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

8. Publication

This interim report is being sent to shareholders and copies will be made available to the public at the registered office of the Company.

