

CLOSE BROTHERS

Development
VCT PLC

Interim Report
for the six months to
30 June 2005



**Interim Report
for the six months to
30 June 2005
(Unaudited)**

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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 and
Company Secretary**

Close Venture Management Limited

4 Crown Place

London EC2A 4BT

Tel: 020 7422 7830

Registered office

10 Crown Place

London EC2A 4FT

Registrar

Capita Registrars Limited

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Independent reporting accountants

Deloitte & Touche LLP

London

Taxation adviser

Ernst & Young LLP

1 More London Place

London

SE1 2AF



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 through the use of secured debt in such a way as to reduce the risk normally associated with investment in these companies.

Investment progress

The results for the six months to 30 June 2005 show further good progress. The net asset value per share ('NAV') for the Ordinary Shares has increased to 96.8 pence from 96.1 pence (restated) at the last year end, while the NAV for the C Shares increased to 104.9 pence from 102.6 pence (restated) at the last year end. The principal reason for the increase is the successful sale of Automotive Technik, the manufacturer of military vehicles, which realised a gain of £1.4 million for the Ordinary Share portfolio, and a gain of £1.5 million for the C Share portfolio.

The largest investment in the Ordinary Share portfolio is Careforce Group Plc, the domiciliary care business; shareholders will recall that this was successfully floated on AIM in November 2004. Due to the fact that we are restricted on selling any of our holding until November this year, the shares are valued at market price less a discount of 15 per cent. The largest holding in the C Share portfolio by value is Grosvenor Healthcare, which provides healthcare services to large corporates. This company continues to perform ahead of expectations and further amounts were invested during the period to purchase a smaller competitor in Scotland.

The largest new investment during the period was £300,000 with a further £200,000 commitment from the Ordinary Shares and a commitment for £800,000 from the C Shares as part of a larger fund raising to purchase a 30 acre freehold site in Weybridge, Surrey, for development into a new health and fitness club.

The first interim dividend of 1.8 pence for both the Ordinary Shares and the C Shares was declared in May and paid in June. As explained when we wrote to you in May, this is the transition year for the introduction of the revised Financial Reporting Standards, which changes the way we currently account for the recording of dividends. We will therefore be announcing a second interim dividend in November, based on the unaudited results to 31 October 2005 for approval and payment in December, in place of a final dividend. Shareholders will therefore be receiving three dividends in the current calendar year, including the final for 2004, paid in March of this year.

The income generated from the C Share portfolio is strong and growing, and will support a growing dividend in line with expectations. While the Ordinary Share portfolio's successful disposal programme over the past twelve months has greatly boosted asset value, however, it has depressed revenue as high-yielding loan stock has been repaid. The current programme of investments will help to restore this over time, although in the current year it is unlikely that the previous years' dividend target of four pence will be met.

Results and dividends

As at 30 June 2005 the net asset value of the Ordinary Share portfolio was £13.1 million, (2004: £11.0 million (restated)), equivalent to 96.8 pence per share (2004: 77.3 pence (restated)) for the Ordinary Shares, while the C Share portfolio was £19.3 million, (2004: £17.8 million (restated)), or 104.9 pence per share (2004: 95.0 pence (restated)). Net income after taxation for the Ordinary Shares was £180,000 for the six months, (2004: £200,000). Net income after taxation for the C Share portfolio was £326,000 (2004: £201,000).



CHAIRMAN'S STATEMENT (continued)

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

	Pence per Ordinary Share*	Pence per C Share*
Dividends paid during the period ended 31 December 1999	1.00	-
Dividends paid during the year to 31 December 2000	3.65	-
Dividends paid during the year to 31 December 2001	3.20	-
Dividends paid during the year to 31 December 2002	4.20	-
Dividends paid during the year to 31 December 2003	4.50	-
Dividends paid during the year to 31 December 2004	4.00	2.75
Dividends paid during the six months to 30 June 2005	4.00	4.20
	<hr/>	<hr/>
	24.55	6.95
Net asset value at 30 June 2005	96.83	104.86
	<hr/>	<hr/>
Total return at 30 June 2005	121.38	111.81

* The change in presentation of the above table in comparison to prior periods reflects the adoption of FRS21 which requires only approved dividends to be disclosed in each period. See note 3 for further explanation.

The directors have noted a number of typographical errors in the Company's annual report for the year ended 31 December 2004, sent to shareholders in February 2005 and published on Close Venture Management Limited's website ('the published accounts'), that did not appear in the Company's audited financial statements for the year ended 31 December 2004 as filed with the Registrar at Companies House ('the filed accounts').

Any shareholders wishing to receive copies of the filed accounts are invited to contact the Company Secretary by telephone or in writing using the contact details on page 2.

The directors have also noted two errors which appeared in the detailed notes of both the published accounts and the filed accounts and, as a consequence, these interim accounts include additional information in notes 9 and 10.

R M Davidson
Chairman

23 September 2005



PORTFOLIO SUMMARY

ORDINARY SHARE PORTFOLIO

Qualifying investments

Company	Equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total Value £'000
Careforce Group Plc (AIM quoted) Careforce Group was established in 1999 to build a group providing home care services to the elderly. The company floated on AIM in November 2004 and has since made four acquisitions.	14%	534	1,604	2,138
Peakdale Molecular Limited Peakdale Molecular is principally engaged in research, processing and the supply of chemical compounds to major pharmaceutical companies. It operates from a substantial freehold site in Chapel-en-le-Frith, Derbyshire.	9%	1,064	(158)	906
Consolidated Communications Management Limited Consolidated Communications is a management buy-out of an established public relations company, formed in 1991, with a broad range of 'blue chip' clients.	11%	1,000	–	1,000
The Q Garden Company Limited Q Garden Company owns a seven acre garden centre in Fareham, Hampshire.	17%	1,032	(481)	551
City Screen (Liverpool) Limited The company was formed to own and operate a three screen 'art house' cinema in the centre of Liverpool, which opened in February 2003.	5%	50	(5)	45
The Bold Pub Company Limited The Bold Pub Company was formed in February 2004 and owns 28 freehold and long leasehold pubs in the north west of England.	3%	320	24	344



PORTFOLIO SUMMARY
(continued)

Qualifying investments continued

Company	Equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total Value £'000
Grosvenor Health Limited Grosvenor Health was formed to acquire the UK occupational healthcare business of Capio, which provides healthcare services to large corporates. Growth since investment in March 2004 has been strong.	6%	435	207	642
CS (Greenwich) Limited CS (Greenwich) was established to own and operate a five screen 'art house' cinema in Greenwich. This is scheduled to open in the Autumn of 2005.	2%	110	–	110
Evolutions Television Limited Evolutions Television is a television post-production business, providing post-production services, including video and sound editing and automation, to a broad range of TV production companies, including the BBC and large independents. It operates from its own freehold premises north of Oxford Street, London. The investment was made in December 2004.	11%	700	8	708
Churchill Taverns Limited The company was formed to acquire "Ye Three Fyshes" public house in the village of Turvey, near Bedford, which had previously ceased trading. The pub opened in May 2005 following a refurbishment.	5%	70	–	70
GB Pub Company VCT Limited The company was formed to acquire freehold pubs in Devon and the south west. It acquired its first two sites in Bideford, North Devon in June 2005.	4%	130	–	130
Weybridge Limited The company was formed to develop, own and operate a health and fitness club on a 30 acre site in Weybridge, Surrey.	4%	300	–	300
Total qualifying investments held at 30 June 2005		5,745	1,199	6,944



PORTFOLIO SUMMARY
(continued)

Non qualifying investments

Company	Equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total Value £'000
The Independent Pub Company (VCT) Limited				
The Independent Pub Company (VCT) Limited was set up to acquire edge of town freehold pubs in central and southern England and it acquired its first site near Hungerford in December 2004.	3%	60	–	60
Total non-qualifying investments held at 30 June 2005		60	–	60
Total investments held at 30 June 2005		5,805	1,199	7,004

C SHARE PORTFOLIO

Qualifying investments

Careforce Group Plc (AIM quoted)				
Further financing.	4%	263	295	558
Peakdale Molecular Limited				
Further financing.	3%	133	(100)	33
The Bold Pub Company Limited				
Further financing.	13%	1,350	107	1,457
Grosvenor Health Limited				
Further financing.	26%	1,570	910	2,480
CS (Greenwich) Limited				
Further financing.	13%	650	–	650
Evolutions Television Limited				
Further financing.	29%	1,300	45	1,345
Churchill Taverns Limited				
Further financing.	7%	95	–	95
GB Pubs Company Limited				
Further financing.	5%	150	–	150
Total qualifying investments held at 30 June 2005		5,511	1,257	6,768

**PORTFOLIO SUMMARY**
(continued)**Non-qualifying investments**

Company	Equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total Value £'000
The Independent Pub Company (VCT) Limited				
Further financing.	7%	230	–	230
Smiles Pub Company Limited				
The company owns the freehold brewery in Bristol formerly owned by Smiles Brewing Co., which is currently being redeveloped into flats above a pub with micro brewery.	48%	430	(19)	411
Smiles Brewing Company Limited				
The company owns the Smiles beer brand, which is currently being brewed under licence by Highgate Brewery.	48%	145	(24)	121
Woolwich FRN		2,003	(1)	2,002
Bradford & Bingley FRN		1,997	2	1,999
Citigroup FRN		2,999	–	2,999
Total non-qualifying investments held at 30 June 2005		7,804	(42)	7,762
Total investments held at 30 June 2005		13,315	1,215	14,530



INDEPENDENT REVIEW REPORT 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 2005 which comprises the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and related notes 1 to 12. 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.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

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 are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. 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 United Kingdom 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 2005.

Deloitte & Touche LLP

Chartered Accountants

London

United Kingdom

23 September 2005

Notes:

A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



STATEMENT OF TOTAL RETURN
for the six months to 30 June 2005

Ordinary Shares

	Notes	Unaudited Six months to 30 June 2005			Unaudited Six months to 30 June 2004 (Restated)*			Audited Year to 31 December 2004 (Restated)*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	4	–	657	657	–	2	2	–	2,463	2,463
Investment income	5	343	–	343	361	–	361	1,121	–	1,121
Investment management fee	2	(44)	(131)	(175)	(36)	(108)	(144)	(76)	(229)	(305)
Other expenses	2	(42)	–	(42)	(43)	–	(43)	(81)	–	(81)
Return/(loss) on ordinary activities before tax		257	526	783	282	(106)	176	964	2,234	3,198
Tax on ordinary activities	2, 6	(77)	42	(35)	(82)	35	(47)	(289)	72	(217)
Return/(loss) attributable to equity shareholders		180	568	748	200	(71)	129	675	2,306	2,981
Amounts recognised as distributions to equity shareholders in the period	7	(552)	–	(552)	(320)	–	(320)	(577)	–	(577)
Transfer (from)/to reserves		(372)	568	196	(120)	(71)	(191)	98	2,306	2,404
Basic and diluted return/(loss) per share	8	1.3p	4.1p	5.4p	1.4p	(0.5p)	0.9p	4.7p	16.1p	20.8p

* Comparative figures have been restated in accordance with FRS 21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.

The accompanying notes are an integral part of these financial statements.

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

No operations were acquired or discontinued during the period.



STATEMENT OF TOTAL RETURN
for the six months to 30 June 2005

C Shares

	Notes	Unaudited Six months to 30 June 2005			Unaudited Six months to 30 June 2004 (Restated)*			Audited Year to 31 December 2004 (Restated)*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	4	–	1,009	1,009	–	128	128	–	1,366	1,366
Investment income	5	582	–	582	365	–	365	1,097	–	1,097
Investment management fee	2	(64)	(191)	(255)	(36)	(108)	(144)	(101)	(303)	(404)
Other expenses	2	(55)	–	(55)	(45)	–	(45)	(116)	–	(116)
Return on ordinary activities before tax		463	818	1,281	284	20	304	880	1,063	1,943
Tax on ordinary activities	2, 6	(137)	63	(74)	(83)	36	(47)	(264)	93	(171)
Return attributable to equity shareholders		326	881	1,207	201	56	257	616	1,156	1,772
Amounts recognised as distributions to equity shareholders in the period	7	(593)	(185)	(778)	(104)	–	(104)	(233)	–	(233)
Transfer (from)/to reserves		(267)	696	429	97	56	153	383	1,156	1,539
Basic and diluted return per share	8	1.8p	4.8p	6.6p	1.3p	0.4p	1.7p	3.6p	6.8p	10.4p

* Comparative figures have been restated in accordance with FRS 21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.



STATEMENT OF TOTAL RETURN
for the six months to 30 June 2005

Total

	Notes	Unaudited Six months to 30 June 2005			Unaudited Six months to 30 June 2004 (Restated)*			Audited Year to 31 December 2004 (Restated)*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	4	–	1,666	1,666	–	130	130	–	3,829	3,829
Investment income	5	925	–	925	726	–	726	2,218	–	2,218
Investment management fee	2	(108)	(322)	(430)	(72)	(216)	(288)	(177)	(532)	(709)
Other expenses	2	(97)	–	(97)	(88)	–	(88)	(197)	–	(197)
Return/(loss) on ordinary activities before tax		720	1,344	2,064	566	(86)	480	1,844	3,297	5,141
Tax on ordinary activities	2, 6	(214)	105	(109)	(165)	71	(94)	(553)	165	(388)
Return/(loss) attributable to equity shareholders		506	1,449	1,955	401	(15)	386	1,291	3,462	4,753
Amounts recognised as distributions to equity shareholders in the period	7	(1,145)	(185)	(1,330)	(424)	–	(424)	(810)	–	(810)
Transfer (from)/to reserves		(639)	1,264	625	(23)	(15)	(38)	481	3,462	3,943

* Comparative figures have been restated in accordance with FRS 21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.



BALANCE SHEET

as at 30 June 2005

Ordinary Shares

		Unaudited Six months to 30 June 2005 £'000	Unaudited Six months to 30 June 2004 (Restated)* £'000	Audited Year to 31 December 2004 (Restated)* £'000
	Notes			
Fixed asset investments				
Qualifying investments	2	6,944	9,760	7,703
Non-qualifying investments		60	–	–
Total fixed asset investments		7,004	9,760	7,703
Current assets				
Debtors		68	78	186
Cash at bank		6,678	1,593	5,980
		6,746	1,671	6,166
Creditors: amounts falling due within one year		(605)	(387)	(485)
Net current assets		6,141	1,284	5,681
Total assets less current liabilities		13,145	11,044	13,384
Capital and reserves				
Called up share capital		6,788	7,144	6,964
Share premium		48	48	48
Special reserve		5,671	6,245	5,991
Capital redemption reserve		596	241	420
Realised capital reserve		(875)	(2,240)	(2,206)
Unrealised capital reserve		877	(664)	1,679
Revenue reserve		40	270	488
Total equity shareholders' funds		13,145	11,044	13,384
Net asset value per share		96.8p	77.3p	96.1p

* Comparative figures have been restated in accordance with FRS21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.



BALANCE SHEET

as at 30 June 2005

C Shares

		Unaudited Six months to 30 June 2005	Unaudited Six months to 30 June 2004 (Restated)*	Audited Year to 31 December 2004 (Restated)*
	Notes	£'000	£'000	£'000
Fixed asset investments				
Qualifying investments	2	6,768	3,756	7,297
Non-qualifying investments		7,762	6,003	7,000
Total fixed asset investments		14,530	9,759	14,297
Current assets				
Debtors		130	52	110
Cash at bank		4,916	8,169	5,045
		5,046	8,221	5,155
Creditors: amounts falling due within one year		(256)	(181)	(416)
Net current assets		4,790	8,040	4,739
Total assets less current liabilities		19,320	17,799	19,036
Capital and reserves				
Called up share capital		9,212	9,366	9,278
Share premium		3,160	3,160	3,160
Special reserve		4,976	5,251	5,100
Capital redemption reserve		159	5	93
Realised capital reserve		483	(255)	(362)
Unrealised capital reserve		1,113	63	1,272
Revenue reserve		217	209	495
Total equity shareholders' funds		19,320	17,799	19,036
Net asset value per share		104.9p	95.0p	102.6p

* Comparative figures have been restated in accordance with FRS21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.



BALANCE SHEET
as at 30 June 2005

Total

		Unaudited Six months to 30 June 2005 £'000	Unaudited Six months to 30 June 2004 (Restated)* £'000	Audited Year to 31 December 2004 (Restated)* £'000
	Notes			
Fixed asset investments				
Qualifying investments	2	13,712	13,516	15,000
Non-qualifying investments		7,822	6,003	7,000
Total fixed asset investments		21,534	19,519	22,000
Current assets				
Debtors		198	130	296
Cash at bank		11,594	9,762	11,025
		11,792	9,892	11,321
Creditors: amounts falling due within one year		(861)	(568)	(901)
Net current assets		10,931	9,324	10,420
Total assets less current liabilities		32,465	28,843	32,420
Capital and reserves				
Called up share capital		16,000	16,510	16,242
Share premium		3,208	3,208	3,208
Special reserve		10,647	11,496	11,091
Capital redemption reserve		755	246	513
Realised capital reserve		(392)	(2,495)	(2,568)
Unrealised capital reserve		1,990	(601)	2,951
Revenue reserve		257	479	983
Total equity shareholders' funds		32,465	28,843	32,420

* Comparative figures have been restated in accordance with FRS21 in respect of declared dividends as disclosed in notes 2 and 3 to the interim results.

The interim information on pages 10 to 25 were approved by the Board of Directors on 23 September 2005.

Signed on behalf of the Board of Directors by

Roderick Davidson

Chairman

**CASH FLOW STATEMENT
for the six months to 30 June 2005****Ordinary Shares**

	Unaudited Six months to 30 June 2005 £'000	Unaudited Six months to 30 June 2004 £'000	Audited Year to 31 December 2004 £'000
Operating activities			
Investment income received	122	193	1,397
Deposit income received	70	40	84
Other income received	–	–	1
Investment management fees paid	(126)	(147)	(366)
Other cash payments	(79)	(74)	(101)
Net cash (outflow)/inflow from operating activities	(13)	12	1,015
Taxation			
UK corporation tax paid	(148)	–	–
Capital expenditure and financial investment			
Purchase of qualifying investments	(660)	(472)	(1,741)
Disposals of qualifying investments	2,388	–	5,240
Net cash inflow/(outflow) from investing activities	1,728	(472)	3,499
Equity dividends paid			
Dividends paid on ordinary shares	(551)	(319)	(577)
Net cash inflow/(outflow) before financing	1,016	(779)	3,937
Financing			
Cancellation of shares	(318)	(96)	(425)
Net cash outflow from financing	(318)	(96)	(425)
Increase/(decrease) in cash in the period	698	(875)	3,512



CASH FLOW STATEMENT
for the six months to 30 June 2005

C Shares

	Unaudited Six months to 30 June 2005 £'000	Unaudited Six months to 30 June 2004 £'000	Audited Year to 31 December 2004 £'000
Operating activities			
Investment income received	327	241	822
Deposit income received	114	89	192
Investment management fees paid	(175)	(144)	(403)
Other cash (payments)/receipts	(18)	(5)	27
Net cash inflow from operating activities	248	181	638
Taxation	–	–	–
Capital expenditure and financial investment			
Purchase of qualifying investments	(1,685)	(1,362)	(4,733)
Purchase of non-qualifying investments	(92)	–	(2,999)
Disposals of qualifying investments	2,316	–	1,056
Disposals of non-qualifying investments	–	–	1,999
Net cash inflow/(outflow) from investing activities	539	(1,362)	(4,677)
Equity dividends paid			
Dividends paid on ordinary shares	(779)	(105)	(233)
Net cash inflow/(outflow) before financing	8	(1,286)	(4,272)
Financing			
Issue of equity net of expenses	–	6,672	6,671
Cancellation of shares	(137)	(9)	(146)
Net cash (outflow)/inflow from financing	(137)	6,663	6,525
(Decrease)/increase in cash in the period	(129)	5,377	2,253

**CASH FLOW STATEMENT**
for the six months to 30 June 2005**Total**

	Unaudited Six months to 30 June 2005 £'000	Unaudited Six months to 30 June 2004 £'000	Audited Year to 31 December 2004 £'000
Operating activities			
Investment income received	449	434	2,219
Deposit income received	184	129	276
Other income received	–	–	1
Investment management fees paid	(301)	(291)	(769)
Other cash payments	(97)	(79)	(74)
Net cash inflow from operating activities	235	193	1,653
Taxation			
UK corporation tax paid	(148)	–	–
Capital expenditure and financial investment			
Purchase of qualifying investments	(2,345)	(1,834)	(6,474)
Purchase of non-qualifying investments	(92)	–	(2,999)
Disposals of qualifying investments	4,704	–	6,296
Disposals of non-qualifying investments	–	–	1,999
Net cash inflow/(outflow) from investing activities	2,267	(1,834)	(1,178)
Equity dividends paid			
Dividends paid on ordinary and C shares	(1,330)	(424)	(810)
Net cash inflow/(outflow) before financing	1,024	(2,065)	(335)
Financing			
Issue of equity net of expenses	–	6,672	6,671
Cancellation of shares	(455)	(105)	(571)
Net cash (outflow)/inflow from financing	(455)	6,567	6,100
Increase in cash in the period	569	4,502	5,765



NOTES TO THE INTERIM ACCOUNTS

1. Principal activity

The principal activity of the Company is that of a Venture Capital Trust. It was approved by the Inland Revenue as a Venture Capital Trust in accordance with Section 842AA of the Income and Corporation Taxes Act and subsequently conducts its affairs so as to enable it to continue to retain such status. 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 period is contained in the Chairman's statement.

2. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Change in accounting policy

Accounting policies consistent with UK GAAP, and specifically with Financial Reporting Standards (FRS) 21-26 issued by the Accounting Standards Board, have been applied with effect from 1 January 2005. The effects of the relevant accounting policies are disclosed in the respective notes below, and restatement of comparatives are detailed in note 3.

Accounting convention

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) issued by the Association of Investment Trust Companies (AITC) in January 2003.

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

True and fair override

The Company is no longer an investment company within the meaning of s266, of the Companies Act 1985.

The absence of Section 266 status does not preclude the Company from presenting its accounts in accordance with the AITC's SORP and furthermore the Directors consider it appropriate to continue to present the accounts in accordance with the SORP. Under the SORP, the financial performance of the trust is presented in a statement of total return in which the total column is the profit and loss account of the Company. The revenue column excludes certain capital items, which since the Company is no longer an investment company, the Companies Act 1985, would ordinarily require to be included in the profit and loss account: net profits on disposal of investments, calculated by reference to their previous carrying amount, permanent diminution in value of investments, management expenses charged to capital less tax relief thereon and the distribution of capital profits.

In the opinion of the directors the presentation adopted enables the Company to report in a manner consistent with the sector within which it operates. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on the total return or balance sheet.

Investments

In accordance with FRS26, equity investments are designated as fair value through profit or loss account (FVTPL). Investments listed on recognised exchanges are stated at market value based upon the bid price at the end of the accounting period. Unquoted investments' fair value is determined by the directors in accordance with the British Venture Capital Association (BVCA) guidelines. Movements in valuation of equity investments and gains and losses arising on the disposal of investments are reflected in the capital column of the Statement of Total Return for the period.

Loan stock is designated as loans and receivables in accordance with FRS26 and valued at amortised cost. Movements in the amortised cost relating to interest and redemption premium income are reflected in the revenue column of the Statement of Total Return and movements in respect of capital provisions are reflected in the capital column of the Statement of Total Return for the period.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of an investment.



NOTES TO THE INTERIM ACCOUNTS (continued)

In accordance with the transition provisions included within FRS26, comparative figures have not been restated. However, the opening balances of the revenue reserves and unrealised capital reserves as at 1 January 2005 have been adjusted in order to reflect the impact of the new treatment under FRS26 (see note 3). AIM quoted stocks are now valued at 'bid', rather than 'mid' market price and loan stock is now carried at amortised cost using an effective interest rate.

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 using an effective interest rate calculated in accordance with the amortised cost schedule described by FRS26.

Management expenses

75 per cent. of management 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 and C Share capital have been deducted from the share premium account in accordance with Financial Reporting Standard No. 4.

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. In accordance with Financial Reporting Standard No.19, deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Reserves

Capital reserves – realised

The following are taken to this reserve:

- (i) gains and losses on the realisation of investments; and
- (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 period end.

Dividends

In accordance with FRS21, dividends due to be approved after the interim report date are not recognised as liabilities at the Balance Sheet date. These dividends will be recognised when approved. Comparative figures for the previous year have been restated accordingly.

3. Adjustment to revenue and unrealised capital reserves as at 31 December 2004 and 30 June 2004

Under the terms of the transitional provisions contained within FRS26 (revised) "Financial Instruments Measurement", comparatives for revenue and unrealised capital reserves at 31 December 2004 in relation to movements in amortised cost of loans and receivables and equity investment valuations have not been restated but adjusted to reflect the impact of the adoption of the revised FRS26.

In accordance with FRS21 (revised) 'Events after the balance sheet date', comparatives for revenue reserves at 31 December 2004 and 30 June 2004 have been restated in recognition of a change in accounting policy.

The effect of the above changes as at 31 December 2004 and 30 June 2004 is a decrease in the distribution liability as a result of the de-recognition of proposed dividends thereon and an increase in the revenue reserves of the interim period only.



NOTES TO THE INTERIM ACCOUNTS
(continued)

A reconciliation of reserves incorporating the adjustments and restatements required by the adoption of the revised FRS21 and FRS26 is illustrated below:

Reconciliation of revenue reserves

	Ordinary Shares		C Shares	
	31 Dec 2004 £'000	30 June 2004 £'000	31 Dec 2004 £'000	30 June 2004 £'000
Revenue reserves previously reported at period end	182	13	50	80
Adjustment as required by adoption of FRS21 (revised) – change in accounting for dividends	306	257	445	129
Restated revenue reserve at period end	488	270	495	209
Adjustment as required by adoption of FRS26 (revised) – change in valuation of loan stock investment to amortised cost	(76)		(11)	
Revenue reserves as at 1 January 2005 as adjusted	412		484	

Reconciliation of unrealised capital reserves

	Ordinary Shares	C Shares
	31 Dec 2004 £'000	31 Dec 2004 £'000
Unrealised capital reserves previously reported at period end	1,679	1,272
Adjustment as required by adoption of FRS26 (revised) – change in valuation of quoted investments to bid price	(39)	(10)
Unrealised capital reserves as at 1 January 2005 as adjusted	1,640	1,262

4. Gains/(losses) on investments

	Six months to 30 June 2005			Six months to 30 June 2004		
	Ordinary shares £'000	C shares £'000	Total £'000	Ordinary shares £'000	C shares £'000	Total £'000
Realised gains	1,420	1,158	2,578	–	–	–
Unrealised (losses)/gains	(763)	(149)	(912)	2	128	130
	657	1,009	1,666	2	128	130

In addition, accelerated payments were paid in respect of the redemption premium on the sale of Automotive Technik of £84,000 for the Ordinary Shares. This has been included in investment income.



NOTES TO THE INTERIM ACCOUNTS
(continued)

5. Investment income

	Six months to 30 June 2005			Six months to 30 June 2004		
	Ordinary	C	Total	Ordinary	C	Total
	shares	shares		shares	shares	
	£'000	£'000	£'000	£'000	£'000	£'000
Interest from investments						
Qualifying investments	273	302	575	321	154	475
Non-qualifying investments	–	164	164	–	120	120
Bank deposit interest	70	116	186	40	91	131
	<u>343</u>	<u>582</u>	<u>925</u>	<u>361</u>	<u>365</u>	<u>726</u>

6. Taxation on ordinary activities

	Six months to 30 June 2005			Six months to 30 June 2004		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000		£'000	£'000	
Ordinary shares						
UK Corporation tax at 30%	35	–	35	47	–	47
Tax attributable to capital expenses	<u>42</u>	<u>(42)</u>	<u>–</u>	<u>35</u>	<u>(35)</u>	<u>–</u>
	<u>77</u>	<u>(42)</u>	<u>35</u>	<u>82</u>	<u>(35)</u>	<u>47</u>
C shares						
UK Corporation tax at 30%	74	–	74	47	–	47
Tax attributable to capital expenses	<u>63</u>	<u>(63)</u>	<u>–</u>	<u>36</u>	<u>(36)</u>	<u>–</u>
	<u>137</u>	<u>(63)</u>	<u>74</u>	<u>83</u>	<u>(36)</u>	<u>47</u>

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% 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 30 per cent.

7. Dividends

No final dividend has been proposed for the six months ended 30 June 2005. Instead, it is the strategy of the Board to declare and pay two interim dividends during the Company's current financial year.



NOTES TO THE INTERIM ACCOUNTS
(continued)

8. Return per share

	Six months to 30 June 2005			Six months to 30 June 2004		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Ordinary Shares	1.3p	4.1p	5.4p	1.4p	(0.5)p	0.9p
C Shares	1.8p	4.8p	6.6p	1.3p	0.4p	1.7p

Ordinary Shares

The revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends for the holders of Ordinary Shares of £180,000 (2004: £200,000) in respect of 13,796,265 Ordinary Shares (2004: 14,478,925 shares), being the weighted average number of shares in issue during the six months. The capital return per share is based on the net capital gain for the period of £568,000 (2004: £71,000 loss) in respect of the same weighted average number of shares in issue over the six months.

C Shares

The revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends for the holders of C Shares of £326,000 (2004: £201,000) in respect of 18,504,474 C Shares (2004: 15,357,912 shares), being the weighted average number of shares in issue during the six months. The capital return per share is based on the net capital gain for the period of £881,000 (2004: £56,000) in respect of the same weighted average number of shares in issue over the six months.

The return per share has been calculated in accordance with FRS22 and has resulted in no change from the method used in prior periods. There are no convertible instruments, derivatives or contingent share agreements in issue for Close Brothers Development VCT PLC hence there are no dilution effects to the return per share. The basic return per share is therefore the same as the diluted return per share.

9. Share capital

	Unaudited 30 June 2005 £'000	Unaudited 30 June 2004 £'000	Audited 31 Dec 2004 £'000
Ordinary Shares			
<i>Authorised:</i>			
25,000,000 Ordinary Shares of 50p each	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>
<i>Allotted, called-up and fully-paid:</i>			
13,575,740 Ordinary Shares of 50p each	<u>6,788</u>	<u>7,144</u>	<u>6,964</u>
(Dec 2004: 13,928,712 Ordinary Shares of 50p each; June 2004: 14,287,212 Ordinary Shares of 50p each)			
C Shares			
<i>Authorised:</i>			
25,000,000 C Shares of 50p each	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>
<i>Allotted, called-up and fully-paid:</i>			
18,424,426 C Ordinary Shares of 50p each	<u>9,212</u>	<u>9,366</u>	<u>9,278</u>
(Dec 2004: 18,555,100 C Ordinary Shares of 50p each; June 2004: 18,731,050 C Ordinary Shares of 50p each)			



NOTES TO THE INTERIM ACCOUNTS
(continued)

9. Share capital continued

6 months ended 30 June 2005

During the 6 months ended 30 June 2005, the Company purchased for cancellation a total of 352,972 Ordinary Shares, representing 2.5% of the Ordinary Shares in issue at 1 January 2005. These purchases cost £320,000 including stamp duty, and were funded from the Ordinary Shares special reserve. The Company also purchased for cancellation a total of 130,674 C Shares, representing 0.7% of the C Shares in issue at 1 January 2005. These purchases cost £124,000 including stamp duty, and were funded from the C Shares special reserve.

Year ended 31 December 2004

During the year ended 31 December 2004 the Company issued 7,022,394 C 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 FRS4. During the year to 31 December 2004, the Company purchased for cancellation a total of 600,300 of its own Ordinary Shares, representing 4.1% of the Ordinary Shares in issue as at 1 January 2004. These purchases cost £425,000 including stamp duty, and were funded from the Ordinary Shares special reserve. The Company also purchased for cancellation a total of 185,950 of its own C Shares, representing 1.6% of the C Shares in issue at 1 January 2004. These purchases cost £159,000 including stamp duty, and were funded from the C Shares special reserve.

10. 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 total return on operating activities before tax for the 6 month period to 30 June 2005 by approximately 3 per cent (year to 31 December 2004: 1 per cent).

The Company's financial assets at 30 June 2005, 30 June 2004 and 31 December 2004, all denominated in pound sterling, consisted of the following:

	30 June 2005			
	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Ordinary Shares	1,995	5,232	6,523	13,750
C Shares	2,719	13,423	3,434	19,576
Total	4,714	18,655	9,957	33,326

	30 June 2004			
	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Ordinary Shares	1,743	7,041	2,647	11,431
C Shares	767	15,699	1,514	17,980
Total	2,510	22,740	4,161	29,411

	31 December 2004			
	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Ordinary Shares	1,569	5,295	7,005	13,869
C Shares	3,468	12,500	3,484	19,452
Total	5,037	17,795	10,489	33,321

All the Company's liabilities were non-interest bearing at each of the period ends.



NOTES TO THE INTERIM ACCOUNTS (continued)

10. Interest rate risk continued

The weighted average interest rate applied to the Company's fixed rate assets during the 6 month period to 30 June 2005 was approximately 11% for the Ordinary Shares (year to 31 December 2004: 14%) and 13% for the C Shares (year to 31 December 2004: 16%).

The weighted average period to maturity for the fixed rate assets for the 6 months ended 30 June 2005 is approximately four years for the Ordinary Shares and approximately four years for the C Shares (year to 31 December 2004: 4 years for the Ordinary Shares and approximately five years in respect of the C Shares).

11. Other information

The financial information contained in this interim report does not constitute the statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the half years ended 30 June 2005 and 30 June 2004 has not been audited. The information for the year ended 31 December 2004 is derived from the latest published audited financial statements, as restated to comply with revised UK GAAP (see note 3). The audited financial statements for the year ended 31 December 2004 have been filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985.

12. 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.

