

Annual Report and Financial  
Statements for the year  
ended 31 December 2007



Close Brothers  
Development VCT PLC

# Contents

## Page

<b>2</b>	Company Information
<b>3</b>	Financial Calendar and Financial Highlights
<b>4</b>	Chairman's Statement
<b>6</b>	The Board of Directors
<b>7</b>	The Manager
<b>8</b>	The Portfolio of Investments
<b>12</b>	Report of the Directors and Business Review
<b>19</b>	Statement of Corporate Governance
<b>23</b>	Directors' Remuneration Report
<b>25</b>	Independent Auditors' Report
<b>26</b>	Income Statement
<b>27</b>	Balance Sheet
<b>28</b>	Reconciliation of Movement in Shareholders' Funds
<b>29</b>	Cash Flow Statement
<b>30</b>	Notes to the Financial Statements
<b>42</b>	Notice of Meeting

# Company Information

<b>Directors</b>	G O Vero, Chairman FCA D C Pinckney MA FCA J G T Thornton MA MBA FCA A Phillipps PhD MBA
<b>Manager</b>	Close Ventures Limited 10 Crown Place London EC2A 4FT Tel: 020 7422 7830
<b>Secretary and registered office</b>	Close Ventures Limited 10 Crown Place London EC2A 4FT
<b>Registrar</b>	Capita Registrars Limited Northern House Penistone Road Fenay Bridge Huddersfield HD8 0LA
<b>Shareholder helpline</b>	Tel: 0871-664-0300 Calls cost 10p per minute plus network extras Fax: 0871-664-0399 Email: <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a>
<b>Registered auditors</b>	Deloitte & Touche LLP 1 Little New Street London EC4A 3TR
<b>Taxation advisers</b>	Ernst & Young LLP 1 More London Place London SE1 2AF
<b>Lawyers</b>	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
<b>Company Number</b>	3654040

Close Brothers Development VCT PLC is a member of the Association of Investment Companies.

# Financial Calendar

Annual General Meeting	29 April 2008
Payment of first dividend	16 May 2008
Announcement of half yearly results for the six months ending 30 June 2008	August 2008
Payment of second dividend	October 2008

## Financial Highlights

	Ordinary Shares Year ended 31 December 2007 Pence per share <sup>(ii)</sup>	C Shares Year ended 31 December 2007 Pence per share <sup>(ii)</sup>
Dividends paid per share	5.00	5.36
Net asset value per share	100.94	108.15
<b>Shareholder value per share since launch:</b>		
Dividends paid during the period ended 31 December 1999 <sup>(i)</sup>	1.00	
Dividends paid during the year to 31 December 2000	2.90	
Dividends paid during the year to 31 December 2001	3.95	
Dividends paid during the year to 31 December 2002	4.20	–
Dividends paid during the year to 31 December 2003 <sup>(iii)</sup>	4.50	0.75
Dividends paid during the year to 31 December 2004	4.00	2.00
Dividends paid during the year to 31 December 2005	5.20	5.90
Dividends paid during the year to 31 December 2006	3.00	4.50
Dividends paid during the year to 31 December 2007 <sup>(iv)</sup>	5.00	5.36
	33.75	18.51
Net asset value per share as at 31 December 2007 <sup>(iv)</sup>	100.94	108.15
<b>Total cumulative shareholder return at 31 December 2007</b>	<b>134.69</b>	<b>126.66</b>

In addition to the dividends paid above, the Board has declared a first dividend for the new financial year of 2.5 pence per share comprising 1.25 pence from revenue profits and 1.25 pence from realised capital profits. The dividend will be payable on 16 May 2008 to those shareholders on the register on 18 April 2008.

### Notes

- (i) Assuming subscription for Ordinary Shares by the First Closing on 26 January 1999.
- (ii) Excluding tax benefits received upon subscription.
- (iii) Those subscribing for C Shares after 30 June 2003 were not entitled to the interim dividend.
- (iv) The C shares were converted into Ordinary shares on 31 March 2007, with a conversion factor of 1.0715 Ordinary shares for each C share. The net asset value per share and all dividends paid subsequent to the conversion of the C shares to Ordinary shares are multiplied by the conversion factor of 1.0715 in respect of the C shares return, in order to give an accurate picture of the shareholder value since launch relating to the C shares.

# Chairman's Statement

## Introduction

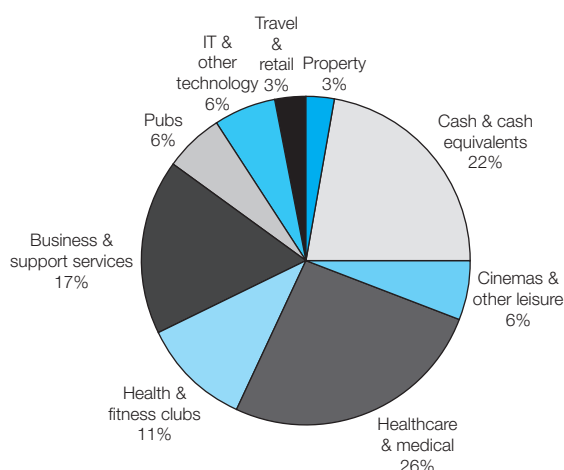
I am pleased to report that the year to 31 December 2007 has been a successful one for your Company. The strong investment return over the period was generated by some excellent profits realised from the sale of mature investments, which underpinned the policy of paying out an annual dividend of 5 pence per share from both revenue and realised capital profits. We would hope that this will rise as further profitable disposals are made in future.

## Investment progress and performance

The total return per share was 10.8 pence for the year; part of this was due to the continued growth in income from the investment portfolio, with the balance from the successful realisation of investments. These comprised a profit of £3 million for Careforce, which was taken over by the Mears Group in April of this year, (with the consideration being mainly in the form of cash, though we received some in the form of shares in Mears) and £814,000 from the sale of Bold Pub Company. In both cases, the VCT also received annual income from the investments of around 10 per cent. on cost.

Meanwhile, £5.4 million was invested in 23 existing and new investee companies. These included £1,000,000 into Kensington Health Clubs which owns and operates a new health and fitness club on a 999 year lease at Olympia, West Kensington, and £700,000 into Chichester Holdings, a specialist distributor of food and drink to the travel industry.

## Split of portfolio valuation by sector as at 31 December 2007



Source: Close Ventures Limited

The investments held are diversified to ensure a spread of risk across the portfolio. The portfolio split (by cost) is approximately 60 per cent. loan stock and 40 per cent. equity. At 31 December 2007 the portfolio was 82 per cent. invested for HM Revenue & Customs purposes, in 37 qualifying investments.

## Risks and uncertainties

The key risk facing the Company in the months ahead is the UK economy which, while currently still growing, could be affected by the current unease in the wholesale financial and housing markets. While this could give rise to additional investment opportunities for a cash rich fund like ourselves, a downturn could affect existing investee companies and make it harder for the Manager to assess the prospects of new investment opportunities, as well as potentially affecting asset values. The Company's policy of limiting external borrowing and of having a first legal charge wherever possible, mitigates some of these investment risks. Other risks and uncertainties are detailed on page 14 of the Directors Report and Business Review.

## Proposed change to the Company's Articles of Association

I draw shareholders attention to the proposed resolution to change the Articles of Association, which is described in detail on page 17 of the Directors' Report and Business Review. The new provisions of the Companies Act 2006 include the requirement for Directors to avoid actual or potential conflicts of interest with effect from 1 October 2008. The Directors are proposing a resolution to allow Directors to approve actual or potential conflict situations, should it be in the Company's best interests to do so, and to allow conflicts of interest to be dealt with in a similar way to the current position.

## Directorate

At the year end Roderick Davidson, Chairman of the Board since the Company's flotation, resigned as Chairman and Director as he has reached the age of 70. On behalf of the Board and Shareholders, I would like to thank Roderick for his considerable efforts and wise guidance throughout his tenure. I became Chairman on 31 December 2007 following Roderick's retirement. We would also like to welcome Andrew Phillipps who became a Director of the Company on 30 October 2007.

# Chairman's Statement continued

## Results, dividends and prospects

Overall, despite the general economic risks referred to above, your Board remains positive on the outlook of the Company and its investment portfolio. We believe that the income generation potential of the portfolio remains strong and we have some particularly interesting investments across a broad range of sectors, which we believe could prove to be strong generators of shareholder value in the future.

As at 31 December 2007, the net asset value per share was 100.9 pence (2006: 94.6 pence). The C Shares were converted into Ordinary Shares during the year on the basis of 1.0715 new Ordinary Shares for each C Share; taking this conversion factor into account, the adjusted net asset value per share for a former holder of C Shares at the year end was 108.2 pence compared to 101.4 pence in 2006. The revenue return after tax was £1.49 million compared with the combined Ordinary share and C share revenue return for 2006 of £1.05 million.

The Board has declared a first dividend for the new financial year of 2.5 pence per share comprising 1.25 pence from revenue profits and 1.25 pence from realised capital profits. The dividend will be payable on 16 May 2008 to those shareholders on the register on 18 April 2008.

## Change of Auditors

During the year, the Board, advised by the Audit Committee, decided to put the audit of the Company out to tender. Following a formal selection process which considered expertise within the VCT market, depth of experience within the audit firm and value for money, the Board have decided to propose a resolution for the appointment of PKF (UK) LLP at the forthcoming Annual General Meeting.

In view of the proposed change in auditors, Deloitte and Touche LLP who are the auditors for the financial year ended 31 December 2007, have informed the Company of their intention not to seek reappointment at the forthcoming Annual General Meeting.

## David Pinckney

Director

4 April 2008

# The Board of Directors

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

**Geoffrey Vero, (61), FCA** has spent much of his career in venture capital, serving as a director of Causeway Capital Limited and ABN Amro Private Equity (UK) Limited which invested in small and medium sized unquoted businesses. He is a non-executive director of Crown Place VCT PLC (a venture capital trust managed by Close Ventures Limited) and Numis Corporation Plc, and non-executive Chairman of EPIC Reconstruction Plc. Geoffrey Vero became a Director of the Company on 2 July 2007, and Chairman on 31 December 2007.

**David Pinckney, (67), FCA, MA** 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 as Joint Managing Director. From 1998 he was Chief Operating Officer – Far East, and then Vice Chairman of AXA Investment Managers, the investment management arm of the AXA Group until he retired in December 2003. He is Chairman of Rutley European Property Limited, the AIM quoted Syndicate Asset Management PLC and Ventus VCT PLC. David Pinckney became a Director of the Company on 8 December 1998.

**Jonathan Thornton, (61), 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 LLP, the private equity fund management arm of Close Brothers Group. Prior to this he worked for 3i plc and Cinven (two of the largest UK investors in unquoted companies). Over the past 25 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 which is also managed by Close Ventures Limited. Jonathan Thornton became a Director of the Company on 8 December 1998.

**Andrew Phillipps, (39), Phd, MBA**. After being awarded an honorary fellowship in materials science at Cambridge, he worked at Cookson Group and BOC Group in product development, before co-founding Active Hotels, an online hotels reservation business in 1999. As Chief Executive, he grew the business to become a European market leader, before selling it to Priceline Inc. for \$161 million in 2004. He is currently an investor in and director of a number of private companies. Andrew Phillipps became a Director of the Company on 30 October 2007.

# The Manager

Close Ventures Limited, a subsidiary of Close Brothers Group plc, is authorised and regulated by the Financial Services Authority and is the Manager of Close Brothers Development VCT PLC. In addition to Close Brothers Development VCT PLC it manages a further six VCTs and has total funds under management of £240 million.

Close Ventures Limited won the awards “VCT Manager of the Year” at the 2005 and 2006 Growth Company Awards and “Best VCT Provider” category in the Professional Adviser Awards in 2005 and in 2006.

The Manager’s ultimate parent company is Close Brothers Group plc, a substantial independent merchant banking group incorporated in the United Kingdom and listed on the London Stock Exchange.

The following are specifically responsible for the management and administration of the Venture Capital Trusts managed by Close Ventures Limited:

**Patrick Reeve, (47), MA, ACA,** 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 plc 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 Ventures Limited with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

**Isabel Dolan, (43), BSc (Hons), ACA, MBA** is Operations Director of Close Ventures Limited having previously been Finance Director for a number of unquoted companies. From 1993-1997 she was Head of Recoveries at the Specialised Lending Services of the Royal Bank of Scotland plc and from 1997-2001 she was a Portfolio Director at 3i plc. She joined Close Ventures Limited in 2005.

**Andrew Elder, (37), MA, FRCS.** After qualifying as a surgeon he practised for six years, specialising in neurosurgery before joining the Boston Consulting Group as a consultant in 2001 specialising in healthcare strategy. He joined Close Ventures Limited in 2005.

**Will Fraser-Allen, (37), BA (Hons), ACA** is Deputy Managing Director of Close Ventures Limited. He qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Ventures Limited in 2001.

**Emil Gigov, (37), BA (Hons), ACA** qualified as a chartered accountant with KPMG in 1997 and subsequently worked in

KPMG’s corporate finance division working on the media, marketing and leisure sectors. He joined Close Ventures Limited in 2000.

**David Gudgin, (34), BSc (Hons), ACMA,** after working for ICL from 1993 to 1999 where he qualified as an accountant, he joined 3i Plc as an investment manager based in London and Amsterdam. In 2002 he joined Foursome Investments, responsible for investing an evergreen fund of US\$80 million, before joining Close Ventures Limited in 2005.

**Michael Kaplan, (31), BA, MBA.** After graduating from the University of Washington in 1999 with a BA in International Finance, he joined Marakon Associates as an Analyst. In 2000, he became the Chief Financial Officer of Widevine Technologies, a security software company based in Seattle. Then, after graduating with his MBA from INSEAD, in 2004 he joined The Boston Consulting Group focusing on the retail and financial services industries. He joined Close Ventures Limited in 2007.

**Ed Lascelles, (31), BA (Hons),** joined the corporate broking department of Charterhouse Securities in 1998 focusing on primary and secondary equity fundraisings. He then moved to the corporate finance department of ING Barings in 2000, retaining his focus on smaller UK companies. He joined Close Ventures Limited in 2004.

**Henry Stanford, (42), MA, ACA,** qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of Close Brothers Group plc in 1992. He became an assistant director in 1996 and transferred to Close Ventures Limited in 1998 to concentrate on VCT investment.

**Robert Whitby-Smith, (32), BA (Hons), MSI, ACA** qualified as a chartered accountant with KPMG in their corporate finance division. From 2000 to early 2005 he worked in the UK corporate finance departments of Credit Suisse First Boston and subsequently ING Barings, where he was a vice president. He joined Close Ventures Limited in 2005.

**Marco Yu (30), MPhil, MA, MRICS** qualified as a chartered surveyor in 2004. From 2002 to 2005, he worked at Bouygues (UK), developing cost management systems for PFI schemes, before moving to EC Harris in 2005, where he advised senior lenders on large capital projects. He joined Close Ventures Limited in 2007.



# The Portfolio of Investments

	At 31 December 2007				At 31 December 2006		
	% voting rights	Investments at cost £'000	Cumulative* movement in carrying/ fair value £'000	Total carrying/ fair value £'000	Investments at cost £'000	Cumulative* movement in carrying/ fair value £'000	Total carrying/ fair value £'000
<b>Qualifying investments</b>							
Grosvenor Health Limited	31%	2,225	2,908	5,133	2,105	1,386	3,491
Evolutions Television Limited	24%	3,380	147	3,527	3,000	(116)	2,884
The Weybridge Club Limited	9%	1,520	113	1,633	1,520	57	1,577
Peakdale Molecular Limited	9%	1,180	284	1,464	1,297	(271)	1,026
Kensington Health Clubs Limited	8%	1,100	17	1,117	1,000	–	1,000
Mears Group Plc	1%	1,600	(553)	1,047	–	–	–
Chichester Holdings Limited	11%	700	161	861	–	–	–
Consolidated Communications Management Limited	11%	888	(84)	804	1,000	(58)	942
Blackbay Limited	7%	740	63	803	740	29	769
CS (Greenwich) Limited	16%	850	(66)	784	850	(123)	727
The Q Garden Company Limited	17%	1,032	(437)	595	1,032	(448)	584
Churchill Taverns VCT Limited	6%	530	41	571	420	22	442
Tower Bridge Health Clubs Limited	8%	494	64	558	494	95	587
Premier Leisure Suffolk Limited	6%	480	(113)	367	–	–	–
CS (Brixton) Limited	8%	325	17	341	325	11	336
Xceleron Limited	4%	288	–	288	230	–	230
Lowcosttravelgroup Limited	3%	290	20	310	290	117	407
The Dunedin Pub Company Limited	6%	310	(15)	295	180	(17)	163
GB Pub Company VCT Limited	9%	378	(110)	268	370	(9)	361
Pelican Inn Limited	9%	359	(127)	232	290	(92)	198
Bravo Inns Limited	3%	230	(1)	229	–	–	–
The Rutland Pub Company Limited	7%	280	(64)	216	280	81	361
Rostima Limited	2%	200	(61)	139	–	–	–
Dexela Limited	4%	185	8	193	185	–	185
Helveta Limited	3%	230	(44)	186	170	2	172
Mipay Limited	2%	180	–	180	–	–	–
Novello Pub Limited	8%	233	(81)	151	190	(82)	108
Oxensis Limited	2%	145	–	145	–	–	–
Resorthoppa Group Limited	3%	145	–	145	–	–	–
RFI Global Services Limited	4%	460	(322)	138	460	(34)	426
Point 35 Microstructures Limited	2%	124	–	124	–	–	–
CS (Exeter) Limited	8%	125	(17)	107	125	(3)	122
River Bourne Health Club Limited	5%	100	3	103	–	–	–
Process System Enterprise Limited	1%	95	–	95	–	–	–
City Screen (Liverpool) Limited	5%	50	29	79	50	8	58
CS (Norwich) Limited	3%	50	–	50	–	–	–
Investments sold during the year	–	–	–	–	2,637	2,082	4,719
<b>Total qualifying investments</b>		<b>21,501</b>	<b>1,777</b>	<b>23,278</b>	<b>19,240</b>	<b>2,635</b>	<b>21,875</b>
<b>Non-qualifying investments</b>							
Citigroup FRN March 2009		2,999	5	3,004	2,999	5	3,004
Smiles Brewing Company Limited	48%	155	(155)	–	155	(95)	60
Smiles Pub Company Limited	48%	977	(33)	944	807	21	828
<b>Total non-qualifying investments</b>	–	<b>4,131</b>	<b>(183)</b>	<b>3,948</b>	<b>3,961</b>	<b>(69)</b>	<b>3,892</b>
<b>Total investments</b>		<b>25,632</b>	<b>1,594</b>	<b>27,226</b>	<b>23,201</b>	<b>2,566</b>	<b>25,767</b>

\* Included in this movement is capital appreciation on the equity, loan stock and floating rate notes amounting to £128,000 (2006: £1,651,000) and the increase in the carrying value of loans and receivables as a result of the accrual of income of £1,466,000 (2006: £914,000).

# The Portfolio of Investments continued

The top ten qualifying investments by value are as follows:

## Grosvenor Health Limited

The company is a provider of occupational healthcare services to large corporates such as Qinetiq and Ford. It has recently completed its second acquisition.

### Latest audited results – Year to 31 December 2006

	£'000
Turnover	10,625
Profit before Tax	629
Profit after Tax	451
Net assets	2,753
Basis of valuation:	Earnings multiple
Website:	<a href="http://www.grosvenorhealth.com">www.grosvenorhealth.com</a>

### Investment at value

	£'000
Equity	3,227
Loan Stock	1,906
% holding and voting rights	30.8%

Other funds managed by Close Ventures Limited have invested in this company.

## Evolutions Television Limited

The company is a television post production business providing post production services, including video and sound editing and automation, to a broad range of production companies. It operates from a freehold building in Oxford Street, London and three leasehold premises nearby. In 2007 it was voted "Television Post Production Company of the Year".

### Latest audited results – Year to 30 June 2006

	£'000
Turnover	5,042
Loss before Tax	(568)
Loss after Tax	(568)
Net assets	1,322
Basis of valuation:	Net asset value
Website:	<a href="http://www.evolutionstelevision.com">www.evolutionstelevision.com</a>

### Investment at value

	£'000
Equity	750
Loan Stock	2,777
% holding and voting rights	23.70%

Other funds managed and advised by Close Ventures Limited have invested in this company.

## The Weybridge Club Limited

The company has bought a 30 acre freehold site near to the centre of Weybridge, Surrey, which it has developed into a premium health and fitness club and which opened in May 2007. It now has 2,100 members.

### Latest audited results – Year to 31 August 2006

	£'000
Turnover	nil
Loss before Tax	(42)
Loss after Tax	(42)
Net assets	1,002
Basis of valuation:	Net asset value
Website	<a href="http://www.theweybridgeclub.com">www.theweybridgeclub.com</a>

### Investment at value

	£'000
Equity	434
Loan Stock	1199
% holding and voting rights	9.4%

Other funds managed and advised by Close Ventures Limited have invested in this company.

## The Portfolio of Investments continued

### Peakdale Molecular Limited

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

#### Latest audited results – Year to 31 March 2007

	£'000
Turnover	4,127
Loss before Tax	(171)
Loss after Tax	(102)
Net assets	2,319
Basis of valuation:	Recent investment price

#### Investment at value

	£'000
Equity	630
Loan Stock	834
% holding and voting rights	8.5%

Other funds managed and advised by Close Ventures Limited have invested in this company.

### Kensington Health Clubs Limited

This company has developed a 29,000 square foot health and fitness club on a 999 year lease in West London which opened in December 2007. It now has 1,700 members.

#### Latest audited results:

As a new company, Kensington Health Clubs Limited has not yet filed statutory accounts.

Basis of valuation:	Net asset value
Website:	<a href="http://www.thirtysevendegrees.co.uk/olympia">www.thirtysevendegrees.co.uk/olympia</a>

#### Investment at value

	£'000
Equity	364
Loan Stock	753
% holding and voting rights	8.3%

Other funds managed and advised by Close Ventures Limited have invested in this company.

### Mears Group Plc

Mears is the leading social housing repairs and maintenance providers in the UK and has a growing presence in the domiciliary care market.

#### Latest audited results – Year to 31 December 2006

	£'000
Turnover	241,414
Profit before Tax	12,267
Profit after Tax	10,199
Net assets	85,121
Basis of valuation:	Bid price

#### Investment at value

	£'000
Equity	1,047
Loan Stock	–
% holding and voting rights	0.6%

### Chichester Holdings Limited

The company is a fast growing distributor of beverages to the airline, cruise and other travel industry customers.

#### Latest audited results:

As a new company, Chichester Holdings Limited has not yet filed statutory accounts.

Basis of valuation:	Earning multiple
---------------------	------------------

#### Investment at value

	£'000
Equity	426
Loan Stock	435
% holding and voting rights	10.6%

Other funds managed and advised by Close Ventures Limited have invested in this company.

## The Portfolio of Investments continued

### 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.

#### Latest audited results – Year to 28 February 2007

	£'000
Turnover	6,084
Profit before Tax	87
Profit after Tax	59
Net assets	2,531
Basis of valuation:	Earnings multiple

#### Investment at value

	£'000
Equity	217
Loan Stock	587
% holding and voting rights	11.2%

Other funds managed and advised by Close Ventures Limited have invested in this company.

### Blackbay Limited

The company provides mobile data solutions for the logistics and field service sectors.

#### Latest audited results – Year to 31 December 2006

	£'000
Turnover	1,292
Loss before Tax	(595)
Loss after Tax	(595)
Net assets	140
Basis of valuation:	Earnings multiple
Website:	<a href="http://www.blackbay.com">www.blackbay.com</a>

#### Investment at value

	£'000
Equity	237
Loan Stock	566
% holding and voting rights	6.8%

Other funds managed and advised by Close Ventures Limited have invested in this company.

### CS (Greenwich) Limited

This company operates the 5 screen Picture house cinema in Greenwich.

#### Latest audited results – Year to 31 December 2006 (abbreviated)

	£'000
Net assets	781
Basis of valuation:	Net asset value

#### Investment at value

	£'000
Equity	173
Loan Stock	611
% holding and voting rights	15.5%

Other funds managed and advised by Close Ventures Limited have invested in this company.

# Report of the Directors and Business Review

The Directors submit their Annual Report and Financial Statements on the affairs of Close Brothers Development VCT PLC ("the Company") for the year ended 31 December 2007.

## Business Review

The principal activity of the Company is that of a venture capital trust. It has approval from HM Revenue & Customs to operate as a venture capital trust in accordance with Part 6 of Income Taxes Act 2007. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 December 2007 may be subject to review should there be any subsequent enquiry under corporation tax self assessment.

The Company is not a close company for taxation purposes.

The Company is no longer an investment company as defined by Section 266 of the Companies Act 1985. The Company revoked its investment company status on 11 May 2005 in order for the Company to pay dividends from realised capital profits. The Company is listed on the London Stock Exchange.

In accordance with the terms of the circular to shareholders issued in September 2002 and the Articles of Association, on 31 March 2007, the C shares were converted to Ordinary shares on the basis of the net assets attributable to the Ordinary shares and the C shares as disclosed in the audited accounts for the year to 31 December 2006 and in accordance with the calculation as described and approved by shareholders' resolution number 2(4) at the Extraordinary General Meeting on 21 October 2002. C shareholders received 1.0715 Ordinary shares for each C share. The new share certificates for the converted C shares were dispatched on 20 April 2007.

All shares rank *pari passu* for dividend and voting rights and each share is entitled to one vote. There are no current restrictions on the transfer of securities or on voting rights known to the Company.

Under current tax legislation, shares in the Company provide tax free capital growth and income distribution, in addition to the tax reliefs some investors would have obtained when they invested at the time of the initial fundraising.

The Company's investment policy is to provide investors with a regular and predictable source of dividend income combined with the prospect of long term capital growth through allowing investors the opportunity to participate in a balanced portfolio of property based investments that provide a strong income stream, combined with investment in a smaller number of higher risk companies with greater growth prospects. In neither category would investee companies normally have any external borrowing with a charge ranking ahead of the VCT. Up to two thirds of qualifying assets by cost will comprise loan stock secured with a first charge on the investee company's assets.

The Company has delegated the investment management of the portfolio to Close Ventures Limited, a subsidiary of Close Brothers Group plc, which is authorised and regulated by the Financial Services Authority. Close Ventures Limited also provides company secretarial and other accounting and administrative support to the Company. More detail regarding the terms of engagement of the Manager are shown on page 16.

The Directors do not foresee any major changes in the activity undertaken by the Company in the current year, as the Company continues with its objective to invest in unquoted companies throughout the United Kingdom with a view to providing both capital growth and a reliable dividend income to shareholders over the long term.

Details of the principal investments made by the Company are shown in the portfolio of investments on pages 8 to 11. A detailed review of the Company's business during the year and future prospects is contained in the Chairman's Statement on page 4.

In order to maintain status under Venture Capital Trust legislation, the following tests must be met:

- (1) The Company's income must be derived wholly or mainly from shares and securities;
- (2) At least 70 per cent. of the value of its investments must have been represented throughout the year by shares or securities that are classified as 'qualifying holdings';
- (3) At least 30 per cent. by value of its total qualifying holdings must have been represented throughout the year by holdings of 'eligible shares';

# Report of the Directors and Business Review continued

- (4) At no time in the year must the Company's holdings in any one company (other than another VCT) have exceeded 15 per cent. by value of its investments;
- (5) The Company must not have retained greater than 15 per cent. of its income earned in the year from shares and securities;
- (6) Eligible shares must comprise at least 10 per cent. by value of the totality of the shares and securities that the Company holds in any one investee company; and
- (7) The Company's shares, throughout the year must have been listed in the Official List of the Stock Exchange.

These tests have been carried out and independently reviewed for the year ended 31 December 2007. The Company has complied with all tests and continues to do so as at the date of this Annual Report and Financial Statements.

'Qualifying holdings', for Close Brothers Development VCT PLC include shares or securities (including loans with a five year or greater maturity period) in companies which operate a 'qualifying trade' wholly or mainly in the United Kingdom. 'Qualifying trade' excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking, agriculture, and operating or managing hotels or residential care homes.

Investee company gross assets must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter and there is an annual investment limit of £1 million in each company.

As defined by the Articles of Association, the Company's maximum exposure in relation to gearing is restricted to 10 per cent. of the adjusted share capital and reserves. As at 31 December 2007, the Company's maximum exposure was £3,088,700. Neither the Directors nor the Manager have any current intention of utilising long term gearing.

## Results and dividends

	<b>Ordinary Shares £'000</b>
Net revenue return for the year ended 31 December 2007	1,491
First interim revenue dividend of 1.5 pence paid on 9 May 2007	(478)
Second interim dividend of 1 pence paid out of revenue reserves on 5 October 2007	<u>(277)</u>
Transferred to revenue reserves	<u>736</u>
Net capital return for the year ended 31 December 2007	1,873
Second interim dividend of 2.5 pence paid out of realised profits on 5 October 2007	<u>(777)</u>
Transferred to realised and unrealised capital reserves	<u>1,096</u>
Net assets as at 31 December 2007	<u>30,887</u>
Net asset value per share as at 31 December 2007 (pence)	<u>100.94 p</u>

As shown in the Company's Income Statement on page 26 of the financial statements, the total investment income has increased to £2,206,000 (2006: £1,893,000). The revenue return to equity holders has improved to £1,491,000 (2006: £1,053,000). This is due to investment in additional revenue generating investments during the year and the rise in base rates and LIBOR towards the end of 2007.

The capital return for the year was a profit of £1,873,000 (2006: loss £2,117,000) primarily as a result of realised gains from the sale of investments.

The total return per share was 10.8 pence (2006: 3.3 pence loss)

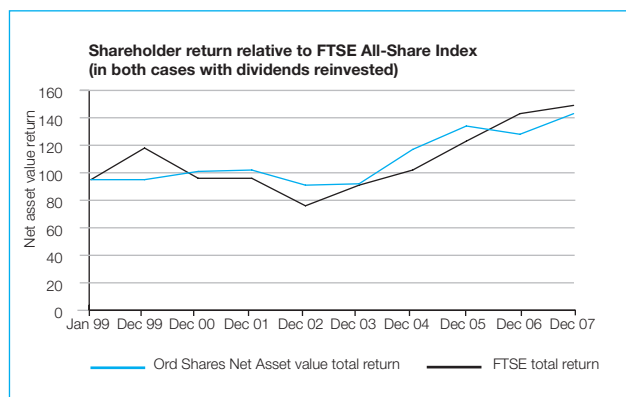
The Balance Sheet on page 27 of the financial statements shows that the net asset per share has increased over the last year to 100.9 pence per share (2006: 94.6 pence per share).

Cash flow for the business has been negative for the period, reflecting the investment in qualifying investments, the payment of dividends and the purchase of shares by the Company for cancellation and for Treasury.

# Report of the Directors and Business Review continued

## Key Performance Indicators

A graph of the performance of the Company's total return (the aggregate of net asset value and dividends paid to shareholders) compared with the equivalent total return of the FTSE All-Share Index is shown below;



Source: Close Ventures Limited

The total expense ratio (excluding Manager's performance fees) for the year to 31 December 2007 was 3.3 per cent. (2006: 3.4 per cent.).

The dividend paid during the year to 31 December 2007 was 5.0 pence per share (2006: 3.0 pence per Ordinary share and 4.5 pence per C share).

The Company operates a policy of buying back shares either for cancellation or for holding in Treasury. The Manager has an objective of maintaining the discount of the share price to net asset value at below 10 per cent..

## Principal risks and uncertainties

In addition to the current economic risks outlined in the Chairman's statement, the Board considers that the Company faces the following major risks and uncertainties;

### 1. Investment risk

This is the risk of investment in poor quality assets which reduce the capital and income returns to shareholders and negatively impacts on the Company's reputation. By nature, smaller unquoted businesses, such as those that qualify for venture capital trust purposes, are more fragile than larger, long established businesses.

To reduce this risk, the Board places reliance upon the skills and expertise of the Manager and their strong track record for investing in this segment of the market. In addition, the Manager operates a formal and structured investment process, which includes an Investment Committee comprising investment

professionals from the Manager and from other senior investment personnel from within the Close Brothers Group plc. Investments are actively and regularly monitored by the Manager (investment managers normally sit on investee company boards) and the Board receives detailed reports on each investment as part of the Manager's report at quarterly board meetings.

### 2. Venture Capital Trust approval risk

The current approval as a venture capital trust allows investors to take advantage of tax reliefs on initial investment and ongoing tax free capital gains and dividend income. Failure to meet the qualifying requirements could result in investors losing the tax relief on initial investment and loss of tax relief on any tax free income or capital gains received. In addition, failure to meet the qualifying requirements could result in a loss of listing of the shares.

To reduce this risk, the Board has appointed the Manager, who has significant experience in venture capital trust management, and is used to operating within the requirements of the venture capital trust legislation. In addition, to provide further formal reassurance, the Board has appointed Ernst & Young LLP as its taxation advisors. Ernst & Young independently report quarterly to the Board to confirm compliance with the venture capital trust legislation, to highlight areas of risk and to inform on changes in legislation.

### 3. Compliance risk

The Company is listed on The London Stock Exchange and is required to comply with the rules of the UK Listing Authority, as well as with the Companies Act, Accounting Standards and other legislation. Failure to comply with these regulations could result in a delisting of the Company's shares, or other penalties under the Companies Act or from financial reporting oversight bodies. Board members and the Manager have considerable experience of operating at the senior levels within quoted businesses. In addition, the Board and the Manager receive regular updates on new regulation from its auditors, lawyers and other professional bodies.

### 4. Internal control risk

Failures in key controls, within the Board or within the Manager's business could put assets of the Company at risk or result in reduced or inaccurate information being passed to the Board or to shareholders.

# Report of the Directors and Business Review continued

The Audit Committee meets with the Head of Internal Audit from Close Brothers Group plc at least once a year, receiving a report regarding the last formal internal audit performed on the Manager, and providing the opportunity for the Audit Committee to ask specific and detailed questions. The Manager has a comprehensive business continuity plan in place in the event that operational continuity is threatened. Further details regarding the Board's management and review of the Company's internal controls through the implementation of the Turnbull guidance are detailed on page 21.

## 5. Reliance upon third parties risk

The Company is reliant upon the services of Close Ventures Limited for the provision of management and administrative functions. There are provisions within the Management Agreement for the change of Manager under certain circumstances (for more detail see the Management Agreement paragraph below). In addition, the Manager has demonstrated to the Board that there is no undue reliance placed upon one individual within Close Ventures Limited, or its parent company Close Brothers Group plc.

## 6. Financial risks

By its nature, as a venture capital trust, the Company is exposed to market price risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's policies for managing these risks and its financial instruments are outlined in full in note 19 to the financial statements.

All of the Company's income and expenditure is denominated in sterling and hence the Company has no foreign currency risk. The Company is financed through equity and does not have any borrowings.

## Environment

Management and administration of Close Brothers Development VCT PLC is undertaken by the Manager. Close Ventures Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption as shown in the financial statements of Close Ventures Limited.

## Employees

The Company is managed by Close Ventures Limited and hence has no employees.

In the Directors' view, there are no other non-financial performance indicators materially relevant to the business.

## Directors

The Directors who held office during the year, and at 31 December 2007, and their interests in the shares of the Company (together with those of their immediate family) are shown below:

	<b>At 31 December 2007</b>	<b>At 31 December 2006</b>	<b>C</b>
	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Shares</b>
Jonathan Thornton	46,787	20,000	25,000
David Pinckney	5,000	5,000	–
Geoffrey Vero	–	–	–
Andrew Phillipps	–	–	–
Roderick Davidson*	25,000	25,000	–
Frank Malcolm**	15,715	5,000	10,000

\*Roderick Davidson retired from the Board on 31 December 2007.

\*\*Frank Malcolm died on 10 March 2007, and his shareholding is shown to this date.

The change in the shareholdings of Jonathan Thornton and Frank Malcolm during the year ended 31 December 2007 were as a result of the conversion of C shares to Ordinary shares. There have been no changes in the holdings of the Directors between 31 December 2007 and the date of this report. Further details regarding Directors' remuneration are shown in the Directors Remuneration section of this Annual Report and Financial Statements.

Geoffrey Vero was appointed a Director of the Company on 2 July 2007 and was appointed as Chairman of the Company on 31 December 2007.

Andrew Phillipps was appointed a Director of the Company on 30 October 2007.

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

Directors' retirement and re-election is subject to the Articles of Association and the Combined Code of Corporate Governance. The Articles of Association provide for the retirement of one third of all Directors by rotation at each annual general meeting, in addition to the retirement of any Directors appointed to fill a vacancy since the last annual general meeting. In accordance with the Articles of



# Report of the Directors and Business Review continued

Association, Geoffrey Vero and Andrew Phillipps will offer themselves for election.

## **Management agreement**

The Company and Close Ventures Limited, 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 also provides 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 is paid an annual fee equal to 2.25 per cent. (plus any applicable VAT) of the net asset value of the Company. The fee is payable quarterly in arrears.

The Manager is also entitled to an arrangement fee, payable by each company in which the Company invests, in the region of two per cent. on each investment made.

## **Management performance incentive**

The new management performance incentive structure was approved at the Extraordinary General Meeting on 29 May 2007. This structure sets a minimum target level, comprising all dividends and net asset value per share, at 6.5 pence per share per annum. The target minimum return is cumulative from 1 January 2007 (which used the proforma net asset value of 98.7 pence per share) and to the extent that the minimum return is not reached in one year, the shortfall needs to be made up in following years. The incentive fee is set at 20 percent of the excess return achieved i.e. 20 per cent. on returns over 6.5 pence per annum.

A performance fee of £49,617 (including VAT) in respect of the year ended 31 December 2007 will be payable to Close Ventures Limited.

## **Evaluation of the Manager**

The Board has evaluated the performance of the Manager based on the returns generated by the Company, the maintainance of VCT status and the long term prospects of current investments, as well as benchmarking the performance of the Manager to other service providers. The Board believes that it is in the interests of shareholders as a whole, and of the Company, to continue the appointment of the Manager for the forthcoming year.

## **Valuation of investments**

As described in note 2 of the financial statements, the unquoted equity investments held by the Company are valued at fair value through profit or loss in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These Guidelines set out recommendations, intended to represent current best practice on the valuation of venture capital investments. Unquoted investments are valued on the basis of forward looking estimates and judgements about the business itself, its market and the environment in which it operates, together with the state of the mergers and acquisitions market, stock market conditions and other factors. In making these judgements the valuation takes into account all known material facts up to the date of approval of the financial statements by the Board. Unquoted loan stock is valued at amortised cost.

## **Investment and co-investment**

The Company co-invests with other venture capital trusts and funds managed by Close Ventures Limited. Allocation of investments is on the basis of an allocation agreement which is based, inter alia, on the ratio of funds available for investment.

## **Auditors**

During the year, the Board, advised by the Audit Committee, decided to put the audit of the Company out to tender. Following a formal selection process which considered expertise within the VCT market, depth of experience within the audit firm and value for money, the Board have decided to propose a resolution for the appointment of PKF (UK) LLP at the forthcoming Annual General Meeting.

In view of the proposed change in auditors, Deloitte & Touche LLP, who are the auditors for the financial year ended 31 December 2007, have informed the Company of their intention not to seek reappointment at the forthcoming Annual General Meeting.

## **Substantial interests**

As at 31 December 2007 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital, and there have been no disclosures in accordance with Disclosure and Transparency Rule 5 made to the Company during the year ended 31 December 2007.

# Report of the Directors and Business Review continued

## Supplier payment policy

The Company's policy is to pay all supplier invoices within 30 days of the invoice date, or as otherwise agreed. There were no overdue trade creditors at 31 December 2007 (2006: Nil).

## Annual General Meeting

The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT at 4.00 p.m. on 29 April 2008. The notice of the Annual General Meeting is at the end of this document. The proxy form enclosed with this Annual Report and Financial Statements permits shareholders to disclose votes 'for', 'against', 'withheld' and 'discretionary.' A 'vote withheld' is not a vote in law and will not be counted in the proportion of the votes for and against the resolution.

Summary of proxies lodged at the Annual General Meeting will be published at [www.closeventures.co.uk](http://www.closeventures.co.uk) within the 'Our Funds' section by clicking on Close Brothers Development VCT PLC.

Resolutions will be proposed as special business at the Annual General Meeting for the following purposes:

### Power to allot shares

Ordinary resolution number 6 in the notice of the meeting will request the authority to allot up to 10 per cent. of the Ordinary share capital of the Company.

### Disapplication of pre-emption rights

Special resolution number 7 will request the authority to disapply pre-emption rights in circumstances of a rights issue or the allotment of up to 5 per cent. of the share capital as described in Ordinary resolution number 6.

### Purchase of own shares

Special resolution number 8 will request the authority to purchase an aggregate of 10 per cent. of the Ordinary shares in issue subject to the provisions shown in the notice of meeting attached to the back of the financial statements.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

This resolution would renew the 2007 authority, which was in similar terms. During the financial year under review the Company purchased 20,000 Ordinary shares for cancellation. It also purchased 1,395,286 Ordinary shares which are held in Treasury. The Company currently holds a total of 1,838,323 Ordinary shares in Treasury representing 5.7 per cent. of the Company's shares in issue as at 31 December 2007.

## Treasury shares

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, shares purchased by the Company out of distributable profits can be held as Treasury Shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 8 is intended to apply equally to shares to be held by the Company as Treasury Shares in accordance with the Regulations.

At the Annual General Meeting, resolutions as described above will be proposed that the Directors will be authorised to allot relevant securities in accordance with section 80 of the Companies Act 1985 (the "Act") and to empower to allot equity securities for cash in accordance with section 95 of the Act. These replace existing authorities and powers which allow the Directors to sell Treasury Shares at a price not less than that at which they were purchased.

## Powers to authorise Directors' conflict of interest

At the Annual General Meeting, special resolution number 9 will be proposed to insert a new Article into the Company's Articles of Association with effect from 1 October 2008.

The Companies Act 2006 sets out Directors' general duties which largely codify the existing law but with some changes. Under the Companies Act, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles of Association contain a provision to this effect. The Companies Act 2006 also allows the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The Articles gives the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

# Report of the Directors and Business Review continued

It is also proposed that the Article should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the income statement of the Company for the year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of the persons who are Directors of the Company at the date of approval of this report:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This disclosure is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

By Order of the Board

## Close Ventures Limited

Company Secretary  
10 Crown Place  
London EC2A 4FT

4 April 2008

# 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 issued by the Financial Reporting Council ("FRC") in July 2003 ("the Code") and updated in June 2006.

The Board of Close Brothers Development VCT PLC has also considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Close Brothers Development VCT PLC.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

## 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. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer.

Geoffrey Vero is the Chairman. David Pinckney, Jonathan Thornton and Andrew Phillipps are considered independent directors. The Directors have a range of business and financial skills which are extremely relevant to the Company; these are described in the Board of Directors section of this report, on page 6. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Manager. The Board has direct access to secretarial advice and compliance services from the Manager, who is responsible for ensuring that Board procedures are followed

and applicable procedures complied with. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the Combined Code, the Company has in place Directors' & Officers' Liability Insurance.

As all of the Directors are non-executive and are independent, the Board has not appointed a senior independent director.

The Board met five times during 2007 as part of its regular programme of Board meetings. All of the Directors attended each meeting (where applicable, all meetings following their appointment) with the exception of Mr. Vero who was unable to attend one meeting. The Chairman ensures that all Directors receive in a timely manner all relevant management, regulatory and financial information. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and its Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought.

The Manager has authority over the management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- application of the principles of the Combined Code, corporate governance and internal control;
- review of sub-committee recommendations, including the recommendation to shareholders for the appointment and remuneration of auditors;
- approval of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price; and
- monitoring shareholder profile and considering shareholder communications.

# Statement of Corporate Governance continued

## Committees' and Directors' performance evaluation

Performance of the Board and the Directors is assessed on the following:

- attendance at Board and Committee meetings;
- the contribution made by individual Directors at, and outside of, Board and Committee meetings; and
- completion of a detailed internal assessment process and annual performance evaluation conducted by the Chairman (or in the case of the Chairman, by the Chairman of the Audit Committee).

The Board believes that it has the right balance of independence, skills, experience and knowledge for the effective governance of the Company.

The Directors who will be proposed for election at the Annual General Meeting are Geoffrey Vero and Andrew Phillipps. As a result of the performance evaluation process, they are considered to be independent and effective and demonstrate strong commitment to the role; on this basis, the Directors (excluding Geoffrey Vero and Andrew Phillipps) believe it to be in the best interest of the Company to appoint them at the forthcoming 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.2, B1.1 to B1.6, and B2.1 to B2.4 are not relevant.

## Audit Committee

The Audit Committee consists of all Directors. David Pinckney is Chairman of the Audit Committee. In accordance with the Code, the members of the Audit Committee have recent and relevant financial experience. The Committee met twice during the year ended 31 December 2007; all members attended the meetings except Geoffrey Vero who was unable to attend one.

Written terms of reference have been constituted for the Audit Committee, these are as follows:

- providing an overview of the Company's accounting policies and financial reporting;
- considering and reviewing the effectiveness of the Company's internal controls and risk management systems;
- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing

significant financial reporting judgements contained in them;

- meeting the Company's external auditors annually, approving their appointment, reappointment, remuneration, terms of engagement and providing an ongoing review of auditor independence and objectivity;
- developing and implementing a policy for the supply of non-audit services by the external auditors;
- meeting with the Head of Internal Audit of Close Brothers Group plc when appropriate;
- ensuring that all Directors of the Company, and staff of the Manager feel able to raise issues of serious concern with the Chairman of the Audit Committee and that these issues, where raised, are subject to proportionate and independent investigation, and appropriate action;
- reporting to the Board, identifying any matters in respect of which action or improvement is needed and recommending appropriate steps to be taken; and
- undertaking the duties of the Engagement Committee, and therefore reviewing the performance of the Manager and all matters arising under the management agreement.

During the year under review, the Committee discharged the responsibilities described above. Its activities included:

- formally reviewing the final report and accounts, the interim report, and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of the internal controls system and examination of the Internal Controls Report produced by the Manager;
- meeting with the Head of Internal Audit of Close Brothers Group plc;
- meeting with the external auditors and reviewing their findings;
- undertaking a tender process for the provision of audit services to the Company, evaluating the tenders, and recommending the appointment of PKF (UK) LLP to the Board with a view to their appointment at the Annual General Meeting; and
- reviewing the performance of the Manager and making recommendations regarding their re-appointment to the Board.

## Nomination Committee

The Nomination Committee consists of all Directors, with Mr Davidson and subsequently Mr Vero as Chairman. The terms of reference of the Nomination Committee are to evaluate the balance of skills, experience and time commitment of the

# Statement of Corporate Governance continued

current Board members and make recommendations to the Board as and when a particular appointment arises. The Nomination Committee appointed Geoffrey Vero and Andrew Phillipps as Directors of the Company on 2 July 2007 and 30 October 2007 respectively. The Nomination Committee met twice during 2007 to consider the vacancies. Geoffrey Vero and Andrew Phillipps were appointed from a short list of candidates considered by the Committee. In considering the appointment, the Committee were mindful of experience in the Venture Capital Trust sector, proven ability at working at senior levels within Boards, and knowledge of the SME sector in which Venture Capital Trusts invest.

It is the policy of the Company that all of the Directors are nominated for election at the Annual General Meeting following their appointment and every three years thereafter. As new Directors, Geoffrey Vero and Andrew Phillipps will be proposed for election at the Annual General Meeting on 29 April 2008. The terms and conditions of Directors' appointment will be available for inspection at the Annual General Meeting.

## **Internal Control**

In accordance with principle C.2 of the Combined Code, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and continues to be subject to regular review by the Board in accordance with the Internal Control Guidance for Directors in the Combined Code published in September 1999 and updated in 2005 (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's monitoring covers all controls, including financial, operational and compliance controls, and risk management. 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 are, and 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 come to Manager's and the Board's attention.

The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the year. The Audit Committee assists the Board in discharging its review responsibilities.

As the Board has delegated the investment management and administration to Close Ventures Limited, the Board feels that it is not necessary to have its own internal audit function. Instead, the Board has continual access to the internal audit department of Close Brothers Group plc, which undertakes periodic examination of the business processes and controls environment at Close Ventures Limited, and ensures that any recommendations to implement improvements in controls are carried out. The internal audit department of Close Brothers Group plc reports formally to the Board on an annual basis. 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.

## **Relationships with shareholders**

The Company's Annual General Meeting on 29 April 2008 will be used as an opportunity to communicate with investors. The Board and the Chairman of the Audit Committee will be available to answer questions at the Annual General Meeting. At the Annual General Meeting, the level of proxies lodged on each resolution, the balance for and against the resolution, and the number of votes withheld, are announced after the resolution has been voted on by a show of hands.

The Annual General Meeting will also include a presentation from the Manager on the portfolio and on the Company, and a presentation from an investee company.

Shareholders are able to access the latest information on the Company via the Close Ventures Limited website [www.closeventures.co.uk](http://www.closeventures.co.uk) under the "Our funds" section.

Any enquiries relating to shareholdings and share certificates or changes to personal details can be directed to Capita Registrars plc:

Tel: 0871 664 0300

Calls cost 10p per minute plus network extras

E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

# Statement of Corporate Governance continued

Specific enquiries relating to the performance of the fund should be directed to Close Ventures Limited :

Tel: 020 7422 7830

E-mail: [enquiries@closeventures.co.uk](mailto:enquiries@closeventures.co.uk)

The Company's share buy back programme operates in the market through brokers. In order to sell shares, as they are quoted on the London Stock Exchange, investors should approach a broker to undertake the sale. Banks may be able to assist shareholders with a referral to a broker within their banking group.

## **Statement of compliance**

With the exception of the requirements to have a Remuneration Committee and a senior independent director, the Directors consider that the Company has complied throughout the year ended 31 December 2007 with all the relevant provisions set out in Section 1 of the Code, and with the AIC Code of Corporate Governance. 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 Schedule 7a to the Companies Act 1985. The report also meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to the Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

## Remuneration Committee

Since the Company consists solely of non-executive Directors, a Remuneration Committee is not considered necessary.

## Directors' remuneration policy

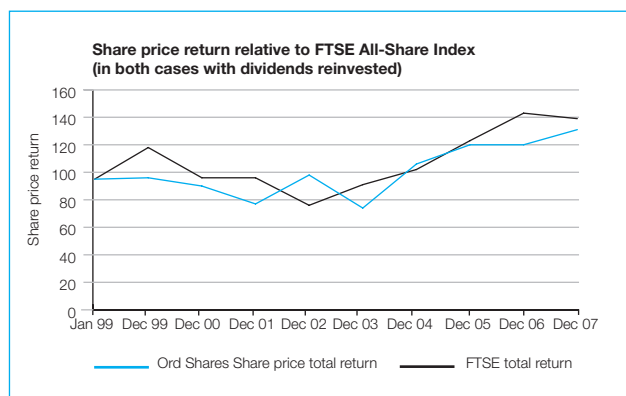
The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration market equivalents are considered in comparison to the overall activities and size of the Company.

The maximum level of non-executive Directors' remuneration is fixed by the Company's Articles of Association, not to exceed £100,000 per annum; amendment to this is by way of a special resolution subject to ratification by shareholders.

## Performance graph

The graphs below show Close Brothers Development VCT PLC's share price against the FTSE All-Share Index, in both instances with dividends reinvested since the launch of the Ordinary Shares in January 1999. The Directors consider this to be the most appropriate benchmark. Investors should however be reminded that shares in VCTs generally trade at a discount to the actual net asset value of the Company.

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



Source: Close Ventures Ltd

## Service contracts

None of the Directors has a service contract with the Company and their terms of appointment are confirmed by letter which, amongst other matters, contain termination provisions at three months' notice.

At the forthcoming Annual General Meeting, Geoffrey Vero and Andrew Phillipps will be proposed for election.

## Directors' remuneration

The information in the following table has been audited.

The following table shows an analysis of the remuneration of individual Directors (excluding VAT and employers NIC costs).

	2007 Fees £'000	2006 Fees £'000
Roderick Davidson*	20.5	20.5
Jonathan Thornton	20.5	20.5
Geoffrey Vero	10.3	–
Andrew Phillipps	3.4	–
David Pinckney	20.5	20.5
Frank Malcolm**	10.3	20.5
	<u>85.5</u>	<u>82.0</u>

Geoffrey Vero was appointed a Director of the Company on 2 July 2007 and was appointed as Chairman of the Company on 31 December 2007.

Andrew Phillipps was appointed a Director of the Company on 30 October 2007.

\*Roderick Davidson retired on 31 December 2007.

\*\*Frank Malcolm died on 10 March 2007 and his estate was paid to 30 June 2007.

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.



## Directors' Remuneration Report continued

Each Director of the Company was remunerated personally for the year ended 31 December 2007, except for Jonathan Thornton and Geoffrey Vero whose services were provided by Jonathan Thornton Limited and The Vero Consultancy respectively.

In addition to Directors' remuneration, the Company pays annual premiums in respect of Directors' and Officers' Liability Insurance.

By Order of the Board

**Close Ventures Limited**

Company Secretary  
10 Crown Place  
London EC2A 4FT

4 April 2008

# 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 2007 which comprise the income statement, the balance sheet, the reconciliation of movement in shareholders' funds, the cash flow statement, 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 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

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Statement of Corporate Governance reflects the company's compliance with the nine provisions of the 2006 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

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

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London, United Kingdom

4 April 2008

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular 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.

# Income Statement

	Note	Year ended 31 December 2007			Year ended 31 December 2006*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	3	–	2,304	2,304	–	(1,676)	(1,676)
Investment income	4	2,206	–	2,206	1,893	–	1,893
Investment management fee	5	(214)	(641)	(855)	(210)	(628)	(838)
Other expenses	6	(209)	–	(209)	(191)	–	(191)
<b>Return on ordinary activities before tax</b>		1,783	1,663	3,446	1,492	(2,304)	(812)
Tax (charge)/credit on ordinary activities	8	(292)	210	(82)	(439)	187	(252)
<b>Return attributable to equity shareholders</b>		1,491	1,873	3,364	1,053	(2,117)	(1,064)
Basic and diluted return per share (excluding treasury shares)(pence)	10	4.8	6.0	10.8	3.2	(6.5)	(3.3)

\* The comparative figures for the year ended 31 December 2006 comprise the aggregate of the Ordinary shares and C shares amounts for that year. The C shares were converted into Ordinary shares on 31 March 2007, at a conversion ratio of 1.0715 Ordinary shares for each C share.

The accompanying notes on pages 30 to 41 form an integral part of these financial statements.

The total column of this Income Statement represents the profit and loss account of the Company. The supplementary revenue and capital return columns have been prepared in accordance with the Association of Investment Trust Companies' Statement of Recommended Practice.

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

There were no recognised gains or losses other than the results for the year as disclosed above. Accordingly a statement of total recognised gains and losses is not required.

# Balance Sheet

	Notes	31 December 2007 £'000	31 December 2006* £'000
<b>Fixed asset investments</b>			
Qualifying investments		23,278	21,875
Non-qualifying investments		<u>3,948</u>	<u>3,892</u>
<b>Total fixed asset investments</b>	11	27,226	25,767
<b>Current assets</b>			
Debtors	13	133	409
Cash at bank		<u>3,991</u>	<u>4,236</u>
		4,124	4,645
<b>Creditors: amounts falling due within one year</b>	14	<u>(463)</u>	<u>(118)</u>
<b>Net current assets</b>		<u>3,661</u>	<u>4,527</u>
<b>Total assets less current liabilities</b>		<u>30,887</u>	<u>30,294</u>
<b>Capital and reserves</b>			
Called up share capital	15	16,219	15,581
Share premium		3,208	3,208
Special reserve		9,223	9,889
Capital redemption reserve		1,183	1,173
Realised capital reserve		1,474	(1,144)
Unrealised capital reserve		129	1,652
Own treasury shares reserve		(1,610)	(388)
Revenue reserve		<u>1,061</u>	<u>323</u>
<b>Total equity shareholders' funds</b>		<u>30,887</u>	<u>30,294</u>
<b>Net asset value per share (excluding treasury shares)(pence)</b>	16	100.9	94.6

\* The comparative figures for the year ended 31 December 2006 comprise the aggregate of the Ordinary shares and C shares amounts for that year. The C shares were converted into Ordinary shares on 31 March 2007, at a conversion ratio of 1.0715 Ordinary shares for each C share.

The accompanying notes on pages 30 to 41 form an integral part of these financial statements.

The financial statements on pages 26 to 41 were approved and authorised for issue by the Board of Directors on 4 April 2008.

Signed on behalf of the Board of Directors.

**David Pinckney**

Director

## Reconciliation of Movement in Shareholders' Funds

	Called-up share capital £'000	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Un-realised capital reserve £'000	Own Treasury shares reserve £'000	Revenue reserve £'000	Total £'000
<b>As at 1 January 2006*</b>	15,829	3,208	10,341	925	(549)	3,328	-	339	33,422
Realised gains on investments in the year	-	-	-	-	1	-	-	-	1
Capitalised investment management and performance fees	-	-	-	-	(627)	-	-	-	(627)
Tax relief on costs charged to capital	-	-	-	-	187	-	-	-	187
Purchase of own shares for Treasury	-	-	-	-	-	-	(388)	-	(388)
Cancellation of own shares	(248)	-	(452)	248	-	-	-	-	(452)
Movement in unrealised appreciation	-	-	-	-	-	(1,676)	-	-	(1,676)
Revenue return attributable to shareholders	-	-	-	-	-	-	-	1,053	1,053
Dividends paid	-	-	-	-	(156)	-	-	(1,069)	(1,225)
<b>As at 31 December 2006*</b>	15,581	3,208	9,889	1,173	(1,144)	1,652	(388)	323	30,294
Conversion of C shares to Ordinary shares	648	-	(648)	-	-	-	-	-	-
Net realised gains on investments in the year	-	-	-	-	3,827	-	-	-	3,827
Capitalised investment management and performance fees	-	-	-	-	(641)	-	-	-	(641)
Tax relief on costs charged to capital	-	-	-	-	210	-	-	-	210
Cancellation of own shares	(10)	-	(18)	10	-	-	-	-	(18)
Purchase of own shares for Treasury	-	-	-	-	-	-	(1,222)	-	(1,222)
Movement in unrealised appreciation	-	-	-	-	-	(1,523)	-	-	(1,523)
Revenue return attributable to shareholders	-	-	-	-	-	-	-	1,491	1,491
Dividends paid	-	-	-	-	(777)	-	-	(754)	(1,531)
<b>As at 31 December 2007</b>	16,219	3,208	9,223	1,183	1,474	129	(1,610)	1,061	30,887

\* The comparative figures for the year ended 31 December 2006 comprise the aggregate of the Ordinary shares and C shares amounts for that year. The C shares were converted into Ordinary shares on 31 March 2007, at a conversion ratio of 1.0715 Ordinary shares for each C share.

# Cash Flow Statement

	Notes	Year ended 31 December 2007 £'000	Year ended 31 December 2006* £'000
<b>Operating activities</b>			
Investment income received		1,266	1,083
Deposit income received		377	528
Other income received		72	35
Investment management fees paid		(610)	(1,066)
Other cash receipts/(payments)		153	(555)
<b>Net cash inflow from operating activities</b>	18	1,258	25
<b>Taxation</b>		-	(412)
<b>Capital expenditure and financial investment</b>			
Purchase of qualifying investments		(3,833)	(4,818)
Purchase of non-qualifying investments		-	(377)
Disposals of qualifying investments		4,975	1
Disposals of non-qualifying investments		136	4,000
<b>Net cash inflow/(outflow) from investing activities</b>		1,278	(1,194)
<b>Equity dividends paid</b>			
Dividends paid		(1,540)	(1,225)
<b>Net cash inflow/(outflow) before financing</b>		996	(2,806)
<b>Financing</b>			
Cancellation of shares		(18)	(452)
Own treasury shares		(1,223)	(388)
<b>Net cash outflow from financing</b>		(1,241)	(840)
<b>Decrease in cash in the year</b>	17	(245)	(3,646)

\* The comparative figures for the year ended 31 December 2006 comprise the aggregate of the Ordinary shares and C shares amounts for that year. The C shares were converted into Ordinary shares on 31 March 2007, at a conversion ratio of 1.0715 Ordinary shares for each C share.

# Notes to the Financial Statements

## 1. Accounting convention

The financial statements have been 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") issued by the Association of Investment Trust Companies ("AITC") in January 2003 and revised in December 2005. Accounting policies have been applied consistently in current and prior periods.

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

Throughout the financial statements (except where noted), the comparative figures for the year ended 31 December 2006 comprise the aggregate of the Ordinary shares and C shares amounts for that year. The C shares were converted into Ordinary shares on 31 March 2007, at a conversion ratio of 1.0715 Ordinary shares for each C share.

### True and fair override

The Company is no longer an investment company within the meaning of s266 of the Companies Act 1985. However, it conducts its affairs as a venture capital trust for taxation purposes under Part 6 Income Taxes Act 2007.

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 Company is presented in an income statement in which the total column is the profit and loss account of the Company.

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 1985 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.

## 2. Accounting policies

### Investments

#### *Quoted and unquoted equity investments*

In accordance with FRS 26 "Financial Instruments Measurement", quoted and unquoted equity investments are designated as fair value through profit or loss ("FVTPL"). Investments listed on recognised exchanges are valued at the closing bid prices at the end of the accounting period. Unquoted investments' fair value is determined by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Fair value movements on equity investments and gains and losses arising on the disposal of investments are reflected in the capital column of the Income Statement in accordance with the AITC SORP and realised gains or losses on the sale of investments will be reflected in the realised capital reserve, and unrealised gains or losses arising from the revaluation of investments will be reflected in the unrealised capital reserve.

#### *Unquoted loan stock*

Unquoted loan stock is classified as loans and receivables in accordance with FRS 26 and carried at amortised cost using the Effective Interest Rate method ("EIR") less impairment. Movements in the amortised cost relating to interest income are reflected in the revenue column of the Income Statement, and hence are reflected in the Revenue reserve, and movements in respect of capital provisions are reflected in the capital column of the Income Statement and are reflected in the realised capital reserve following sale, or in the unrealised capital reserve on revaluation. For unquoted loan stock, the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the effective interest rate.

#### *Floating rate notes*

In accordance with FRS 26 "Financial Instruments Measurement", floating rate notes are designated as fair value through profit or loss ("FVTPL"). Floating rate notes are valued at market bid price at the balance sheet date.

#### *Warrants, convertibles and unquoted equity derived instruments*

Warrants, convertibles and unquoted equity derived instruments are only valued if their exercise, conversion or contractual terms would allow them to be exercised or converted as at the balance sheet date, and if there is additional value to the Company in exercising or converting as at the balance sheet date. Otherwise these instruments are held at nil value. The valuation techniques used are those used for the underlying equity investment.

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.

Dividend income is not recognised as part of the fair value movement of an investment, but is recognised separately as investment income through the revenue reserve when a share becomes ex-dividend.

Loan stock accrued interest is recognised in the Balance Sheet as part of the carrying value of the loans and receivables at the end of each reporting period.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore in accordance with the exemptions under FRS 9 "Associates and joint ventures", those undertakings in which the Company holds more than 20% of the equity are not regarded as associated undertakings.

### Investment income

#### *Quoted and Unquoted equity income*

Dividend income is included in revenue when received.

# Notes to the Financial Statements continued

## 2. Accounting policies continued

### *Unquoted Loan stock income*

The fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis using an effective interest rate over the life of the financial instrument.

### *Bank interest income*

Interest income is recognised on an accrual basis using the rate of interest agreed with the bank.

### *Floating rate note Income*

Floating rate note income is recognised on an accrual basis using the interest rate applicable to the floating rate note at that time.

### **Management fees and expenses**

All expenses have been accounted for on an accruals basis. Expenses are charged through the revenue account except the following which are charged through the realised capital reserve:

- 75 per cent. of management fees (the balance of the management fee are charged to the Revenue account) which represents the proportion of the investment management fee attributable to the enhancement of the value of the investments of the Company; and
- expenses which are incidental to the purchase or disposal of an investment.

### **Performance incentive fee**

In the event that a performance incentive fee crystallises, the fee will be allocated between revenue and realised capital reserves based upon the proportion to which the calculation of the fee is attributable to revenue and capital returns.

### **Taxation**

Taxation is applied on a current basis in accordance with Financial Reporting Standard ('FRS') 16. Taxation associated with capitalised management fees is applied in accordance with the SORP. In accordance with FRS 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.

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

### **Dividends**

In accordance with FRS 21 "Events after the balance sheet date", dividends declared by the Company are accounted for in the period in which the dividend has been paid or approved by shareholders in an Annual General Meeting.

### **Reserves**

#### *Realised capital reserve*

The following are accounted for in this reserve:

- gains and losses compared to cost on the realisation of investments;
- capitalised management and performance fees together with the related taxation effect, charged in accordance with the above policies; and
- dividends paid to equity holders.

#### *Unrealised capital reserve*

Increases and decreases in the valuation of investments against cost held at the year end are accounted for in this reserve.

#### *Special reserve*

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

#### *Capital redemption reserve*

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase of the Company's own shares.

#### *Own Treasury shares reserve*

This reserve accounts for amounts by which the distributable reserves of the company are diminished through the purchase of the Company's own shares for treasury.

### **C Share conversion**

In accordance with the terms of the circular to shareholders issued in September 2002 and the Articles of Association, on 31 March 2007, the C shares were converted to Ordinary shares on the basis of the net assets attributable to the Ordinary shares and the C shares, as disclosed in the audited accounts for the year to 31 December 2006 and in accordance with the calculation as described and approved by shareholders' resolution number 2(4) at the Extraordinary General Meeting on 21 October 2002. C shareholders received 1.0715 Ordinary shares for each C share. The new share certificates were dispatched on 20 April 2007.



# Notes to the Financial Statements continued

## 3. Gains/(losses) on investments

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Unrealised losses on investments held at fair value through profit and loss	(1,292)	(1,596)
Unrealised impairments on investments held at amortised cost	(231)	(81)
<b>Unrealised losses sub total</b>	<b>(1,523)</b>	<b>(1,677)</b>
Realised gains on investments held at fair value through profit and loss	3,827	1
Impairments on investments held at amortised cost	–	–
<b>Realised gains sub total</b>	<b>3,827</b>	<b>1</b>
	<b>2,304</b>	<b>(1,676)</b>

## 4. Investment income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Income recognised on investments held at fair value through profit and loss</b>		
Bank deposit interest	199	288
Floating rate note interest	177	194
UK dividend income	76	34
Management fees received from equity investments	20	16
	472	532
<b>Income recognised on investments held at amortised cost</b>		
Return on loan stock investments	1,734	1,361
	<b>2,206</b>	<b>1,893</b>

Interest income earned on impaired investments at 31 December 2007 amounted to £46,000 (2006: £25,000). These investments are all held at amortised cost.

## 5. Investment management fee

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Investment management fee charged to revenue	202	210
Investment management fee charged to capital	604	628
Performance incentive fee charged to revenue	12	–
Performance incentive fee charged to capital	37	–
	855	838

Total management fees for the year ended 31 December 2007 include irrecoverable VAT which amounted to approximately £132,000 (2006: £125,000). Further details of the Management Agreement under which the investment management fee is paid are given in the Report of the Directors and Business Review on page 16.

# Notes to the Financial Statements continued

## 6. Other expenses

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Directors' fees (see note 7)	94	91
Auditors' remuneration – audit fees	20	24
Other	95	76
	<u>209</u>	<u>191</u>

## 7. Directors' fees

The amounts paid to Directors during the year are as follows:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Directors' fees	85	82
National Insurance and/or VAT	9	7
Expenses	–	2
	<u>94</u>	<u>91</u>

Expenses charged relate to travel expenses in furtherance of their duties as Directors. Further information regarding Directors' remuneration can be found in the Directors' Remuneration Report on page 23.

## 8. Tax charge/(credit) on ordinary activities

	Year ended 31 December 2007			Year ended 31 December 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK Corporation tax charge	292	(210)	82	439	(187)	252

The tax charge for the year is based on the UK standard rate of corporation tax at 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 2007			Year ended 31 December 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return before taxation	1,783	1,663	3,446	1,492	(2,304)	(812)
Tax on profit at the standard rate	535	499	1,034	448	(691)	(243)
Factors affecting the charge						
Non-taxable (gains)/losses	(25)	(697)	(722)	(9)	504	495
Consortium relief	(218)	–	(218)	–	–	–
Marginal relief	–	(12)	(12)	–	–	–
	<u>292</u>	<u>(210)</u>	<u>82</u>	<u>439</u>	<u>(187)</u>	<u>252</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 relief in accordance with the SORP.
- (iii) No deferred tax asset or liability has arisen in the year.

# Notes to the Financial Statements continued

## 9. Dividends paid

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
First Interim 2006 revenue dividend paid of 1.00p per Ordinary share and 1.50p per C share	–	411
Second Interim 2006 revenue dividend paid of 2.0p per Ordinary share and 2.15p per C share	–	658
Second Interim 2006 capital dividend paid of 0.85p per C share	–	156
First Interim 2007 revenue dividend paid of 1.50 p per Ordinary share	478	–
Second Interim 2007 revenue dividend paid of 1.0p per Ordinary share	276	–
Second Interim 2007 capital dividend paid of 2.5p per Ordinary share	777	–
<b>Total dividends</b>	<b>1,531</b>	<b>1,225</b>

## 10. Basic and diluted return per share

	Year ended 31 December 2007			Year ended 31 December 2006		
	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Ordinary Shares	4.8	6.0	10.8	3.2	(6.5)	(3.3)

Revenue return per share is based on the net revenue return attributable to equity holders for the financial year, of £1,491,000 in respect of the weighted average number of shares in issue during the year, being 31,229,055 shares (excluding Treasury shares).

Capital return per share is based on net capital profit attributable to equity holders for the financial year, of £1,873,000 and based on the same weighted average number of shares as for revenue return shown above.

As discussed under note 15, the C shares were converted into Ordinary shares on 31 March 2007. In accordance with FRS 22 "Earnings per share" the return per share calculation for the year ended 31 December 2006 has been calculated as if the conversion had taken place during that year.

The revenue return per share for the year ended 31 December 2006 is calculated by aggregating the Ordinary share revenue return of £396,000 and the C share revenue return of £657,000 giving a total revenue return of £1,053,000.

The capital return per share for the year ended 31 December 2006 is calculated by aggregating the Ordinary share capital loss of £1,088,000 and the C share capital loss of £1,029,000 giving a total capital loss of £2,117,000.

The weighted average number of Ordinary shares for the year ended 31 December 2006 is calculated by converting the weighted average number of C shares for the year ended 31 December 2006 being (18,136,143) at the conversion ratio (1.0715), into Ordinary shares (19,432,877). This total is added to the weighted average number of Ordinary shares for the year ended 31 December 2006 (13,075,011) to give a total converted weighted average number of Ordinary shares of 32,507,888.

All calculations exclude Treasury shares.

There are no convertible instruments, derivatives or contingent share agreements relating to the Company's share capital for Close Brothers Development VCT PLC and hence no dilution affecting the return per share. The basic return per share is therefore the same as the diluted return per share.

Return per share calculations treat Treasury shares as if they had been cancelled.

# Notes to the Financial Statements continued

## 11. Fixed asset investments

	Qualifying AIM investments £'000	Qualifying unquoted investments £'000	Non-qualifying investments £'000	Total investments £'000
Opening valuation as at 31 December 2006	2,498	19,377	3,892	25,767
Purchases at cost	1,600	3,527	307	5,434
Disposal proceeds	(2,209)	(2,888)	(136)	(5,232)
Sale consideration received in the form of quoted shares	(1,600)	–	–	(1,600)
Realised gains	3,013	814	–	3,827
Movement in loan stock carrying value	–	552	1	553
(Decrease)/increase in unrealised appreciation	(2,255)	848	(116)	(1,523)
<b>Closing valuation as at 31 December 2007</b>	<b>1,048</b>	<b>22,230</b>	<b>3,948</b>	<b>27,226</b>
<b>Movement in loan stock carrying value</b>				
Opening accumulated movement in loan stock carrying value as at 31 December 2006	–	914	–	914
Movement in loan stock carrying value	–	552	1	553
<b>Closing accumulated movement in loan stock carrying value as at 31 December 2007</b>	<b>–</b>	<b>1,466</b>	<b>1</b>	<b>1,467</b>
<b>Movement in unrealised gains</b>				
Opening movement in unrealised gains/(losses) as at 31 December 2006	1,702	18	(69)	1,651
Unrealised gain released on disposals	(1,702)	(357)	–	(2,060)
Movement in unrealised gains	(553)	1,206	(116)	537
<b>Closing movement in unrealised (losses)/gains as at 31 December 2007</b>	<b>(553)</b>	<b>866</b>	<b>(185)</b>	<b>128</b>
<b>Historic cost basis</b>				
Opening book cost as at 31 December 2006	797	18,443	3,961	23,201
Purchases at cost	1,600	3,527	307	5,434
Sales at cost	(796)	(2,070)	(136)	(3,003)
<b>Closing book cost as at 31 December 2007</b>	<b>1,601</b>	<b>19,900</b>	<b>4,131</b>	<b>25,632</b>

Fixed asset investments held at fair value through profit and loss account total £12,834,000 (2006: £12,260,000). Investments held at amortised cost total £14,392,000 (2006: £13,507,000). There has been no re-designation of fixed asset investments during the period.

The Company has the following classes of fixed asset investment:

	31 December 2007 £'000	31 December 2006 £'000
Unquoted equity	8,607	6,757
Quoted equity	1,048	2,498
Unquoted loan stock	14,392	13,507
Floating rate notes	3,004	3,005
Unquoted equity derived instrument	175	–
Warrants and convertibles	–	–
<b>Total</b>	<b>27,226</b>	<b>25,767</b>

# Notes to the Financial Statements continued

## 11. Fixed asset investments (continued)

Quoted equity investments (both qualifying and non-qualifying) and floating rate notes are valued at market bid price at the balance sheet date.

Unquoted loan stock investments are valued on an amortised cost basis. Loan stocks valued using a fixed interest rate total £12,150,000 (2006: £11,842,000) and loan stocks valued using a floating rate total £2,242,000 (2006: £1,665,000). The Directors believe that the amortised cost basis approximates to fair value.

The Company does not hold any assets as the result of the enforcement of security during the period, and believes that the carrying values for both impaired and past due assets are covered by the value of security held for these loan stock investments.

The split of valuation methodologies for unquoted equity investments is as follows;

	<b>31 December 2007 £'000</b>	<b>31 December 2006 £'000</b>
<b>Investment methodology</b>		
Cost	1,228	1,303
Net asset value	3,241	2,922
Revenue/earnings multiple	3,384	2,402
Recent investment price	754	130
<b>Total</b>	<b>8,607</b>	<b>6,757</b>

The Company had the following movements between investment methodologies between 31 December 2006 and 31 December 2007.

	<b>Value as at 31 December 2007 £'000</b>	<b>Explanation</b>
<b>Change in investment methodology (2006 to 2007)</b>		
Cost to revenue earnings multiple	237	Investments held for less than 12 months are valued at cost
Cost to net asset value	761	Investments held for less than 12 months are valued at cost
Cost to recent investment price	124	Investment held for less than 12 months valued at cost
Net asset value supported by third party valuation to cost	20	Current trading did not justify the third party valuation

Investments held for less than 12 months are valued at cost. Thereafter, the valuation will move to the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the IPEV Guidelines. The Directors believe that, within these parameters, there are no reasonable possible alternative methods of valuation of the investments as at 31 December 2007, other than those used.

## 12. Significant interests

The Company has interests of greater than 20 per cent. of the nominal value of the allotted shares of any class of shares in the investee companies as at 31 December 2007 as described below:

	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>% class and share type</b>	<b>% voting rights</b>
Smiles Brewing Company Limited	United Kingdom	Owner of Smiles Brewery	48% A ordinary	48%
Smiles Pub Company Limited	United Kingdom	Owner of Smiles real ale brand	48% A ordinary	48%
Grosvenor Health Limited	United Kingdom	Occupational health provider	31% ordinary	31%
Evolutions Television Limited	United Kingdom	Television post production	24% A ordinary	24%

As permitted by FRS 9, the investments listed above are held as a part of an investment portfolio and their value to the Company is through their marketable value as part of a portfolio of investments. Therefore these investments are not considered to be associated undertakings.

# Notes to the Financial Statements continued

## 13. Debtors

	31 December 2007 £'000	31 December 2006 £'000
Prepayments and accrued income	13	27
Interclass debtor	–	2
Other debtors	120	380
	<u>133</u>	<u>409</u>

The Directors consider that the carrying amount of Debtors approximates their fair value.

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

	31 December 2007 £'000	31 December 2006 £'000
UK corporation tax payable	112	30
Interclass creditor	–	2
Accruals and deferred income	351	86
	<u>463</u>	<u>118</u>

The Directors consider that the carrying amount of Creditors approximates their fair value.

## 15. Share Capital

	31 December 2007 £'000	31 December 2006 £'000
<b>Authorised:</b>		
50,000,000 Ordinary Shares of 50p each (2006: 25,000,000)	25,000	12,500
(2006: 25,000,000 C Ordinary Shares of 50p each)	–	12,500
	<u>25,000</u>	<u>25,000</u>
<b>Allotted, called-up and fully-paid (including treasury shares):</b>		
32,438,309 Ordinary Shares of 50p each	16,219	–
(2006: 13,042,663 Ordinary Shares of 50p each	–	6,521
and 18,120,057 C Ordinary Shares of 50p each)	–	9,060
	<u>16,219</u>	<u>15,581</u>

### Conversion of C shares and Ordinary shares

In accordance with the terms of the circular to shareholders issued in September 2002 and the Articles of Association, on 31 March 2007, the C shares were converted to Ordinary shares on the basis of the net assets attributable to the Ordinary shares and the C shares as disclosed in the audited accounts for the year to 31 December 2006 and in accordance with the calculation as described and approved by shareholders' resolution number 2(4) at the Extraordinary General Meeting on 21 October 2002. C shareholders received 1.0715 Ordinary shares for each C share. This conversion was achieved in two stages; firstly 1,295,584 'bonus' C shares were issued in order to provide the correct number of shares determined by the conversion ratio, and then all C shares were converted into Ordinary shares on a 1:1 basis. The new Ordinary share certificates in respect of the C share conversion were dispatched on 20 April 2007.

In order to deal with the fractional shares arising from the rounding of the conversion, 331 shares were issued to Close Ventures Limited. These shares are to be sold at a later date for the benefit of the Company.

The cost of issuing bonus shares was funded through the special reserve.

During the year to 31 December 2007 the Company purchased 20,000 (2006: 313,118) of its own shares for cancellation at a cost of £17,654 (2006: £281,000) representing 0.6 per cent. of the share capital as at 31 December 2007. The Company also purchased 1,395,286 shares to be held in Treasury at a cost of £1,223,070 (2006: £ 388,000) representing 4.3 per cent. of the share capital as at 31 December 2007. The shares purchased for cancellation were funded from the special reserve and the shares purchased for Treasury were funded from the Own Treasury shares reserve.

Total Treasury shares held as at 31 December 2007 are 1,838,323 shares, representing 5.7 per cent. of the shares in issue.

# Notes to the Financial Statements continued

## 16. Net asset value per share

	31 December 2007	31 December 2006
Net asset value per share (pence)	100.9	94.6

The net asset value per share at the year end is calculated in accordance with the Articles of Association and is based upon total shares in issue (less the Treasury shares) of 30,599,986 shares as at 31 December 2007.

The net asset value per share for the year ended 31 December 2006 is based upon the aggregate of the Ordinary share net asset value of £12,081,000 and the C shares net asset value of £18,213,000 giving a total of £30,294,000.

The number of shares for this calculation is the aggregate of the number of Ordinary shares in issue as at 31 December 2006, and the number of new Ordinary shares that would have been in issue had the conversion of the C shares taken place as at 31 December 2006 using the conversion factor of 1.0715 Ordinary shares for each C share. This aggregate would have been 32,015,265 shares.

## 17. Analysis of changes in cash during the year

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Beginning of the year	4,236	7,882
Net cash (outflow)	(245)	(3,646)
<b>End of the year</b>	<b>3,991</b>	<b>4,236</b>

## 18. Reconciliation of net return on ordinary activities before taxation to net cash inflow from operating activities

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Return on ordinary activities before taxation	1,783	1,492
Investment management fee charged to capital	(604)	(628)
Performance incentive fee charged to capital	(37)	–
Movement in loan stock carrying value	(505)	(278)
Decrease/(increase) in debtors	276	(308)
Increase/(decrease) in creditors	345	(253)
<b>Net cash inflow from operating activities</b>	<b>1,258</b>	<b>25</b>

## 19. Capital and financial instruments and risk management

The Company's capital and financial assets comprise equity and loan stock investments in unquoted companies, quoted equity, floating rate notes, 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 for the management of its balance sheet.

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

- Investment (or market) risk (which comprises investment price, and cash flow interest rate risk);
- credit risk; and
- liquidity risk.

# Notes to the Financial Statements continued

## 19. Capital and financial instruments and risk management (continued)

The Board regularly reviews and agrees policies for managing each of these risks. There have been no changes in the nature of the risks that the Company has faced during the past year, and apart where noted below, there have been no changes in the objectives, policies or processes for managing risks during the past year. The key risks are summarised below:

### Investment 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 and in quoted investments, details of which are shown on pages 8 to 11. Investment risk is the exposure of the Company to the revaluation and devaluation of investments. The main driver of investment risk is the operational and financial performance of the investee company. The Manager receives management accounts from investee companies, and members of the investment management team often sit on the boards of unquoted investee companies; this enables the close identification, monitoring and management of investment risk.

The Manager and the Board formally review investment risk both at the time of initial investment and at quarterly Board meetings.

The Board monitors the prices at which sales of investments are made to ensure that profits to the Company are maximised, and that valuations of investments retained within the portfolio appear sufficiently prudent and realistic compared to prices being achieved in the market for sales of unquoted investments.

The maximum investment risk as at the balance sheet date is the value of the fixed asset investment portfolio which is £27,226,000 (2006: £25,767,000). Fixed asset investments form 88 per cent. of the net asset value as at 31 December 2007 (2006: 85 per cent. of the aggregate net asset value).

More details regarding the classification of fixed asset investments are shown in Note 11.

### Investment price risk

Investment price risk is the risk that the fair value of future investment cashflows will fluctuate due to factors specific to an investment instrument or to a market in similar instruments. To mitigate the investment price risk for the Company as a whole, the strategy of the Company is to invest in a broad spread of industries with approximately two thirds of the unquoted investments comprising debt securities, which, owing to the structure of their yield and the fact that they are usually secured, have a lower level of price volatility than equity. Details of the industries in which investments have been made are contained in the Portfolio of Investments section on pages 8 to 11 and in the Chairman's Statement.

In accordance with the International Private Equity and Venture Capital Valuation Guidelines, investments held for less than 12 months are valued at cost. Thereafter, the valuation will move to the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the IPEV Guidelines. The Directors believe that, within these parameters, there are no reasonable possible alternative methods of valuation of the investments as at 31 December 2007, other than those used.

The Company's sensitivity to a 1 per cent. increase or decrease in the equity valuation (keeping all other variables constant) would be an increase or decrease in net asset value of £129,000 (2006: £123,000).

The assumptions used in determining the fair values of unquoted investments are disclosed in note 2.

### Cash flow 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 all interest rates would have reduced profits before tax for the year by approximately 1 per cent. (2006: 8 per cent.).

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 9.72 per cent. (2006: 12 per cent.). The weighted average period to maturity for the fixed rate assets is approximately 3.38 years (2006: 4 years).

### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company is exposed to credit risk through its investment in unquoted loan stock, floating rate notes, and through the holding of cash on deposit with banks.

The Manager evaluates credit risk on loan stock instruments prior to investment, and as part of its ongoing monitoring of investments. In doing this, it takes into account the extent and quality of any security held. Typically loan stock instruments have a first fixed charge or a fixed and floating charge over the assets of the investee company in order to mitigate the gross credit risk. The Manager receives management accounts from investee companies, and members of the investment management team often sit on the boards of unquoted investee companies; this enables the close identification, monitoring and management of investment-specific credit risk.



# Notes to the Financial Statements continued

## 19. Capital and financial instruments and risk management (continued)

### Credit risk (continued)

Floating rate note investments and bank deposits are held with banks which have a Moody's credit rating of at least 'A'. Since the year end, the Company has a policy of limiting counterparty banking and floating rate note exposure to a maximum of 20 per cent. of net assets for any one counterparty.

The Board formally reviews credit risk as part of its overall review of investment and other risks at quarterly Board meetings.

The Company's total gross credit risk as at 31 December 2007 is limited to £14,392,000 (2006: £13,507,000) of unquoted loan stock instruments, £3,004,000 (2006: £3,005,000) of floating rate notes and £3,991,000 (2006: £4,236,000) cash deposits with banks.

In the case of asset based investments, security is held as a first charge over the underlying assets of the investee company, and in the case of high growth investments, security is held as fixed and floating charge over the business and assets of the company, in most cases, this is as a first charge.

The cash held by the Company is held with the Royal Bank of Scotland plc, Bank of Scotland plc and BNP Paribas. Credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision, with high credit ratings assigned by international credit-rating agencies.

### Liquidity risk

Liquid assets are held as cash on current account, cash on deposit or short term money market account and as floating rate notes. Under the terms of its Articles, the Company has the ability to borrow up to 10 per cent. of its net assets, which amounts to £3,089,000 as at 31 December 2007.

The Company has no committed borrowing facilities as at 31 December 2007 (2006: £nil) and had cash balances of £3,991,000 together with £3,004,000 invested in floating rate notes which are considered to be readily realisable within the timescales required to make cash available for investment. The main cash outflows are for new investments, which are within the control of the Company. The Manager formally reviews the cash requirements of the Company on a monthly basis, and the Board on a quarterly basis as part of its review of management accounts and forecasts. All the Company's financial liabilities are short term in nature and total £463,000 as at 31 December 2007 (2006: £118,000).

In view of this, the Board considers that the Company is subject to low liquidity risk.

### Financial instruments

All of the the Company's financial assets and liabilities as at 31 December 2007 are stated at fair value as determined by the Directors, with the exceptions of loans and receivables, which are carried at amortised cost, in accordance with FRS 26. In the opinion of the Directors, the amortised cost of loan stock approximates to the fair value of the loan stock (see note 2 of the financial statements for accounting policies). The Company's financial liabilities are all non-interest bearing. It is the Directors' opinion that the fair value of the financial liabilities approximates the book value and all are payable within one year.

The Company's financial assets as at 31 December 2007, all denominated in pounds sterling, consist of the following:

	31 December 2007			
	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000	Total £'000
Equity	–	–	9,830	9,830
Loan stock	9,888	4,504	–	14,392
Floating rate notes	–	3,004	–	3,004
Debtors	–	–	133	133
Cash	–	3,991	–	3,991
<b>Total assets</b>	<b>9,888</b>	<b>11,499</b>	<b>9,963</b>	<b>31,350</b>

# Notes to the Financial Statements continued

## 19. Capital and financial instruments and risk management (continued)

### Cash flow interest rate risk (continued)

The Company's financial assets as at 31 December 2006, all denominated in pounds sterling, consisted of the following:

	31 December 2006			Total £'000
	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000	
Equity	–	–	9,255	9,255
Loan stock	9,271	4,236	–	13,507
Floating rate notes	–	3,005	–	3,005
Debtors	–	–	409	409
Cash	–	2,236	2,000	4,236
<b>Total assets</b>	<b>9,271</b>	<b>9,477</b>	<b>11,664</b>	<b>30,412</b>

The maturity value of loan stock investments held at amortised cost as at 31 December 2007 is as follows:

	31 December 2007				Total £'000
	Fully performing loan stock £'000	Past due loan stock £'000	Renegotiated loan stock £'000	Impaired loan stock £'000	
Less than one year	36	–	–	–	36
1-2 years	4,560	–	–	–	4,560
2-3 years	1,484	–	476	595	2,555
3-5 years	3,026	434	3,260	521	7,241
<b>Total</b>	<b>9,106</b>	<b>434</b>	<b>3,736</b>	<b>1,116</b>	<b>14,392</b>

The maturity value of loan stock investments held at amortised cost as at 31 December 2006 is as follows:

	31 December 2006				Total £'000
	Fully performing loan stock £'000	Past due loan stock £'000	Renegotiated loan stock £'000	Impaired loan stock £'000	
Less than one year	–	–	–	–	–
1-2 years	36	–	–	–	36
2-3 years	1,310	–	–	–	1,310
3-5 years	6,539	2,148	2,241	1,233	12,161
<b>Total</b>	<b>7,885</b>	<b>2,148</b>	<b>2,241</b>	<b>1,233</b>	<b>13,507</b>

## 20. Post balance sheet events

Since 31 December 2007 the Company has completed the following investments

- Investment of £140,000 in Opta Limited
- Investment of £33,289 in Consolidated Communications Limited

## 21. Contingencies, guarantees and financial commitments

The Company has given third party charges of deposit security over specific bank accounts to the Royal Bank of Scotland plc and National Westminster Bank plc in respect of guarantees for loans granted by the banks to investee companies.

As at 31 December 2007 the amounts outstanding under these guarantees, and the amounts secured, were £nil (2006: £380,000).

## 22. Related party transactions

The Manager, Close Ventures Limited, is considered to be a related party, by virtue of the fact that it is party to a management contract from the Company (details disclosed on page 16 of this report). During the year, services of a total value of £855,000 (2006: £838,000) were purchased by the Company from Close Ventures Limited. At the financial year end, the amount due to Close Ventures Limited disclosed as accruals and deferred income was £278,000 (2006: £16,000).

During the year, 1,335,286 Treasury shares were purchased at an average price of 88.8 pence per share through Winterflood Securities Limited, a subsidiary of Close Brothers Group plc.

Close Ventures Limited hold 331 fractional entitlement shares of the Company as a result of the conversion of C shares to Ordinary shares in March 2007. These shares will be sold for the benefit of the Company at a future date.

Close Ventures Limited also holds 14,000 Ordinary shares as a result of the failure of an original subscriber to pay cleared funds on initial subscription.

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Close Brothers Development VCT PLC will be held at 4.00 p.m. at 10 Crown Place, London EC2A 4FT on 29 April 2008 for the purpose of dealing with the following business, of which items 6 to 9 are 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 2007.
2. To appoint PKF (UK) LLP as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
3. To approve the Directors' remuneration report for the year ended 31 December 2007.
4. To elect Geoffrey Vero as a Director of the Company.
5. To elect Andrew Phillipps as a Director of the Company.

## Special Business

6. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount of £1,621,900 which comprises 10 per cent. of the Ordinary share capital (excluding Treasury shares), such authority to expire on 30 September 2009, but so that the Company may before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period, and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired; and all unexercised authorities previously granted to the Directors to allot relevant securities be, and are hereby, revoked.

7. To consider and, if thought fit, pass the following resolution as a special resolution;

That subject to and conditional on the passing of resolution number 6, the Directors be empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 (2) to section 94 (3A) of the Act) for cash pursuant to the authority conferred by resolution number 6 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights issue, open offer or other offer of securities in favour of the holders of Ordinary shares on the register of members at such record date as the Directors shall determine where the equity securities respectively attributable to the interest of the Ordinary shareholder are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them on any such record date, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with Treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange by virtue of shares being represented by depository receipts or any other matter whatever; and
- (b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £810,950 equal to 5 per cent. of the Ordinary share capital (excluding Treasury shares);

and shall expire on 30 September 2009, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of the resolution the words "pursuant to the authority conferred by resolution number 6" were omitted.

## Notice of Meeting continued

8. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

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 in the capital of the Company ("Shares") provided that;

- (a) the maximum aggregate number of shares authorised to be purchased is 3,059,998 (representing approximately 10 per cent. of the issued Ordinary share capital (excluding Treasury shares));
- (b) the minimum price which may be paid for a share is 50p;
- (c) the maximum price that may be paid on the exercise of this authority will not exceed the higher of (a) 105 per cent. of the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the shares over the five business days immediately preceding the date on which the shares are contracted to be purchased; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;
- (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.

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, shares purchased by the Company out of distributable profits can be held as Treasury shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 8 is intended to apply equally to shares to be held by the Company as Treasury shares in accordance with the Regulations.

The Directors seek authority to sell Treasury shares at a price not less than that at which they were purchased.

9. To consider and, if thought fit pass the following resolution as a special resolution:

That (with effect from 1 October 2008) the Articles of Association of the Company be amended by the insertion of the following new Article number 119:

"119 Subject to the provisions of the Acts and as contemplated by section 175 of the Companies Act 2006, the Directors may authorise in such manner and on such terms as they think fit, any matter in which a Director and/or such connected persons of the Director has, or can have, a direct or indirect interest which conflicts, or could reasonably be regarded to conflict, with the interest of the Company. Where such authorisation is given, the duty of the Director in question to avoid conflicts of interest shall not be infringed in relation to that matter. Neither the Director in question nor any other interested Director shall vote on, or if he does, his vote shall not be counted as part of the quorum in relation to any resolution of the Directors concerning such authorisation. Where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the Company and that conflict or potential conflict has been authorised by the Company or by the Directors in accordance with this Article, subject to the terms on which any authorisation has been given;

- (a) the Director in question need not disclose to or use for the benefit of the Company any information relating to that matter which he obtains or has obtained otherwise than as a Director and in respect of which he owes a duty of confidentiality to a person or persons other than the Company;
- (b) the Director in question need not consider board papers of the Company, nor participate in discussions of the Directors, relating to that matter;

## Notice of Meeting continued

- (c) any Director may act in any way authorised by any guidance for dealing with conflicts of interest issued by the Directors from time to time; and
- (d) where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the Company, the duties which the Directors owe to the Company shall not be infringed by anything done (or omitted) by the Directors, or any of them, in accordance with Articles.

For the purposes of the Articles, a conflict of interest includes a conflict of interest and duty and a conflict of duties.”

BY ORDER OF THE BOARD

### **Close Ventures Limited**

Company Secretary

Registered Office

10 Crown Place, London EC2A 4FT

4 April 2008

### *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 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the Company as at 4.00 p.m. on 27 April 2008 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 4.00 p.m. on 27 April 2008 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 27 April 2008 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.

Close Brothers  
Development VCT PLC