

**Close Brothers
Development VCT PLC**



**Report & Accounts
for the year ended
31 December 2003**

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DIRECTORS AND ADMINISTRATION

Directors

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

Investment Manager

Close Venture Management
4 Crown Place
London EC2A 4BT
Tel: 020 7422 7830

Secretary and Registered Office

Catherine Kinnear ACA
10 Crown Place
London EC2A 4FT

Registrar

Capita Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA

Auditors

Deloitte & Touche LLP
London

Taxation Advisers

Ernst & Young LLP
1 More London Place
London
SE1 2AF

FINANCIAL HIGHLIGHTS

	Ordinary Shares Year ended 31 December 2003	‘C’ Shares Year ended 31 December 2003
Dividends per share	4.00 pence	1.65 pence
Net asset value per share	76.30 pence	92.85 pence
Shareholder value per share since launch:	Pence per share⁽ⁱⁱ⁾	Pence per share⁽ⁱⁱⁱ⁾
Total dividends for the period ended 31 December 1999 ⁽ⁱ⁾	2.50	–
Total dividends for the year ended 31 December 2000	3.75	–
Total dividends for the year ended 31 December 2001	4.00	–
Total dividend for the year ended 31 December 2002	4.50	–
Interim dividend for the year ended 31 December 2003 ^{(iii) (iv)}	1.80	0.75
Final dividend for the year ended 31 December 2003	2.20	0.90
Total dividends	18.75	1.65
Net asset value at 31 December 2003	76.30	92.85
Total	95.05	94.50

Notes

- (i) *assuming subscription for Ordinary Shares by the First Closing on 26 January 1999.*
(ii) *excluding tax benefits received upon subscription.*
(iii) *assuming subscription for C Shares by the First Closing on 31 December 2002.*
(iv) *those subscribing for C Shares after 30 June 2003 were not entitled to the interim dividend.*

FINANCIAL CALENDAR

Ex dividend date	10 March 2004
Record date for final dividend	12 March 2004
Annual General Meeting	5 April 2004
Posting of dividend cheques in respect of the final dividend	5 April 2004
Announcement of interim results for the six months ended 30 June 2004	September 2004
Payment of interim dividend	October 2004

INVESTMENT OBJECTIVES

Close Brothers Development VCT PLC is a venture capital trust which raised a total of £14.6 million through an issue of shares in the Spring and Summer of 1999 and £11.7 million through an issue of 'C' shares in the late 2002 and first half of 2003. The Company is currently raising up to a further £13.2 million through a New 'C' Share issue. The investment strategy of the Company is to establish a diversified portfolio of holdings in smaller, unquoted companies whilst at the same time selecting and structuring investments in such a way as to reduce the risk normally associated with investment in such companies. It is intended that this will be achieved as follows:

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

CHAIRMAN'S STATEMENT

Introduction

I present the results of your Company for the year to 31 December 2003, being the fifth year following the launch of Close Brothers Development VCT PLC Ordinary Shares and the first full year of the 'C' Shares.

The net asset value at the year end, after proposing the final dividends of 2.20 pence per Ordinary Share and 0.90 pence per 'C' Share was 76.3 pence per Ordinary Share and 92.85 pence per 'C' Share (or 78.5 pence per Ordinary Share and 93.75 pence per 'C' Share before providing for such dividends). While this represents a small decline from the respective NAV for the two classes of share of 80.3 pence and 94.6 pence at the previous year end, the total return performance of the Ordinary Shares in terms of asset value and dividend has outperformed the FTSE100 Index since the Company's launch.

Investment review

Despite the slight fall in the NAV, the year has seen a number of positive developments in building longer term shareholder value. Further funding across both share portfolios has been provided to support growth in three investee companies. These are Peakdale Molecular, which has seen a 50 per cent. annual growth in sales since our original investment and which required finance for an attractive collaboration with DeNovo Pharmaceuticals for a development of a library of screening compounds; Careforce Group, which has now made its seventh acquisition in the fast consolidating domiciliary care sector; and Automotive Technik, which needed working capital to secure its intellectual property and fund its order book which now stands at £20 million.

Funding has also been provided to two new companies, both involved in the pub and brewery sector. City Centres Breweries has purchased the Smiles Brewery in central Bristol, as the first step in building up an integrated freehold pub and brewing business based in the South West, and, since the year end, the Bold Pub Company acquired 10 freehold and long leasehold pubs in the North West.

The equity in Peakdale, despite its continued strong growth, was written down in line with the fall in value of its quoted competitors. The Q Garden Company also saw a further fall in value as it continues to find the trading climate difficult. Both The Q Garden Company and Odyssey Clubs Group required additional small investments within the Ordinary Share portfolio. Dolphin Nurseries, by contrast, where trading is strong, has commenced work on its seventh freehold day nursery and a third party professional valuation has led to a strong write up in the value of our holding.

Results, dividends and prospects

Ordinary Shares

As at 31 December 2003 the net asset value of the Ordinary Shares of your Company was £11.1 million, compared to £11.8 million at 31 December 2002. This equates to a net asset value per share of 76.3 pence (2002: 80.3 pence). Net income after taxation for the year amounted to £590,000 (2002: £642,000) enabling the board to declare a net final dividend of 2.2 pence per Ordinary share (2002: 2.7 pence). This is in addition to the interim dividend of 1.8 pence per share (2002: 1.8 pence) and brings the total dividend for the year to 4.0 pence (2002: 4.5 pence). The final dividend will be paid on 5 April 2004 to shareholders on the register on 12 March 2004.

‘C’ Shares

As at 31 December 2003 the net asset value of the ‘C’ Shares of your Company was £10.9 million compared to £2.3 million at 31 December 2002, before the allotment of £9.2 million of new funds. This equates to a net asset value per share of 92.85 pence (2002: 94.6 pence). Net income after taxation for the period amounted to £168,000 (2002: a loss of £3,000) enabling the board to declare a net final dividend of 0.9 pence per Ordinary share (2002: nil). This is in addition to the interim dividend of 0.75 pence per share (2002: nil) and brings the total dividend for the year to 1.65 pence (2002: nil). The final dividend will be paid on 5 April 2004 to shareholders on the register on 12 March 2004.

Overall, the dividends were slightly lower than we anticipated, caused partly by lower interest rates and also, in the case of the ‘C’ Shares, through an investment programme that was weighted more towards the end of the year. In the current year, we expect the investment portfolios of both classes of share to support the Company’s core strategy of providing a relatively low risk investment profile, a strong dividend yield and the prospects of capital growth.

New ‘C’ Share issue

Following the successful ‘C’ Share issue which raised £11.7 million over the years 2002 and 2003, we are issuing up to a further £13.2 million New ‘C’ Shares in the period to 5 April 2004 for those who wish to take advantage of the existing VCT rules before they change at the end of this tax year. As announced by the Chancellor of the Exchequer on 10 December 2003, in return for greater income tax relief, investors will not be able to use investment in a VCT to defer chargeable capital gains from 6 April 2004.

Roderick Davidson
Chairman

26 February 2004

THE BOARD OF DIRECTORS

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

Roderick Davidson (66), is the chairman of the Company. He joined B S Stock & Co., stockbrokers, in Bristol in 1960, becoming a partner in 1965, and managing director of Stock Beech & Co. Limited in 1985. In 1990 he joined Albert E Sharp where he was a director of Albert E Sharp Holdings Limited and managed investment portfolios on behalf of pension funds, charitable trusts and private investors. Throughout his stockbroking career, he had broad experience of investment in smaller companies. He retired in 1998. He is a director of Close Brothers Venture Capital Trust PLC, a £40 million VCT which invests in unquoted, asset backed businesses.

Francis Malcolm (60), BSc. Frank Malcolm joined the Inland Revenue as an Inspector of Taxes in 1967. He joined Edinburgh Investment Trust as an investment analyst in 1969 before joining Bell Lawrie White (now a division of the Sponsor) in 1972. Since then he has been successively head of research, head of research and institutional sales and, latterly, a director in the corporate finance department where his work includes the raising of finance from venture and development capital institutions on behalf of unquoted companies. He is a director of Close Brothers AIM VCT PLC, a £26 million VCT which invests in companies quoted on AIM.

David Pinckney (63), FCA, MA. He was with Peat Marwick Mitchell & Co. (now KPMG) in London from 1963 to 1968 and from 1969 to 1983 in France. He became a partner in 1975 and Senior Audit Partner of France in 1978. He was then Managing Director of Wrightson Wood Financial Services Limited, where his work involved the provision of advice to companies seeking venture capital. In 1987 he joined Thornton Management Limited, an international equity fund management group with a proportion of funds invested in smaller unquoted companies, first as Group Finance Director and subsequently 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 was also chairman of the AIM quoted Park Row Group PLC.

Jonathan Thornton (56), MA, MBA, FCA, has extensive experience in the management of unquoted investments. He was a director of Close Brothers Group plc from 1984 to 1998 and was responsible for establishing Close Brothers Private Equity Limited, the private equity fund management arm of the 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 20 years he has been a non-executive director of a number of smaller unquoted companies which have raised institutional capital and he is a director of Close Brothers Venture Capital Trust PLC.

THE MANAGER

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

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

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

Patrick Reeve, (43), MA, ACA. He qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined the Close Brothers Group in 1989, initially in the development capital subsidiary, where he was a director specialising in the financing of smaller unquoted companies. He joined the corporate finance division in 1991, where he was also a director. He established Close Venture Management with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

Ole Bettum, (40), BSc, MBA. After three years as a research economist for the Saudi Government, he graduated from Columbia Business School with an MBA. He worked in the corporate finance department of Price Waterhouse from 1994 and joined Close Venture Management in 1996 to help establish its operations.

Henry Stanford, (38), MA, ACA. He qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group in 1992 where he advised smaller quoted and private companies. He became an assistant director in 1996 and transferred to Close Venture Management in 1998 to concentrate on venture capital investment.

Will Fraser-Allen (33), BA (Hons), ACA qualified as an chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Venture Management in 2001.

Emil Gigov, (33), 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 Venture Management in 2000.

THE PORTFOLIO OF INVESTMENTS

Ordinary Shares	At 31 Dec 2003				At 31 Dec 2002	Movement in unrealised appreciation/ (depreciation) £'000
	Equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total value £'000	Unrealised appreciation/ (depreciation) £'000	
Qualifying investments						
Automotive Technik (Holdings) Limited	11%	770	(66)	704	6	(72)
Careforce Group Limited	32%	1,740	709	2,449	602	107
City Screen (Liverpool) Limited	5%	50	–	50	–	–
Consolidated Communications Management Limited	11%	1,000	90	1,090	69	21
Dolphin Nurseries Limited	20%	1,049	297	1,346	145	152
Leisure Links International Limited	26%	1,100	(238)	862	(290)	52
Odyssey Clubs Group Limited	16%	1,737	(306)	1,431	(352)	46
Peakdale Molecular Limited	8%	1,064	(100)	964	–	(100)
The Q Garden Company Limited	17%	566	(299)	267	(23)	(276)
Total qualifying investments		<u>9,076</u>	<u>87</u>	<u>9,163</u>	<u>157</u>	<u>(70)</u>
Non-qualifying investments		–	–	–	–	–
Total investments		<u>9,076</u>	<u>87</u>	<u>9,163</u>	<u>157</u>	<u>(70)</u>

'C' Shares	At 31 December 2003			
	Percentage of equity owned	Invested at cost £'000	Unrealised appreciation/ (depreciation) £'000	Total £'000
Qualifying investments				
Automotive Technik (Holdings) Limited	8%	650	–	650
Careforce Group Limited	6%	910	10	920
City Centres Breweries Limited	21%	600	–	600
Peakdale Molecular Limited	3%	133	(67)	66
Total qualifying investments		<u>2,293</u>	<u>(57)</u>	<u>2,236</u>
Non-qualifying investments				
Barclays FRN		2,003	1	2,004
Bradford & Bingley FRN		1,997	2	1,999
Nationwide FRN		1,998	1	1,999
Total non-qualifying investments		<u>5,998</u>	<u>4</u>	<u>6,002</u>
Total investments		<u>8,291</u>	<u>(53)</u>	<u>8,238</u>

Automotive Technik (Holdings) Limited

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

Careforce Group Limited

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

City Centres Breweries Limited

City Centres Breweries was formed to purchase the Smiles Brewery in central Bristol and thereafter to provide a base for building up an integrated brewery and pub business based in the South West.

City Screen (Liverpool) Limited

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

Consolidated Communications Management Limited

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

Dolphin Nurseries Limited

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

Leisure Links International Limited

Leisure Links owns and operates a golf course at Test Valley in Hampshire.

Odyssey Clubs Group Limited

Odyssey owns a 30,000 sq.ft. health and fitness club on an 11 acre site outside Stevenage, a 20,000 sq.ft. club in Henley and has a 50% stake in a company which owns a 30,000 sq.ft. club on a 6 acre site outside Beaconsfield in Buckinghamshire.

Peakdale Molecular Limited

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

The Q Garden Company Limited

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

REPORT OF THE DIRECTORS

The Directors submit the Report and Accounts of the Company for the year ended 31 December 2003.

Principal activity and status

The principal activity of the Company is that of a venture capital trust. It was approved by the Inland Revenue as a venture capital trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2002. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 December 2003 is subject to review should there be any subsequent enquiry under corporation tax self assessment. The Company is not a close company for taxation purposes. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the year is contained in the Chairman's Statement.

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

Results and dividends

	Ordinary Shares £'000	'C' Shares £'000
Revenue return for the year ended 31 December 2003 available for distribution	590	168
Interim dividend of 1.80 pence per Ordinary Share and 0.75 pence per 'C' Share	(263)	(53)
Final dividend for the year of 2.20 pence per Ordinary Share and 0.90 pence per 'C' Share payable on 5 April 2004 to shareholders on the register at the close of business on 12 March 2004.	(320)	(104)
Transferred from revenue reserves	<u>7</u>	<u>11</u>
Capital loss for the year ended 31 December 2003 transferred to capital reserves	<u>(596)</u>	<u>(240)</u>

Future prospects

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

Directors

The Directors who held office throughout the period, and their interests in the shares of the Company (together with those of their immediate family) at 31 December 2003 were:

	2003		2002	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Roderick Davidson	25,000	–	5,000	–
Jonathan Thornton	20,000	–	10,000	–
David Pinckney	5,000	–	5,000	–
Frank Malcolm	5,000	–	5,000	–

There have been no changes in the holdings of the Directors between 31 December 2003 and the date of this document.

No Director has a service contract with the Company.

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

The Company does not have any employees.

Management agreement

The Company and Close Brothers Investment Limited, of which Close Venture Management, the Manager, is a division, on 24 September 2002 entered into a supplementary management agreement which may be terminated by either party on 12 months' notice. Under this agreement, the Manager 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 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 a secretarial and administration fee of 0.25 per cent. (plus any applicable VAT) per annum of the net asset value of the Company.

Management performance incentive

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

Auditors

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 4 September 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Substantial interests

As at 31 December 2003 the Company was not aware of any beneficial interest exceeding 3 per cent. of the issued share capital.

Statement of directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company, for the system of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that applicable accounting standards have been followed in the financial statements which accompany this report.

Suppliers payment policy

The Company's policy is to pay all suppliers within 30 days of the invoice date, or as otherwise agreed. There were no overdue trade creditors at 31 December 2003 (2002: nil).

Cancellation of Share Premium

A special resolution was passed at an EGM of the Company on 21 October 2002 to petition the High Court to cancel the share premium account relating to 'C' Shares shortly after the final closing. The cancellation of the share premium account took effect on the Court Order being duly registered by the Registrar of Companies on 23 July 2003. It is envisaged that the share premium account on the New 'C' Shares will be cancelled in May 2004.

New 'C' Share Offer

On 16 January 2004 the Company authorised the raising of up to £13.2 million through an issue of New 'C' Shares.

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

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

Annual General Meeting

The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT on 5 April 2004 at 11 a.m. The notice of the Annual General Meeting is at the end of this document. A resolution will be proposed as special business at the Annual General Meeting for the following purpose:

Purchase of own shares

A special resolution, number 5 in the notice of meeting, will give the Company authority to purchase in the market and cancel up to 1,452,901 of the Company's Ordinary issued shares and 1,171,865 'C' issued shares (equivalent to 10 per cent. of the share capital currently in issue).

Purchases of shares will be made within guidelines established from time to time by the Board, but only if it is considered that such purchases would be to the advantage of the Company and its shareholders taken as a whole. Purchases will only be made in the market for cash at prices below the prevailing net asset value per Ordinary Share. Under the rules of the London Stock Exchange the maximum price which can be paid by the Company is 5 per cent. above the average of the relevant market value of the shares for the five business days preceding the purchase. Shares which are purchased will be cancelled. In making purchases the Company will deal only with member firms of the London Stock Exchange. Purchases of shares will be funded from distributable reserves. To the extent that the Company purchases shares at a discount to net asset value, the net asset value of the remaining shares in issue will increase.

By Order of the Board,

F K Malcolm
Director
10 Crown Place
London EC2A 4FT

26 February 2004

STATEMENT OF CORPORATE GOVERNANCE

Background

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

Application of the Principles of the Code

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

Board of directors

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

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

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

Remuneration Committee

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

Audit Committee

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

Nomination Committee

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

Internal control

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

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

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

Going concern

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

Statement of compliance

The Directors consider that the Company has complied throughout the year ended 31 December 2003 with all the relevant provisions set out in Section 1 of the Code on Corporate Governance issued by the Financial Services Authority. The Company continues to comply with the Code as at the date of this report.

DIRECTORS REMUNERATION REPORT

Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2003.

Remuneration Committee

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

Directors' remuneration policy

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

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

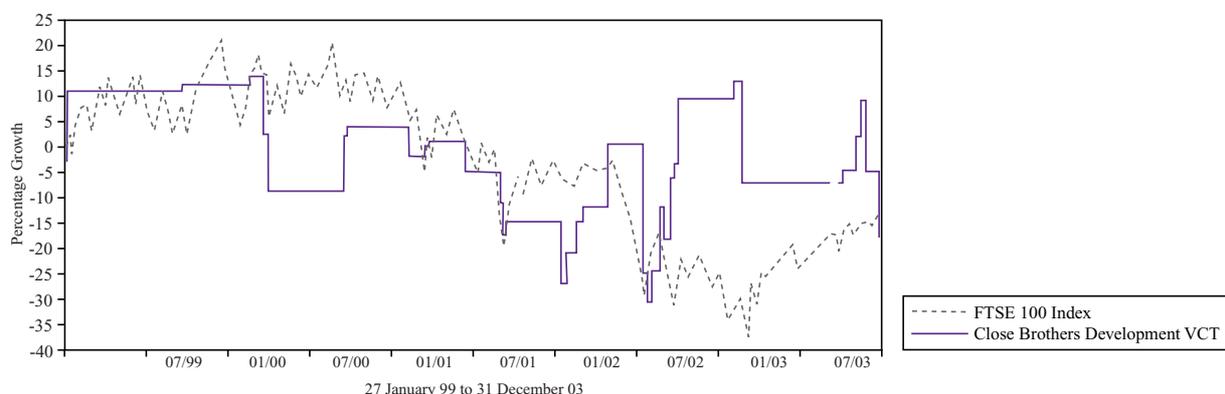
Approval to alter the Articles of Association was received on 21 October 2002 providing for aggregate non-executive directors' fees not to exceed £100,000 per annum. In the forthcoming year the directors will each receive an increase in their current fee equal to 0.045 per cent. of the total funds raised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

Performance graph

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

The directors consider it inappropriate to provide a graph showing the performance of the 'C' Shares in light of the fact that funds are still being raised.

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



Service contracts

No director has a service contract with the Company.

Directors' remuneration

The following items have been audited.

The following table shows an analysis of the remuneration of individual directors.

	Year ended 31 December 2003			Year ended 31 December 2002		
	Fees £'000	Expenses £'000	Total £'000	Fees £'000	Expenses £'000	Total £'000
Roderick Davidson	17	–	17	12	–	12
Jonathan Thornton	17	–	17	12	–	12
David Pinckney	17	–	17	12	–	12
Frank Malcolm	17	2	19	12	3	15
	<u>68</u>	<u>2</u>	<u>70</u>	<u>48</u>	<u>3</u>	<u>51</u>

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

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

In addition to directors' remuneration, the Company pays annual premiums in respect of directors' liability insurance.

By Order of the Board

F K Malcolm
Director

26 February 2004

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 2003 which comprise the statement of total return, the balance sheet, 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 part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that

the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and the total return for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
London

26 February 2004

Close Brothers Development VCT PLC
Statement of Total Return (incorporating the revenue account)
for the year to 31 December 2003

	Notes	Ordinary Shares Year ended 31 December 2003			'C' Shares Period ended 31 December 2003			Total Year ended 31 December 2003		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	1 & 2	–	(443)	(443)	–	(65)	(65)	–	(508)	(508)
Income	3	976	–	976	347	–	347	1,323	–	1,323
Investment management fees	1 & 4	(67)	(201)	(268)	(65)	(194)	(259)	(132)	(395)	(527)
Other expenses	1 & 5	(93)	(26)	(119)	(75)	(24)	(99)	(168)	(50)	(218)
Return on ordinary activities before tax		816	(670)	146	207	(283)	(76)	1,023	(953)	70
Tax on ordinary activities	7	(226)	74	(152)	(39)	43	4	(265)	117	(148)
Return attributable to equity shareholders		590	(596)	(6)	168	(240)	(72)	758	(836)	(78)
Dividends	8	(583)	–	(583)	(157)	–	(157)	(740)	–	(740)
Transfer to/(from) reserves		7	(596)	(589)	11	(240)	(229)	18	(836)	(818)
Return per share	9	4.0p	(4.0)p	(0.0)p	1.8p	(2.5)p	(0.7)p	2.9p	(3.2)p	(0.3)p

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

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued in the year.

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

	Notes	Ordinary Shares Year ended 31 December 2002			'C' Shares Period ended 31 December 2002			Total Year ended 31 December 2002		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	1 & 2	–	(1,771)	(1,771)	–	–	–	–	(1,771)	(1,771)
Income	3	1,059	–	1,059	4	–	4	1,063	–	1,063
Investment management fees	1 & 4	(77)	(231)	(308)	(3)	(7)	(10)	(80)	(238)	(318)
Other expenses	1 & 5	(113)	(29)	(142)	(4)	(1)	(5)	(117)	(30)	(147)
Return on ordinary activities before tax		869	(2,031)	(1,162)	(3)	(8)	(11)	886	(2,039)	(1,173)
Tax on ordinary activities	7	(227)	68	(159)	–	2	2	(227)	70	(157)
Return attributable to equity shareholders		642	(1,963)	(1,321)	(3)	(6)	(9)	639	(1,969)	(1,330)
Dividends	8	(660)	–	(660)	–	–	–	(660)	–	(660)
Transfer from reserves		(18)	(1,963)	(1,981)	(3)	(6)	(9)	(21)	(1,969)	(1,990)
Return per share	9	4.4p	(13.4)p	(9.0)p	(0.2)p	(0.4)p	(0.6)p	3.7p	(11.5)p	(7.8)p

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

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

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued in the year.

Close Brothers Development VCT PLC
Balance Sheet at 31 December 2003

	Notes	Ordinary Shares 31 December 2003 £'000	'C' Shares 31 December 2003 £'000	Total 31 December 2003 £'000
Fixed asset investments				
Qualifying		9,163	2,236	11,399
Non-qualifying		–	6,002	6,002
Total fixed asset investments	10	9,163	8,238	17,401
Current assets				
Debtors	12	35	51	86
Cash		2,468	2,792	5,260
		2,503	2,842	5,346
Creditors: due within one year	13	(580)	(200)	(763)
Net current assets		1,923	2,642	4,583
Net assets		11,086	10,880	21,984
Represented by:				
Called up share capital	14	7,264	5,859	13,123
Share premium	15	48	–	48
Special reserve	15	6,416	5,259	11,675
Capital redemption reserve	15	120	–	120
Capital reserve	15			
<i>realised</i>		(2,166)	(182)	(2,348)
<i>unrealised</i>		(666)	(64)	(730)
Revenue reserve	15	70	8	96
Total equity shareholders' funds	17	11,086	10,880	21,984
Net asset value per share	16	76.3p	92.8p	83.8p

The financial statements on pages 21 to 40 were approved by the Board of Directors on 26 February 2004.

Signed on behalf of the Board of Directors.

Roderick Davidson
Chairman

Close Brothers Development VCT PLC
Balance Sheet at 31 December 2002

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

Close Brothers Development VCT PLC
Cash Flow Statement
for the year ending 31 December 2003

	Notes	Ordinary Shares Year ended 31 December 2003 £'000	'C' Shares Period ended 31 December 2003 £'000	Total Year ended 31 December 2003 £'000
Operating activities				
Investment income received		860	118	978
Deposit interest received		67	173	240
Investment management fees paid		(272)	(205)	(477)
Other cash payments		(128)	(88)	(216)
Net cash inflow/(outflow) from operating activities	19	527	(2)	525
Taxation				
UK corporation tax paid		(155)	–	(155)
Capital expenditure and financial investments				
Purchase of qualifying investments		(698)	(2,293)	(2,991)
Purchase of non-qualifying investments		–	(5,998)	(5,998)
Disposal of qualifying investments		1,500	–	1,500
Disposals of non-qualifying investments		1,355	–	1,355
Net cash inflow/(outflow) from investing activities		2,157	(8,291)	(6,134)
Equity dividends paid				
Dividends paid on Ordinary Shares		(658)	(53)	(711)
Net cash inflow/(outflow) before financing		1,871	(8,346)	(6,475)
Financing				
Issue of equity net of expenses		–	9,665	9,665
Cancellation of shares		(97)	–	(97)
Cost of share premium cancellation		–	(14)	(14)
Net cash (outflow)/inflow from financing		(97)	9,651	9,554
Increase in cash	18	1,774	1,305	3,079

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

Close Brothers Development VCT PLC
Notes to the financial statements
For the year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable UK law and accounting standards and with the new Statement of Recommended Practice “Financial Statements of Investment Trust Companies” (SORP) in all material aspects. There has been no significant change resulting from the application of the new SORP. The particular accounting policies adopted are described below.

Accounting convention

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

Capital reserves

Realised reserves

The following are accounted for in this reserve:

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

Unrealised reserve

The following are accounted for in this reserve:

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

Special reserve

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

Investments

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

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

Income and expenses

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

Close Brothers Development VCT PLC

Notes to the financial statements (continued)

Management, secretarial and administrative expenses

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

Taxation

Taxation associated to capital expenses is applied in accordance with recommended practice.

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

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

'C' Shares

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

2. Gains/(losses) on investments

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Realised (losses)/gains	(144)	–	2	–
Unrealised losses	(299)	(65)	(1,773)	–
	<u>(443)</u>	<u>(65)</u>	<u>(1,771)</u>	<u>–</u>

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

3. Income

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Income from investments				
UK unfranked investment income	488	162	671	—
Redemption premium	421	12	363	—
	<u>909</u>	<u>174</u>	<u>1,034</u>	<u>—</u>
Other income				
Deposit income	67	173	25	4
	<u>67</u>	<u>173</u>	<u>25</u>	<u>4</u>
Total income	<u>976</u>	<u>347</u>	<u>1,059</u>	<u>4</u>
Total income comprises:				
Interest	555	335	696	4
Redemption premium	421	12	363	—
	<u>976</u>	<u>347</u>	<u>1,059</u>	<u>4</u>
Total income	<u>976</u>	<u>347</u>	<u>1,059</u>	<u>4</u>
Income from investments:				
Listed	5	145	78	—
Unlisted	904	29	956	—
	<u>909</u>	<u>174</u>	<u>1,034</u>	<u>—</u>
Total income from investments	<u>909</u>	<u>174</u>	<u>1,034</u>	<u>—</u>

4. Investment management fee

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Charged to revenue	67	65	77	3
Charged to capital	201	194	231	7
	<u>268</u>	<u>259</u>	<u>308</u>	<u>10</u>
Total	<u>268</u>	<u>259</u>	<u>308</u>	<u>10</u>

Total management fees for the year ended 2003 include irrecoverable VAT amounting to approximately £78,000, (2002: £47,000). Further details of the Management Agreement under which the investment management fee is paid are given in the Report of the Directors.

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

5. Other expenses

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Secretarial and Administrative fee	34	32	38	2
Directors' fees	42	33	56	2
Auditors' remuneration – audit fees	9	7	14	–
Other	34	27	34	1
Less: charged to capital	(26)	(24)	(29)	(1)
	<u>93</u>	<u>75</u>	<u>113</u>	<u>4</u>

6. Directors' fees

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

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Directors' fees	38	30	46	2
National Insurance and/or VAT	3	2	7	–
Expenses	1	1	3	–
	<u>42</u>	<u>33</u>	<u>56</u>	<u>2</u>

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

Further information regarding directors' remuneration can be found on the Directors' Remuneration Report.

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

7. Tax on ordinary activities

	Year ended 31 December 2003			Year ended 31 December 2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 30%	148	–	148	157	–	157
Tax attributable to capital expenses	117	(117)	–	70	(70)	–
	<u>265</u>	<u>(117)</u>	<u>148</u>	<u>227</u>	<u>(70)</u>	<u>157</u>

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

	Year ended 31 December 2003			Year ended 31 December 2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit before taxation	1,023	(953)	70	866	(2,039)	(1,173)
Tax on profit at the standard rate	307	(286)	21	260	(612)	(352)
Factors affecting the charge						
Losses on investments	–	152	152	–	531	531
Fractional relief	(42)	17	(25)	(33)	11	(22)
	<u>265</u>	<u>(117)</u>	<u>148</u>	<u>227</u>	<u>(70)</u>	<u>(157)</u>

Notes

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

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

8. Dividends

	Year ended 31 December 2003 £'000		Year ended 31 December 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Dividends on equity shares:				
Interim paid of 1.80p per Ordinary Share (2002: 1.80p) and 0.75p per 'C' Share (2002: nil)	263	53	264	—
Final proposed of 2.20p per Ordinary Share (2002: 2.70p) and 0.90p per 'C' Share (2002: nil)	320	104	396	—
Total dividends	<u>583</u>	<u>157</u>	<u>660</u>	<u>—</u>

9. Return per share

	Year ended 31 December 2003			Year ended 31 December 2002		
	Revenue	Capital	Total	Revenue	Capital	Total
Ordinary Shares	4.0 pence	(4.0) pence	(0.0) pence	4.4 pence	(13.4) pence	(9.0) pence
'C' Shares	1.8 pence	(2.5) pence	(0.7) pence	(0.2) pence	(0.4) pence	(0.6) pence

Ordinary Shares

Revenue return per share is based on the net revenue profit on ordinary activities after taxation but before deduction of dividends and other appropriations of £590,000 (2002: £642,000) in respect of the weighted number of shares in issue during the year, being 14,587,080 shares (2002: 14,623,692 shares).

Capital return per ordinary share is based on net capital loss for the financial year of £596,000 (2002: £1,963,000) and based on the same weighted average number of shares as for revenue return shown above.

'C' Shares

Revenue return per share is based on the net revenue profit on ordinary activities after taxation but before deduction of dividends and other appropriations of £168,000 (2002: loss of £3,000) in respect of the weighted number of shares in issue during the period, being 9,437,908 shares (2002: 1,511,548).

Capital return per ordinary share is based on net capital loss for the financial period of £240,000 (2002: £6,000) and based on the same weighted average number of shares as for revenue return shown above.

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

10. Investments

	31 December 2003 £'000	31 December 2002 £'000
Ordinary shares		
Investments listed on a recognised investment exchange	–	1,499
Qualifying unlisted investments	9,163	10,193
Total	<u>9,163</u>	<u>11,692</u>

	Qualifying unlisted £'000	Listed £'000	Total £'000
Valuation basis			
Opening valuation: 1 January 2003	10,193	1,499	11,692
Purchases at cost	698	–	698
Disposal			
– proceeds	(1,355)	(1,500)	(2,855)
– realised (loss)/profit	(145)	1	(144)
Redemption premium appreciation in the year	71	–	71
Unrealised depreciation in the year	(299)	–	(299)
	<u>9,163</u>	<u>–</u>	<u>9,163</u>
Closing valuation: 31 December 2003			
Opening unrealised depreciation	(776)	–	(776)
Redemption premium appreciation in the year	71	–	71
Impairment	1,091	–	1,091
Depreciation of investments in the year	(299)	–	(299)
Closing unrealised appreciation	<u>87</u>	<u>–</u>	<u>87</u>
<i>Closing unrealised depreciation represented by:</i>			
Accumulated redemption reserve	753	–	753
Unrealised depreciation	(666)	–	(666)
	<u>87</u>	<u>–</u>	<u>87</u>
Historical cost basis			
Opening book cost	10,969	1,499	12,468
Impairment	(1,091)	–	(1,091)
Additions at cost	698	–	698
Disposals at cost	(1,500)	(1,499)	(2,999)
Closing book cost	<u>9,076</u>	<u>–</u>	<u>9,076</u>

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

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

10. Investments (continued)

	31 December 2003 £'000	31 December 2002 £'000	
'C' Shares			
Investments listed on a recognised investment exchange	6,002	–	
Qualifying unlisted investments	2,236	–	
Total	<u>8,238</u>	<u>–</u>	
	Qualifying unlisted £'000	Listed £'000	Total £'000
Valuation basis			
Opening valuation: 1 January 2003	–	–	–
Purchases at cost	2,293	5,998	8,291
Disposal			
– proceeds	–	–	–
– realised profit	–	–	–
Redemption premium appreciation in the year	12	–	12
Unrealised depreciation in the year	(69)	4	(65)
	<u>2,236</u>	<u>6,002</u>	<u>8,238</u>
Closing valuation: 31 December 2003			
Opening unrealised appreciation	–	–	–
Redemption premium appreciation in the year	12	–	12
(Depreciation)/appreciation of investments in the year	(69)	4	(65)
Closing unrealised depreciation	<u>(57)</u>	<u>4</u>	<u>(53)</u>
<i>Closing unrealised depreciation represented by:</i>			
Accumulated redemption reserve	12	–	12
Unrealised depreciation	(69)	4	(69)
	<u>(57)</u>	<u>4</u>	<u>(53)</u>
Historical cost basis			
Opening book cost	–	–	–
Additions at cost	2,293	5,998	8,291
Disposals at cost	–	–	–
Closing book cost	<u>2,293</u>	<u>5,998</u>	<u>8,291</u>

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

11. Significant interests

Details of investments in which the company has an interest of 3% or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows. It is considered that, as permitted by FRS9, the below investments are held as part of an investment portfolio and their value to the Company is through their marketable value as part of a portfolio of investments. Therefore, the investments are not considered to be associated undertakings.

	Percentage of ordinary share capital	Country of incorporation
Careforce Group Limited	38%	United Kingdom
Leisure Links International Limited	26%	United Kingdom
City Centres Breweries Limited	21%	United Kingdom
Dolphin Nurseries Limited	20%	United Kingdom
Automotive Technik (Holdings) Limited	19%	United Kingdom
Odyssey Clubs Group Limited	16%	United Kingdom
Consolidated Communications Management Limited	11%	United Kingdom
Peakdale Molecular Limited	11%	United Kingdom
City Screen (Liverpool) Limited	5%	United Kingdom

All shares are 'Ordinary' shares with voting rights

Name and Activity	Basis of Valuation	Unaudited results		
		Capital and reserves £'000	Profit/ (Loss) after taxation £'000	Income received and accrued over the year £'000
Careforce Group Limited Domiciliary care provider. Year end July 2003	Directors' Valuation	511	32	189
Leisure Links International Limited Golf course owner and operator. Year end March 2003	Directors' Valuation	311	(717)	108
City Centre Brewery Limited* As a newly incorporated company, City Centres Breweries has not yet filed audited accounts	Cost	n/a	n/a	4
Dolphin Nurseries Limited Operator of children's nurseries. Year end September 2003	Directors' Valuation	874	(371)	56

The investment was made in December 2003 thus no figures are available.

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

12. Debtors

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Prepayments and accrued income	23	45	10	–
Debtors	12	6	51	862
Provision for bad debts	–	–	(13)	–
	<u>35</u>	<u>51</u>	<u>48</u>	<u>862</u>

13. Creditors: amounts falling due within one year

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
UK corporation tax payable	155	–	159	(2)
Proposed dividend	320	104	396	–
Other creditors	105	96	108	31
	<u>580</u>	<u>200</u>	<u>663</u>	<u>29</u>

14. Share Capital

	31 December 2003	31 December 2002
	£'000	£'000
Ordinary Shares		
Authorised:		
25,000,000 Ordinary Shares of 50p each	<u>12,500</u>	<u>12,500</u>
Allotted, called-up and fully-paid:		
14,529,012 Ordinary Shares of 50p each (2002: 14,666,512 Ordinary Shares of 50p each)	<u>7,264</u>	<u>7,333</u>
'C' Shares		
Authorised:		
25,000,000 'C' Ordinary Shares of 50p each	<u>12,500</u>	<u>12,500</u>
Allotted, called-up and fully-paid:		
11,718,656 'C' Ordinary Shares of 50p each (2002: 2,451,474 'C' Shares of 50p each)	<u>5,859</u>	<u>1,226</u>

During the year the Company issued 9,267,182 'C' shares at 100 pence per share each with a nominal value of 50 pence per share. Issue costs of 5 pence per share have been taken against the share premium account in accordance with FRS 4.

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

15. Reserves

	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000
Ordinary shares						
Beginning of year	48	6,513	51	(779)	(1,458)	63
Impairment	–	–	–	(1,090)	1,090	–
Issue of equity net of expenses	–	(97)	69	–	–	–
Losses on investments	–	–	–	(145)	(298)	–
Capitalised expenses net of tax	–	–	–	(152)	–	–
Retained net revenue	–	–	–	–	–	7
End of year	<u>48</u>	<u>6,416</u>	<u>120</u>	<u>(2,166)</u>	<u>(666)</u>	<u>70</u>

	Share premium £'000	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000
'C' Shares						
Beginning of year	1,103	–	–	(6)	–	(3)
Issue of equity net of expenses	4,170	–	–	–	–	–
Cancellation of share premium	(5,273)	5,273	–	–	–	–
Cost of share premium cancellation	–	(14)	–	–	–	–
Losses on investments	–	–	–	–	(64)	–
Capitalised expenses net of tax	–	–	–	(176)	–	–
Retained net revenue	–	–	–	–	–	11
End of year	<u>–</u>	<u>5,259</u>	<u>–</u>	<u>(182)</u>	<u>(64)</u>	<u>8</u>

16. Net asset value per share

The net asset values per share at the year end calculated in accordance with the Articles of Association were as follows, based upon 14,529,012 Ordinary Shares and 11,718,656 'C' Shares in issue at 31 December 2003, (2002: 14,666,512 Ordinary Shares and 2,451,474 'C' Shares)

	31 December 2003		31 December 2002	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Net asset value per share attributable	76.3 pence	92.8 pence	80.3 pence	94.6 pence

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

16. Net asset value per share (continued)

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

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Total assets attributable at beginning of the year	11,771	2,320	13,651	–
Issue of equity net of expenses	–	8,803	101	2,329
Cancellation of own shares	(96)	–	–	–
Cost of share premium cancellation	–	(14)	–	–
Total return for the year	(6)	(72)	(1,321)	(9)
Dividends appropriated in the year	(583)	(157)	(660)	–
Total net assets attributable at end of year	<u>11,086</u>	<u>10,880</u>	<u>11,771</u>	<u>2,320</u>

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

17. Reconciliation of movements in shareholders' funds

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Opening shareholders' funds	11,771	2,320	13,651	–
Increase in share capital	–	4,632	53	1,226
Increase in share premium	–	4,171	48	1,103
Cost of share premium cancellation	–	(14)	–	–
Redemption of own shares	(96)	–	–	–
Total return to shareholders before dividends	(6)	(72)	(1,321)	(9)
Dividends	(583)	(157)	(660)	–
Closing shareholders' funds	<u>11,086</u>	<u>10,880</u>	<u>11,771</u>	<u>2,320</u>

18. Analysis of changes in cash during the year

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Beginning of the year	694	1,487	448	–
Net cash inflow	1,774	1,305	246	1,487
End of the year	<u>2,468</u>	<u>2,792</u>	<u>694</u>	<u>1,487</u>

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

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

	31 December 2003		31 December 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Net revenue before finance costs and taxation	816	207	869	(3)
Investment management fee charged to capital	(201)	(194)	(231)	(7)
Other expenses charged to capital	(26)	(24)	(29)	(1)
Increase in redemption premium	(72)	(12)	(363)	–
Decrease/(increase) in debtors	13	(43)	38	(1)
Increase/(decrease) in creditors	(3)	64	52	16
Tax on investment income	–	–	–	–
Net cash inflow/(outflow) from operating activities	<u>527</u>	<u>(2)</u>	<u>336</u>	<u>4</u>

20. Financial instruments and risk management

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

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

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

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

- interest rate risk; and
- market price risk.

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

Borrowing facilities

The Company had no committed borrowing facilities as at 31 December 2003 (2002: nil).

Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 31 December 2003 are stated at fair value as determined by the directors, unless otherwise stated. See note 1 of the financial statements.

Interest rate risk

It is the Company's policy to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced profit before tax for the period to 31 December 2003 by approximately 10 per cent, (2002: 11 per cent.)

Close Brothers Development VCT PLC

Notes to the financial statements (continued)

20. Financial instruments and risk management (continued)

The Company's financial assets at 31 December 2003, all denominated in sterling, consist of the following;

	31 December 2003				31 December 2002			
	Fixed Rate £'000	Floating Rate £'000	Interest Free £'000	Total £'000	Fixed Rate £'000	Floating Rate £'000	Interest Free £'000	Total £'000
Ordinary Shares	494	7,418	3,087	10,999	235	9,238	3,690	13,163
'C' Shares	875	9,352	724	10,951	–	1,487	–	1,487
Total	1,369	16,770	3,811	21,950	235	10,725	3,690	14,650

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 7%. The weighted average period to maturity for the fixed rate assets is approximately two and a half years for the Ordinary Shares and approximately five years for the 'C' Shares (2002: three years for the Ordinary Shares and nil in respect of the 'C' Shares).

Foreign currency exposure risk

As at 31 December 2003 the Company had no foreign currency exposures (2002: nil).

Market price risk

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

Investment risk

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

21. Contingencies, guarantees and financial commitments

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

22. Post balance sheet events

Since 31 December 2003 the Company has entered into the following transactions.

- Invested £130,000 from the Ordinary Shares and £540,000 from the 'C' Shares into The Bold Pub Company, a group of pubs in the North West of England.
- Invested a further £16,500 from the Ordinary Shares into The Q Garden Company Limited.

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Close Brothers Development VCT PLC will be held at 11 a.m. at 10 Crown Place, London EC2A 4FT on 5 April 2004 for the purpose of dealing with the following business, of which item 5 is special business.

Ordinary Business

1. To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 31 December 2003.
2. To reappoint Deloitte & Touche LLP as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
3. To declare a final dividend of 2.20 pence net per Ordinary Share of 50p each and 0.90 pence net per 'C' Share of 50p each for the year ended 31 December 2003 payable to shareholders on the register at the close of business on 12 March 2004.
4. To approve the directors' remuneration report for the year ended 31 December 2003.

Special Business

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

5. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985), of Ordinary Shares of 50p each in the capital of the Company ("Shares") provided that:
 - (a) the maximum aggregate number of shares authorised to be purchased is 1,452,901 Ordinary Shares and 1,171,865 'C' Shares (representing 10 per cent of the current issued share capital of each class);
 - (b) the minimum price which may be paid for a share is 50p;
 - (c) the maximum price which may be paid for a share is an amount equal to 5 per cent above the average of the middle market quotations for that share in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased;
 - (d) this authority expires at the conclusion of the next Annual General Meeting of the Company or eighteen months from the date of the passing of this resolution whichever is earlier; and
 - (e) the Company may make a contract or contracts to purchase shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

Catherine Kinnear
Secretary
Registered Office
10 Crown Place, London EC2A 4FT

Date: 26 February 2004

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. The register of interests of directors kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.
4. No director has a service contract or contract for services with the Company.
5. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered in the register of members of the Company as at 10 a.m on 3 April 2004 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 10 a.m. on 3 April 2004 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Company's existing Articles of Association are available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until close of business on 5 April 2004 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.

