

**CLOSE BROTHERS  
AIM VCT PLC**

**Annual Report  
for the year to  
28 February 2002**



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**CLOSE BROTHERS AIM VCT PLC**

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**DIRECTORS AND ADMINISTRATION**

<b>Directors</b>	M A F Reeve FCA, Chairman R J Smith F K Malcolm S J Hazell-Smith
<b>Investment Manager</b>	Close Investment Limited 12 Appold Street London EC2A 2AW Tel: 020 7426 4000
<b>Secretary and Registered Office</b>	J M Gain 12 Appold Street London EC2A 2AW
<b>Company Administration</b>	Close Venture Management 12 Appold Street London EC2A 2AW
<b>Registrar</b>	Capita IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ Tel: 020 8478 8241
<b>Auditors</b>	Deloitte & Touche Stonecutter Court 1 Stonecutter Street London EC4A 4TR
<b>Safe Custodians</b>	RBSI Custody Bank Ltd Liberte House 19-23 La Motte Street St Helier Jersey JE4 5RL  Capita Trust Company Ltd Guildhall House 81-87 Gresham Street London EC2V 7QE

**CLOSE BROTHERS AIM VCT PLC**

**FINANCIAL HIGHLIGHTS**

	<b>Ordinary Shares</b>	<b>C Shares</b>
	<b>Year to 28 February 2002</b>	<b>Year to 28 February 2002</b>
Total return per share	(23.97) pence	(6.02) pence
Net dividends per share	4.00 pence	2.00 pence
Net asset value per share	86.97 pence	86.49 pence
Net assets	£8.73 million	£17.30 million

**Shareholder value per share since launch (per £1 paid per share excluding tax benefits):**

Gross dividends for the period to 28 February 1999*	3.75 pence	-
Net dividends for the year to 29 February 2000	12.25 pence	-
Net dividends for the year/period to 28 February 2001	32.25 pence	1.25 pence
Net revenue dividends for the year to 28 February 2002	0.50 pence	2.00 pence
Net capital dividend for the year to 28 February 2002	3.50 pence	-
Net asset value at 28 February 2002	<u>86.97</u> pence	<u>86.49</u> pence
<b>Total</b>	<u><u>139.22</u></u> pence	<u><u>89.74</u></u> pence

\*Dividends paid before 5 April 1999 were paid to qualifying shareholders inclusive of the associated tax credit.

**FINANCIAL CALENDAR**

Ex dividend date	22 May 2002
Record date for final dividends	24 May 2002
Annual General Meeting	26 June 2002
Posting of dividend cheques in respect of the final dividends	27 June 2002
Announcement of interim results for the six months ended 31 August 2002	October 2002
Payment of interim dividends	November 2002

### CAPITAL STRUCTURE

Close Brothers AIM VCT was launched in the Spring of 1998 and raised £10.1 million from private investors through an issue of Ordinary Shares. Between October 2000 and March 2001 a further £20.01 million was raised through an issue of 'C' Shares. The two classes of share will be merged on 31 May 2004 at a conversion ratio determined by a price mechanism related to the respective net assets per share. Until such time each class of share will be treated separately in calculating the return to investors.

### INVESTMENT STRATEGY

The investment strategy of Close Brothers AIM VCT is to allocate approximately 80% of its funds to Qualifying Investments in companies quoted on AIM and the balance of 20% to Non-Qualifying Investments.

#### **Qualifying Investments (circa 80%)**

The policy adopted by the Manager, Close Investment Limited, is to seek to achieve such capital appreciation as is consistent with a prudent approach to investment in companies traded on the AIM which qualify for venture capital trust purposes. It is the Manager's intention to create a broadly based portfolio of investments in companies which have traded for three years or more. Start up companies will usually be avoided.

Funds allocated to Qualifying Investments are invested across a broad portfolio of companies, with an average investment per company of approximately £250,000. The funds allocated to Qualifying Investments by the 'C' shares will be invested in a similarly broad portfolio. All business sectors on AIM are considered for investment by the Manager, subject to the requirement to undertake a qualifying trade and in certain limited circumstances companies which are traded on OFEX.

#### **Non-Qualifying Investments (circa 20%)**

Once its qualifying target has been reached, the Company intends that approximately 20% of its funds will be invested in non-qualifying investments, principally comprising fixed and floating rate securities, financial instruments and money-market deposits with major banks and institutions, with a minimum Moody's long-term debt rating of 'A'.

**CHAIRMAN'S STATEMENT**

A number of unforeseen events occurred in the year to 28 February 2002, which depressed financial markets and contributed to our second year of negative total return. In particular the fall in values of telecommunications, media and technology stocks and the attack on the World Trade Centre created uncertainty and increased fear amongst all investors. Domestic demand came under renewed pressure following the outbreak of foot and mouth disease, which impacted on leisure industries. *These events coupled with a continued fall in business confidence particularly affected sentiment towards smaller companies.* Liquidity shrank as investors sought refuge in cash, bonds and larger, more liquid, equities. The value of UK equities fell for the second year running, the first time since 1973 and 1974.

However, over the period from launch of the Company to the end of the year under review the ordinary share portfolio has substantially outperformed the AIM index. Taking into account realisations (which have largely been distributed as capital dividends) and income dividends, that portfolio has increased by 39% compared with a decrease in the AIM index of 17%. The 'C' share portfolio has fared less well but it too has outperformed the AIM index, with a decrease in value of 10% (if income dividends are added back), compared with a decrease in the AIM index of 48% in the comparable period. In the year to 28 February 2002 the AIM index fell by 36%, while (if dividends are added back), with NAVs at the year end of 87 pence and 86.5 pence respectively, the value of the ordinary and 'C' ordinary share portfolio fell by 24% and 8% respectively.

At the end of the year the ordinary share portfolio was 82.4% invested in qualifying investments and the first tranche of the 'C' share portfolio was 65% invested. The 'C' share portfolio as a whole was 41% invested in qualifying investments, comfortably in line with our target of 80% in three years, and giving us approximately a further eighteen months to invest the balance of the two tranches.

A schedule of our investments is set out on pages 7 to 10 and further comment is contained in the Manager's Report on pages 12 and 13.

**Dividends**

*Your board is not proposing a final revenue dividend for the ordinary shares to add to the 0.5p paid at the interim stage as the level of income has fallen as the portfolio has become more fully invested. In accordance with your Board's policy of as far as possible distributing by way of capital dividends the net profit on realisations as they occur, the Board has proposed a final capital dividend of 3.5p per ordinary share. The Board is proposing a final revenue dividend of 1p per 'C' ordinary share to add to the 1p paid at the interim stage. It is proposed that all dividends be paid on 27 June 2002 to shareholders on the register on 24 May 2002.*

**Cancellation of shares**

In my statement last year I commented on the substantial swings in the market price of the ordinary shares in the company which bore no relation to the movement in the underlying net asset value. In the year under review the share price of both the ordinary and 'C' ordinary shares fluctuated much less. Your board exercised its power to acquire 35,000 ordinary shares at an average price of 79p per share and 10,000 'C' Shares at 80p per share which represented a discount of approximately 10% respectively on the net asset value per share. At the forthcoming Annual General Meeting shareholders' consent will again be sought to renew the board's power to make such purchases should it deem it appropriate to do so.

**Outlook**

After two years of negative returns, it might strike shareholders as odd to remark that the outlook for smaller UK companies seems positive, but for a number of reasons I believe that your Company can perform well in the next two years. That is not to say that volatility will not continue to be part of investment life, but the potential for smaller companies to perform substantially better than large ones does exist. Clearly many large companies have significant problems, partly associated with their cost structures, perhaps associated with excessive debt and weak balance sheets but all associated with the problems of growing profits in a less benign economic environment than existed a few years ago.

If that is true for larger companies, might the smallest not also find profits growth difficult? The difference lies at the heart of the case for investing in smaller companies, despite the tax advantages of a VCT. Both the ordinary and C share portfolios comprise many niche companies that have been able to grow their profits in industrial sectors dominated by large companies. The reasons are varied, ranging from price to service levels, response time, product innovation and quality.

The UK economy has not gone into recession as many, at the end of last year, feared. Indeed the World at large has avoided recession not least as a result of low interest rates. The UK consumer has continued to spend, although there are indications that consumer spending may have slowed even before interest rates rise. For the next year or so inflation seems set to stay at an acceptably low level, despite the recent rises in commodity prices. Although the next movement in UK interest rates may be upwards it is not expected to be a sharp rise. The general background is one of economic stability and modest GDP growth.

It is precisely in those conditions that small companies, with the virtues to which I have referred earlier, prosper. Smaller companies have the chance to grow at a rate faster than the average, from which it becomes difficult for larger companies to deviate. We do, however, expect conditions to remain challenging and under these conditions both large and small companies can fail, as particularly witnessed in the past year.

Despite the difficult trading conditions of the last two years and the very poor level of investor sentiment many companies in the portfolio have continued to make good progress. That will be recognised in time in their share price ratings. In the next year or so they and other investments should realise the potential which vindicates our original investment decision.



Michael Reeve

Chairman

16 May 2002

## CLOSE BROTHERS AIM VCT PLC

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### THE BOARD OF DIRECTORS

The following are the Directors of the Company, all of whom are independent of the Manager.

**Michael Reeve** (65) FCA is the chairman and senior independent Director of the Company. He is a chartered accountant and was formerly managing director of Greyhound Bank PLC from 1981-1987 and a director of Rea Brothers Group PLC. He is currently chairman of Finsbury Growth Trust PLC and is also a director of Hansa Trust Plc and other companies.

**Roger Smith** (63) BSc (Hons). Roger Smith is chairman of Central Industrial Holdings Limited, a family owned investment company with interests in the retail motor industry, oil distribution, contract cleaning, property and farming. He is also a non-executive chairman of *European Motor Holdings PLC* and is the chairman of the Central Finance Board of the Methodist Church. He has previously been deputy chairman of Tricentrol Plc and chairman of Trimoco Plc and a director of Luton and Dunstable Hospital NHS Trust.

**Francis Malcolm** (58) BSc (Hons). Frank Malcolm joined the Inland Revenue as an Inspector of Taxes in 1967. He left in 1969 and then spent 3 years as an investment analyst with Edinburgh Investment Trust. He has since worked with Brewin Dolphin Securities Limited and its predecessor companies. During that time he has been successively head of research and institutional sales and, latterly, a director in the corporate finance department. He is also a director of Close Brothers Development VCT PLC, Edinburgh Income and Value Trust PLC and UK Balanced Property Trust Limited.

**Stephen Hazell-Smith** (48) was until September 2001 the managing director of Close Investment Limited. Prior to this he gained experience of investment in smaller companies at GT Investment Management where he was responsible for launching its first UK smaller companies portfolio known as the UK Equity Fund. He also worked at Mercury Asset Management from 1989 to 1992.

### THE MANAGER

Close Investment Limited (CIL) was formerly called Rutherford Asset Management Limited (RAML) prior to its purchase by the Close Brothers Group in 1997. Rutherford was established in June 1992 to specialise in investment in small and unquoted companies and played a leading role in the establishment of AIM. In addition to the Close Brothers AIM VCT, Close Investment Limited advise the Close Beacon Investment Fund (formerly Beacon Investment Trust), the Close Accelerated Taper Service and certain re-investment relief funds invested on AIM.

The senior executives of Close Investment Limited are as follows:

#### **Andrew Buchanan (50)**

Andrew Buchanan joined Barclays Bank to manage investment portfolios in 1973. After gaining an MBA from London Business School, he joined Performance Analysis Services in 1980 specialising in quantitative investment analysis. In 1985, he moved to Mercury Asset Management, where he managed UK equities for a range of pension funds. In 1988 he joined the research department of Hoare Govett before moving to Klesch & Company in 1992. He moved to RAML in 1993 and has been responsible for managing Beacon since its establishment in 1994. In addition, Andrew Buchanan manages the six series of Reinvestment Relief Portfolios which invest in AIM and OFEX companies.

#### **Kate Tidbury (39)**

Kate Tidbury joined Sheppards and Chase as a trainee investment analyst in 1986. From 1987 to 1991 she was a smaller company analyst at Panmure Gordon before moving into fund management in 1992. From 1993 to 2000 she managed specialist ethical and small and mid-cap funds, initially for the Co-operative Bank, and then for Colonial First State Investments after it acquired the Bank's investment division in 1996. She joined CIL in November 2000.

**CLOSE BROTHERS AIM VCT PLC**

**DETAILS OF THE PORTFOLIO OF INVESTMENTS**

The following are the details of qualifying investments on 28 February 2002.

Company and Description	Market Value at 28 February 2002 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>InterLink Foods.</b> Manufacturer of own label cakes for supermarket groups.	635	548	207	430	188,140	162,467	5.0
<b>Fitzhardinge.</b> Provider of real estate solutions to the UK and International property sectors.	265	530	225	450	195,653	391,304	2.1
<b>Zipcom.</b> Provider of telecommunications services.	233	527	450	500	4,908,947	11,095,000	5.6
<b>Pilat Media Global.</b> Software provider for the global multi-channel broadcasting market.	215	430	200	400	1,000,000	2,000,000	6.9
<b>Comeleon.</b> Provider of advanced imaging technologies.	213	426	213	425	128,949	257,898	3.1
<b>Stagecoach Theatre Arts.</b> Operator of part-time performing arts schools for youngsters.	212	423	193	386	207,529	415,058	6.4
<b>MacLellan.</b> Facilities management.	605	-	259	-	680,263	-	1.2
<b>Warthog.</b> Developer of computer games software.	202	402	192	382	429,303	855,814	2.8
<b>Metnor Group.</b> Hot dip galvaniser of steel products.	563	-	218	-	217,865	-	1.4
<b>Mears.</b> Building maintenance contractor to local authorities, the MOD and the private sector.	559	-	79	-	606,062	-	1.1
<b>Inventive Leisure.</b> Bar and nightclub operator.	518	-	261	-	275,000	-	1.4
<b>Deltex Medical Group.</b> Developer of non-invasive heart monitoring devices.	168	335	239	478	956,896	1,913,796	7.8
<b>Oasis Healthcare.</b> Operator of dental practices throughout the UK.	-	471	-	419	-	1,047,535	1.8
<b>Tepnel Life Science.</b> Developer of automated DNA technologies.	133	332	164	409	820,635	2,044,472	3.0

**CLOSE BROTHERS AIM VCT PLC**

Company and Description	Market Value at 28 February 2002 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>Clipper Ventures.</b> Organisers of the Clipper round the world sailing race and other sailing based leisure activities.	294	168	350	250	828,400	471,698	9.7
<b>Clarity Commerce Solutions.</b> Supplier of electronic point of sale software.	-	409	-	386	-	514,522	3.7
<b>Conder Environmental.</b> Manufacture and marketing of pollution control devices.	127	254	212	423	1,060,000	2,115,000	8.5
<b>Honeycombe.</b> Managed pub operator in North West England.	354	-	293	-	532,000	-	1.9
<b>Capcon.</b> Investigation services for the leisure industry.	95	257	108	292	135,000	365,000	6.9
<b>Hartest.</b> Manufacturer and distributor of specialist laboratory equipment.	-	317	-	298	-	3,719,576	2.5
<b>Blooms of Bressingham.</b> Operator of garden centres.	174	130	340	190	267,582	200,000	2.4
<b>Adval.</b> Design and delivery of bespoke training courses for human resources development for major corporations.	139	145	480	438	844,443	877,162	6.7
<b>Ideal Shopping Direct.</b> Sales organisation direct to consumer via catalogue and TV channel.	122	155	269	200	395,000	500,000	3.1
<b>Tandem.</b> Manufacturer and distributor of bicycles.	263	-	250	-	5,000,000	-	2.0
<b>Protec.</b> Development and installation of electronic security and information systems.	94	139	149	195	1,886,101	2,783,000	3.8
<b>Jamies Bars.</b> London based wine bar operator.	197	-	325	-	406,250	-	5.7
<b>Bank Restaurant Group.</b> Restaurant chain operator.	53	106	250	500	1,250,000	2,500,000	8.8
<b>Hearing Enhancement.</b> Developer of the mini-loop system for the hard of hearing.	51	103	125	250	250,000	500,000	7.1
<b>Transport Systems.</b> Supplier of traffic management systems.	125	-	160	-	640,000	-	7.1
<b>Transcomm.</b> The sale and manufacture of mobile data communications.	121	-	288	-	721,000	-	0.7

**CLOSE BROTHERS AIM VCT PLC**

Company and Description	Market Value at 28 February 2002 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>Landround.</b> Organiser of travel promotions and incentives for corporate clients.	121	-	205	-	100,000	-	1.8
<b>Stenoak Associated Services.</b> Supplier of industrial fencing and safety barriers to the road and rail networks.	117	-	93	-	77,718	-	0.4
<b>NMT Group.</b> Developer of medical devices.	105	-	350	-	2,333,333	-	0.2
<b>XKO.</b> Suppliers of business enterprise and e-commerce software and systems integration services.	84	-	251	-	209,000	-	0.7
<b>Maclor.</b> Developer of off-patent medicines and medical devices.	69	-	139	-	102,777	-	0.5
<b>Giardino Group.</b> Owner and operator of cafés and restaurants.	69	-	149	-	119,149	-	0.6
<b>Vianet.</b> Provision of remote monitoring devices for the vending machine industry.	37	-	400	-	308,000	-	1.6
<b>Systems Union.</b> Provision of accounting software internationally.	29	-	46	-	35,471	-	0.1
<b>Topnotch Health Clubs.</b> Health club operator.	26	-	130	-	76,705	-	0.5
<b>Total qualifying investments at 28 February 2002</b>	<b>7,387</b>	<b>6,607</b>	<b>8,262</b>	<b>7,701</b>			

It should be noted that although all investments were originally floated on the AIM or OFEX, some may progress to a full listing. To date the only investments to do so are XKO and Aortech, the latter of which was subsequently disposed of. This does not affect in any way the qualifying status of the holding for the first five years after the move to full listing.

The non-qualifying holdings consist primarily of floating rate note securities, all with a Moody's credit rating of at least 'A'. In addition, any shares quoted on the AIM which are purchased in the secondary market, rank as a non-qualifying investment. Some of the original investments made by your company which were approved for VCT purposes as a qualifying trade at the time of investment by the Inland Revenue, may by the nature of their continuing business activities become a non-qualifying trade.

**CLOSE BROTHERS AIM VCT PLC**

Qualifying investments made after the year end:

Company and Description	Market Value at 14 May 2002 £'000		Book Cost £'000		Holding (shares)	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
1 <sup>st</sup> Dental Laboratories	-	421	-	350	-	1,296,296
Advanced Medical Solutions	-	300	-	300	-	3,529,411
PM Group	-	653	-	450	-	450,000
Avionic Services	-	425	-	350	-	1,666,667
<b>Total as at 14 May 2002</b>	-	<b>1,799</b>	-	<b>1,450</b>		

The following are the details of non-qualifying investments held at 28 February 2002.

Holding	Market Value at 28 February 2002 £'000		Cost £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Citicorp FRN (due April 2003)	-	1,498	-	1,496
Northern Rock FRN (due January 2004)	-	1,498	-	1,499
Nationwide Building Society FRN (due July 2004)	-	1,500	-	1,497
Sunamerica FRN (due April 2005)	995	-	998	-
Deutsche Bank FRN (due June 2005)	-	1,497	-	1,497
Yorkshire Building Society FRN (due October 2005)	-	1,500	-	1,499
Woolwich FRN (due April 2006)	-	1,499	-	1,497
Clarity Commerce Solutions	-	-	-	8
<b>Total as at 28 February 2002</b>	<b>995</b>	<b>8,992</b>	<b>998</b>	<b>8,993</b>

**CLOSE BROTHERS AIM VCT PLC**

**Schedule of Disposals**

**During the year ended 28 February 2002**

**Ordinary Shares**

<i>Company</i>	<b>Qualifying investments</b>		<b>Non-qualifying investments</b>		<b>Gain/(loss)</b>
	<b>Book Cost</b>	<b>Proceeds</b>	<b>Book Cost</b>	<b>Proceeds</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Mears Group	121	741	-	-	620
Inter Link Foods	130	417	-	-	287
Metnor Group	140	378	-	-	238
AorTech International	37	117	-	-	80
RBS FRN	-	-	1,001	1,001	-
Lady in Leisure	354	15	-	-	(339)
RMR Group	348	9	-	-	(339)
	<b>1,130</b>	<b>1,677</b>	<b>1,001</b>	<b>1,001</b>	<b>547</b>

**'C' Shares**

<i>Company</i>	<b>Qualifying investments</b>		<b>Non-qualifying investments</b>		<b>Gain/(loss)</b>
	<b>Book Cost</b>	<b>Proceeds</b>	<b>Book Cost</b>	<b>Proceeds</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Alliance & Leicester FRN	-	-	1,496	1,499	3
Bradford & Bingley FRN	-	-	1,497	1,499	2
Dresdner FRN	-	-	1,498	1,498	-
Bayersriche FRN	-	-	1,498	1,498	-
Monotub Industries	325	16	-	-	(309)
	<b>325</b>	<b>16</b>	<b>5,989</b>	<b>5,994</b>	<b>(304)</b>

**Post year ended 28 February 2002**

**Ordinary Shares**

<i>Company</i>	<b>Qualifying investments</b>		<b>Non-qualifying investments</b>		<b>Gain/(loss)</b>
	<b>Book Cost</b>	<b>Proceeds</b>	<b>Book Cost</b>	<b>Proceeds</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Metnor Group	10	24			14
Interlink Foods PLC	28	106			78
	<b>38</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>92</b>

## MANAGER'S REVIEW

### Portfolio

Against the background of a generally poor stockmarket and a difficult environment for new issues, the year was surprisingly busy, with the majority of successful fund raisings governed by the need for tax driven funds to keep investing. There was a lull during the summer months, but things picked up in the Autumn and the flow of VCTable issues continued until Christmas. This was despite the events of September 11, although many of the fund raisings were from existing companies where the shock of September on top of several poor months trading precipitated the decision to seek funds. These secondary issues were of mixed quality, but tended to be priced more cheaply than new flotations, many of which were still commanding higher valuations than comparatives in the market warranted. The pressure of VCT funds to invest that we highlighted a year ago has helped the smaller end of the market. Its tendency to push prices higher has now eased as the market for raising new VCT funds has been more difficult during the year.

In terms of performance, the fund has tended to polarise into the 'old economy' profitable companies whose shares have done well this year and the 'new economy' companies whose share prices have struggled, especially those needing funds. Hence, in the ordinary share portfolio the good performers have been Mears and MacLellan, both of which, having been re-rated as outsourcing and support services, have gathered supporters and Metnor and Inventive Leisure which have produced good individual performances. Interlink Foods, which is in both portfolios, has performed well on the back of some well priced acquisitions. TCTi, an investment first made at the beginning of 2000 illustrates the difficulty of a technology company without significant sales that needs cash. The company failed despite a pick up in orders and a proven technology. In the light of difficult market conditions the decision to keep some sort of balance in the portfolio has paid off in relative terms even if it is disappointing to report a negative absolute return for the year.

The 'C' share portfolio tended to have newer investments and so missed some of the performance from more mature investments although it also held Interlink Foods. Overall, the portfolio performed better than the ordinaries because of the high levels of cash. On a more positive note, we have continued to take profits in our successes in the ordinary portfolio and are confident that the companies we have reinvested the money in should perform in the fullness of time. It is still early days for most of the investments in the 'C' share portfolio.

### Portfolio Activity

#### Ordinary Shares

The portfolio is listed on pages 7 to 9 and consists of 36 holdings at a cost of £8.3 million. At the end of the period it was 82% invested in qualifying holdings. During the year the fund made 12 new qualifying investments, 7 in the first half and 5 in the second half. Of the four in the second half, three are new flotations on AIM. They include Stagecoach Theatre Arts, a franchise theatre school which trained the star of Billy Elliott, Deltex, a medical devices company with a non invasive technique for monitoring cardiac output and Pilat Media, a company selling television broadcasting software to the likes of B Sky B. Stagecoach is well established and profitable, Pilat should be able to turn profitable this year, and Deltex has the opportunity to address a large market although profitability is further into the future. The encouraging thing from a VCT investor's perspective is that the valuation of the last two was considerably below what it would have been 12 months previously and hence the risk reward ratio looks attractive. We also invested in two existing holdings, Zipcom and Warthog. The former was raising money for a slimmed down business plan to attack the telephony market in the local loop. After much hype, many potential competitors have fallen by the wayside making the market look more attractive. Warthog was raising funds for small acquisitions to continue its growth in computer games development. This market is only a small way into a cyclical upturn.

A number of disposals were made during the year realising a net profit of £547,000. This will be paid out in the proposed capital dividend of 3.50p per share. Most of the sales were profit taking in Mears, Metnor and Interlink Foods, all of which remain substantial holdings in the portfolio. We also exited from two mistakes, RMR and Lady in Leisure. As already highlighted, TCTi failed to raise sufficient new capital and went into receivership. We sold the entire holding of Aortech at a profit.

**'C' share portfolio**

The 'C' share portfolio made 17 investments in the year, 8 of which were in the second half. In addition to the five discussed above in the section on the ordinary share portfolio, the 'C' share portfolio invested in three others. The first of these, Hartest is a profitable dividend paying industrial company providing equipment to laboratories. Clarity Commerce Solutions is a provider of management software to pub and restaurant groups which bought a similar business supplying local authority health clubs. It has managed to win some significant contracts off groups such as Laurel, the former Whitbread pubs and Punch Taverns. The other investment was Monotub which turned out to be a mistake, and gave rise to the portfolio's only sale in the period. We invested on the basis that the company had a revolutionary new washing machine that had overcome its former production difficulties and was starting to sell through Comet. Some poor trade press and the decision to stop manufacture which led to Comet withdrawing from selling the machine removed all our original reasons for investing so the holding was sold. At the end of the period the 'C' shares were 41% invested overall and we are continuing to see a reasonable flow of prospects.

**Outlook**

The retreat of all but VCT capital from the smaller end of the market from the middle of 2001 made it hard for shares already in the market place to perform, even if the underlying company was doing well. These conditions still apply, but in the case of individual stocks the tide is turning and money is once again trickling in. The good performance of the more established companies in the ordinary portfolio shows that value starts to be recognised when companies grow to a certain size. Systems Union, Inventive Leisure, Mears, Maclellan and Interlink Foods are all beginning to attract the attention of some of the mainstream smaller company investors and the share prices have started to rise as a consequence.

In the current environment of low inflation and interest rates small companies should have at least the same and arguably a better chance to grow than their larger brethren. For those that succeed, this will eventually be recognised in the rating and provide a capital uplift for early investors. We are continuing to invest in companies in all sectors, taking each on its individual merits but always trying to keep the risk reward ratio in line with an individual company's prospects. With valuations in the market at a more realistic level, we feel comfortable with the timetable for achieving the 80% investment target for the 'C' shares over the next 18 months.

**CLOSE BROTHERS AIM VCT PLC**

**REPORT OF THE DIRECTORS**

The Directors submit their fourth report and accounts of the Company for the year ended 28 February 2002.

**Principal Activity and Status**

The principal activity of the Company is that of a venture capital trust. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the period is contained in the Chairman's Statement.

**Results and Dividends**

	<b>Ordinary Shares £'000</b>	<b>'C' Shares £'000</b>	<b>Total £'000</b>
Revenue return attributable to shareholders for the year ended 28 February 2002	99	424	523
Net interim revenue dividend of 0.50p per share, paid on 30 November 2001	(50)	-	(50)
Net interim revenue dividend of 1.00p per share, paid on 30 November 2001	-	(200)	(200)
Net final revenue dividend of 1.00p per share, payable on 27 June 2002	—	(200)	(200)
<b>Revenue transferred to reserves</b>	<b><u>49</u></b>	<b><u>24</u></b>	<b><u>73</u></b>
Realised capital return attributable to shareholders	119	(563)	(444)
Net final capital dividend of 3.50p per share, payable on 27 June 2002	(351)	-	(351)
Unrealised capital return attributable to shareholders	<u>(2,630)</u>	<u>(1,054)</u>	<u>(3,684)</u>
<b>Capital transferred from reserves</b>	<b><u>(2,862)</u></b>	<b><u>(1,617)</u></b>	<b><u>(4,479)</u></b>
<b>Total transferred from reserves</b>	<b><u>(2,813)</u></b>	<b><u>(1,593)</u></b>	<b><u>(4,406)</u></b>

**Directors**

The Directors who held office throughout the year and their interests in the shares of the Company (together with those of their immediate family) at 28 February 2002 and at the date of this Report were:

	<b>Ordinary Shares</b>		<b>'C' Shares</b>	
M A F Reeve	5,000	0.05%	-	-
R J Smith	20,000	0.20%	10,000	0.05%
F K Malcolm	11,250	0.11%	50,000	0.25%
S J Hazell-Smith	100,000	1.00%	25,000	0.13%

No Director has a service contract with the Company. The Company does not have any employees.

Mr S J Hazell-Smith is no longer a Director of Close Investment Limited and hence no longer has an interest in the management contract and management performance incentive to which the Company is a party.

No options over the share capital of the Company have been granted to Directors personally.

All Directors are members of the Audit Committee, of which Mr R J Smith is the chairman.

During the year Mr F K Malcolm purchased 6,250 Ordinary Shares in the market at 80 pence per share.

### **Management Agreement**

The Company has entered into a management agreement with Close Investment Limited ("the Manager") for a further fixed term, which may be terminated by either party on 12 months' notice, given at any time thereafter. The management agreement is subject to earlier termination in the event of certain breaches or upon the insolvency of either party. Under this agreement, the Manager also provides secretarial and administrative services to the Company. The Manager is entitled to an annual fee equal to 2.0% (plus VAT) of the value of funds invested by the Company in both VCT qualifying and non-qualifying investments. This fee covers the provision of investment management services as well as all secretarial, accounting and administrative services provided by the Manager and annual commission payable to authorised financial intermediaries.

### **Management Performance Incentive**

In order to provide the Manager with an incentive to maximise the return to investors, the Manager has entered into agreements with the Company whereby it has been granted options to subscribe for new ordinary shares pursuant to a resolution passed on 24 August 2000, at a price in accordance with the price mechanism.

The options attached to the ordinary shares allow the Manager to subscribe for the equivalent of 10% of the issued ordinary shares of the Company, pursuant to the Prospectus dated 3 February 1998. The options may be exercised in whole or in part during the period 2003 to 2006 (or earlier in certain limited circumstances).

The options attached to the 'C' shares allow the Manager to subscribe for the equivalent of 10% of the issued 'C' shares of the Company, pursuant to the Prospectus dated 20 September 2000. The options may be exercised in whole or in part during the period 2005 to 2008 (or earlier in certain limited circumstances).

### **Auditors**

Deloitte & Touche are the appointed auditors. They have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the Annual General Meeting.

### **Substantial Interests**

As at 16 May 2002 the Company was not aware of any beneficial interest exceeding 3 per cent. of the issued ordinary 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 the system of internal control, 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 confirm that applicable accounting standards have been followed in the financial statements accompanying this report.

### Annual General Meeting

The Annual General Meeting will be held at 12 Appold Street, London EC2A 2AW at 11.00 am on 26 June 2002. The notice convening the Annual General Meeting is set out at the end of this document. A Resolution will be proposed as special business at the Annual General Meeting for the following purpose:

### Re-election of directors

As per the Company's Articles of Association, all directors retire by rotation and being available offer themselves for re-election.

### Purchase of own shares

A special resolution, number 5 in the notice of meeting, will authorise the purchase in the market and the cancellation of up to 1,004,000 ordinary shares and 2,000,000 'C' shares, being equivalent to 10% 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% 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.

The purchase of shares by the Company is intended to reduce the discount at which shares trade in the market because the Company will be a new source of demand for shares. Since it is anticipated that any purchases will be made at a discount to net asset value at the time of purchase, the net asset value of the remaining shares in issue should increase.

### Cancellation of the share premium account

In accordance with the 'C' Share prospectus, the Company applied to the High Court for the cancellation of the share premium account of the 'C' Shares, thus creating a new distributable reserve. The Grant of Approval was received from the High Court on 6 June 2001 and all balances transferred to the Special Reserve. The professional fees paid in respect of this cancellation amounted to £18,335.

### Suppliers 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 outstanding trade creditors at 28 February 2002 (2001 - nil).

By Order of the Board,

J.M. Gain  
Secretary  
12 Appold Street  
London EC2A 2AW

16 May 2002

**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 Reeve is the Chairman and senior independent Director. 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 to it and meets quarterly or as may be necessary. 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 by rotation at the Annual General Meeting. All Directors in accordance with the code, will submit themselves for re-election at least once every three years.

**Directors Remuneration**

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. Written terms of reference have been constituted for the Audit Committee. It meets as required throughout the period. 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 the size of the Board does not warrant its formulation.

### **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 process is now fully in place. 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, undertook 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 come 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 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 28 February 2002 with all the relevant provisions set out in Section 1 of the Combined 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.

## CLOSE BROTHERS AIM VCT PLC

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

We have audited the financial statements of Close Brothers AIM VCT for the year ended 28 February 2002 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.

#### 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. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 or the Listing Rules regarding directors' remuneration and transactions with the company.

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

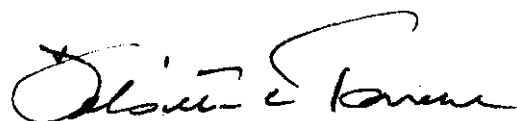
#### Basis of audit opinion

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. 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 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.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 2002 and of the total return of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants  
and Registered Auditors

16 May 2002  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

**Close Brothers AIM VCT PLC**  
**Statement of Total Return (incorporating the revenue account)**  
**for the year ended 28 February 2002**

	Note	Ordinary Shares 28 February 2002			C Shares 28 February 2002			Total 28 February 2002		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	2	-	(2,333)	(2,333)	-	(1,358)	(1,358)	-	(3,691)	(3,691)
Investment income	3	156	-	156	716	-	716	872	-	872
Investment management fee	4	(64)	(178)	(242)	(112)	(319)	(431)	(176)	(497)	(673)
Other expenses	5	(45)	-	(45)	(81)	-	(81)	(126)	-	(126)
<b>Return/(loss) on ordinary activities before tax</b>		47	(2,511)	(2,464)	523	(1,677)	(1,154)	570	(4,188)	(3,618)
Tax on ordinary activities	7	52	-	52	(99)	60	(39)	(47)	60	13
<b>Return/(loss) attributable to equity shareholders</b>		99	(2,511)	(2,412)	424	(1,617)	(1,193)	523	(4,128)	(3,605)
Equity Dividends	8	(50)	(351)	(401)	(400)	-	(400)	(450)	(351)	(801)
<b>Transfer to/(from) reserves</b>		49	(2,862)	(2,813)	24	(1,617)	(1,593)	73	(4,479)	(4,406)
Basic return/(loss) per share (pence)	9	1.0	(25.0)	(24.0)	2.1	(8.1)	(6.0)	3.1	(33.1)	(30.0)
Diluted return/(loss) per share (pence)	9	0.9	(22.7)	(21.8)	1.9	(7.3)	(5.4)	2.8	(30.0)	(27.2)

The revenue column of this statement represents the profit and loss account of the Company.

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

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

**Close Brothers AIM VCT PLC**  
**Statement of Total Return (incorporating the revenue account)**  
**for the prior year ended 28 February 2001**

	Note	Ordinary Shares 28 February 2001			C Shares 28 February 2001			Total 28 February 2001		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	2	-	(1,646)	(1,646)	-	(41)	(41)	-	(1,687)	(1,687)
Investment income	3	379	-	379	254	-	254	633	-	633
Investment management fee	4	(84)	(254)	(338)	(17)	(88)	(105)	(101)	(342)	(443)
Other expenses	5	(63)	-	(63)	(18)	-	(18)	(81)	-	(81)
<b>Return/(loss) on ordinary activities before tax</b>		232	(1,900)	(1,668)	219	(129)	90	451	(2,029)	(1,578)
Tax on ordinary activities	7	(50)	50	-	(44)	18	(26)	(94)	68	(26)
<b>Return/(loss) attributable to equity shareholders</b>		182	(1,850)	(1,668)	175	(111)	64	357	(1,961)	(1,604)
Equity Dividends	8	(226)	(3,022)	(3,248)	(156)	-	(156)	(382)	(3,022)	(3,404)
<b>Transfer (from)/to reserves</b>		(44)	(4,872)	(4,916)	19	(111)	(92)	(25)	(4,983)	(5,008)
Basic return/(loss) per share (pence)	9	1.8	(18.3)	(16.5)	1.4	(0.9)	0.5	3.2	(19.2)	(16.0)
Diluted return/(loss) per share (pence)	9	1.6	(16.7)	(15.1)	1.4	(0.9)	0.5	3.0	(17.6)	(14.6)

The revenue column of this statement represents the profit and loss account of the Company.

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

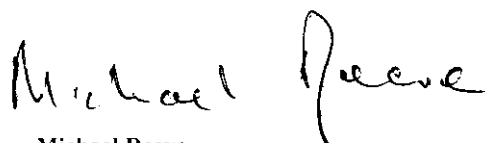
No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

**Close Brothers AIM VCT PLC**  
**Balance Sheet as at 28 February 2002**

	Note	Ordinary Shares 28 February 2002 £'000	C Shares 28 February 2002 £'000	Total 28 February 2002 £'000
<b>Fixed asset investments</b>				
Qualifying investments		7,387	6,607	13,994
Non-qualifying investments		<u>995</u>	<u>8,992</u>	<u>9,987</u>
Total fixed asset investments	10	8,382	15,599	23,981
<b>Current assets</b>				
Debtors	11	195	82	277
Cash at bank and in hand		<u>565</u>	<u>1,984</u>	<u>2,549</u>
		760	2,066	2,826
<b>Creditors: amounts falling due within one year</b>	12	<u>(410)</u>	<u>(367)</u>	<u>(777)</u>
<b>Net current assets</b>		<u>350</u>	<u>1,699</u>	<u>2,049</u>
<b>Total assets less current liabilities</b>		<u>8,732</u>	<u>17,298</u>	<u>26,030</u>
<b>Capital and reserves</b>				
Called up share capital	13	5,020	10,000	15,020
Special reserve	14	4,480	8,978	13,458
Capital redemption reserve	14	30	5	35
Realised capital reserve	14	16	(633)	(617)
Unrealised capital reserve	14	(878)	(1,095)	(1,973)
Revenue Reserve	14	<u>64</u>	<u>43</u>	<u>107</u>
<b>Total equity shareholders' funds</b>	16	<u>8,732</u>	<u>17,298</u>	<u>26,030</u>
<b>Basic net asset value per share (pence)</b>	15	86.97	86.49	
<b>Diluted net asset value per share (pence)</b>	15	87.38	87.72	

The financial statements on pages 21 to 39 were approved by the Board of Directors on 16 May 2002 and were signed on its behalf by



Michael Reeve  
Chairman

**Close Brothers AIM VCT PLC**  
**Balance Sheet as at 28 February 2001**

	Note	Ordinary Shares 28 February 2001 £'000	C Shares 28 February 2001 £'000	Total 28 February 2001 £'000
<b>Fixed asset investments</b>				
Qualifying investments		9,601	2,271	11,872
Non-qualifying investments		<u>1,995</u>	<u>8,983</u>	<u>10,978</u>
Total fixed asset investments	10	11,596	11,254	22,850
<b>Current assets</b>				
Debtors	11	165	82	247
Cash at bank and in hand		<u>502</u>	<u>687</u>	<u>1,189</u>
		667	769	1,436
<b>Creditors: amounts falling due within one year</b>	12	<u>(690)</u>	<u>(240)</u>	<u>(930)</u>
<b>Net current (liabilities)/assets</b>		<u>(23)</u>	<u>529</u>	<u>506</u>
<b>Total assets less current liabilities</b>		<u>11,573</u>	<u>11,783</u>	<u>23,356</u>
<b>Capital and reserves</b>				
Called up share capital	13	5,038	6,250	11,288
Share premium account	14	-	5,625	5,625
Special reserve	14	4,508	-	4,508
Capital redemption reserve	14	12	-	12
Realised capital reserve	14	248	(70)	178
Unrealised capital reserve	14	1,752	(41)	1,711
Revenue Reserve	14	<u>15</u>	<u>19</u>	<u>34</u>
<b>Total equity shareholders' funds</b>	16	<u>11,573</u>	<u>11,783</u>	<u>23,356</u>
<b>Basic net asset value per share (pence)</b>	15	114.8	94.3	
<b>Diluted net asset value per share (pence)</b>	15	113.0	94.3	

**Close Brothers AIM VCT PLC**  
**Cash Flow Statement**  
**for the year to 28 February 2002**

	Note	Ordinary Shares Year to 28 February 2002 £'000	C Shares Year to 28 February 2002 £'000	Total Year to 28 February 2002 £'000
<b>Operating activities</b>				
Dividend income received		66	8	74
Investment income received		68	582	650
Deposit interest received		20	129	149
Other income received		5	7	12
Investment management fees paid		(260)	(402)	(662)
Other cash payments		(52)	(78)	(130)
<b>Net cash (outflow)/inflow from operating activities</b>	18	<u>(153)</u>	<u>246</u>	<u>93</u>
<b>Taxation</b>				
UK income tax repaid		151	2	153
<b>Capital expenditure and financial investment</b>				
Purchase of qualifying investments		(1,797)	(5,715)	(7,512)
Purchase of non-qualifying investments		-	(5,998)	(5,998)
Disposals of qualifying investments		1,543	16	1,559
Disposals of non-qualifying investments		1,001	5,994	6,995
<b>Net cash inflow/(outflow) from investing activities</b>		<u>747</u>	<u>(5,703)</u>	<u>(4,956)</u>
<b>Equity dividends paid</b>				
Revenue dividends paid on ordinary shares		(150)	(356)	(506)
Capital dividends paid on ordinary shares		(504)	-	(504)
<b>Net cash inflow/(outflow) before financing</b>		<u>91</u>	<u>(5,811)</u>	<u>(5,720)</u>
<b>Financing</b>				
Issue of equity net of expenses		-	7,134	7,134
Redemption of shares net of expenses		(28)	(8)	(36)
Cancellation of share premium		-	(18)	(18)
<b>Net cash (outflow)/inflow from financing</b>		<u>(28)</u>	<u>7,108</u>	<u>7,080</u>
<b>Increase in cash in the year</b>	17	<u><u>63</u></u>	<u><u>1,297</u></u>	<u><u>1,360</u></u>

**Close Brothers AIM VCT PLC**  
**Cash Flow Statement**  
**for the year to 28 February 2001**

	Note	Ordinary Shares Year to 28 February 2001 £'000	C Shares Period to 28 February 2001 £'000	Total Year to 28 February 2001 £'000
<b>Operating activities</b>				
Dividend income received		67	-	67
Investment income received		201	83	284
Deposit interest received		66	61	127
Other income received		7	1	8
Investment management fees paid		(363)	(32)	(395)
Other cash payments		(67)	(7)	(74)
<b>Net cash (outflow)/inflow from operating activities</b>	18	<u>(89)</u>	<u>106</u>	<u>17</u>
<b>Taxation</b>				
UK corporation tax paid		-	-	-
<b>Capital expenditure and financial investment</b>				
Purchase of qualifying investments		(3,873)	(2,311)	(6,184)
Purchase of non-qualifying investments		(999)	(8,983)	(9,982)
Disposals of qualifying investments		4,228	-	4,228
Disposals of non-qualifying investments		3,629	-	3,629
<b>Net cash inflow/(outflow) from investing activities</b>		<u>2,985</u>	<u>(11,294)</u>	<u>(8,309)</u>
<b>Equity dividends paid</b>				
Revenue dividends paid on ordinary shares		(227)	-	(227)
Capital dividends paid on ordinary shares		(3,528)	-	(3,528)
<b>Net cash outflow before financing</b>		<u>(859)</u>	<u>(11,188)</u>	<u>(12,047)</u>
<b>Financing</b>				
Issue of equity net of expenses		-	11,875	11,875
Redemption of shares net of expenses		(31)	-	(31)
Cancellation of share premium		<u>(6)</u>	<u>-</u>	<u>(6)</u>
<b>Net cash (outflow)/inflow from financing</b>		<u>(37)</u>	<u>11,875</u>	<u>11,838</u>
<b>(Decrease)/increase in cash in the year</b>	17	<u>(896)</u>	<u>687</u>	<u>(209)</u>

The accompanying notes are an integral part of this cash flow statement.

## Close Brothers AIM VCT PLC

### Notes to the financial statements for the year to 28 February 2002

#### 1. ACCOUNTING POLICIES

##### True and fair override

The Company is no longer an investment company within the meaning of s266, Companies Act 1985. However, it conducts its affairs as a venture capital trust for taxation purposes under s842AA of the Income and Corporation Taxes Act 1988.

The financial statements are prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP). Ordinarily, the absence of Section 266 status would require the Company to adopt a different presentation of the accounts than that recommended by the Association of Investment Trust Companies. However, the Directors consider it appropriate to continue to present the accounts in accordance with the SORP. Under the SORP, the financial performance of the trust is presented in a statement of total return in which the revenue column is the profit and loss account of the Company. The revenue column excludes certain capital items, which, since the Company is no longer an investment company, the Companies Act 1985 would ordinarily require to be included in the profit and loss account: net profits on disposal of investments, calculated by reference to their previous carrying amount of permanent diminution in value of investments, management expenses charged to capital of less tax relief thereon and the distribution of capital profits .

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

##### Capital reserves

###### Realised capital reserves

The following are accounted for in this reserve:

- gains and losses on the realisation of investments; and
- expenses and finance costs, together with the related taxation effect

###### Unrealised capital reserve

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end

###### Special reserve

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

##### Financial period

The financial statements of the Ordinary Shares and 'C' Shares are for the year to 28 February 2002. The prior year's figures for the 'C' shares relate to the period 20 October 2000 to 28 February 2001.

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

**Investments**

Listed investments and investments quoted on AIM are stated at market value based upon middle market prices at the end of the accounting period. The unrealised depreciation or appreciation on the valuation of investments are dealt with in the unrealised capital reserve, whilst gains and losses arising on the disposal of investments are dealt with in the realised capital reserve.

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 is included in revenue when the investment is quoted ex-dividend. Income received is treated in accordance with Financial Reporting Standard No. 16.

**Issue costs**

Issue costs are deducted from the share premium account in accordance with Financial Reporting Standard No. 4.

**Taxation**

Taxation is applied on a current basis in accordance with Financial Reporting Standard No.16. Taxation associated to capital expenses is applied in accordance with the SORP. Financial Reporting Standard 19 "Deferred Tax" has been adopted in these financial statements. Provision is made for taxation at current rates on the excess of taxable income over expenses. Where applicable, a provision is made on all material timing differences between the recognition of income in the financial statements and their recognition in the Company's annual tax returns. Deferred tax is recognised to the extent that it is probable that an actual liability will crystallise or an asset be recoverable.

**Management Expenses**

75 per cent of management fees for both classes of shares, representing the proportion of the management expenses attributable to the enhancement of the value of the investments of the Company, has been charged to capital reserves, net of corporation tax. A review of management fees was undertaken in respect of the 'C' shares during the current period. As a result of this review management decided, for the purposes of reflecting the similarity of the classes of shares, to revise the percentage split from 83.75% which was used last year to the current level of 75% as from 1 March 2001. The balance of other expenses have been charged to income.

**CLOSE BROTHERS AIM VCT PLC**

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

**2. Gains/(losses) on investments**

	Year to 28 February 2002 £'000			Year to 28 February 2001 £'000		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
	Realised gains/(losses) on disposal	547	(304)	243	3,285	-
Permanent diminution	(250)	-	(250)	-	-	-
Increase in unrealised depreciation	<u>(2,630)</u>	<u>(1,054)</u>	<u>(3,684)</u>	<u>(4,931)</u>	<u>(41)</u>	<u>(4,972)</u>
Losses for the year	<u>(2,333)</u>	<u>(1,358)</u>	<u>(3,691)</u>	<u>(1,646)</u>	<u>(41)</u>	<u>(1,687)</u>

**3. Investment income**

	Year to 28 February 2002 £'000			Year to 28 February 2001 £'000		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
	<b>Income from investments</b>					
UK franked investment income	61	10	71	66	-	66
UK unfranked investment income	<u>72</u>	<u>570</u>	<u>642</u>	<u>239</u>	<u>191</u>	<u>430</u>
	133	580	713	305	191	496
<b>Other income</b>						
Deposit interest	18	129	147	67	62	129
Commission	<u>5</u>	<u>7</u>	<u>12</u>	<u>7</u>	<u>1</u>	<u>8</u>
<b>Total income</b>	<u>156</u>	<u>716</u>	<u>872</u>	<u>379</u>	<u>254</u>	<u>633</u>
<b>Total income comprises</b>						
Dividends	61	10	71	66	-	66
Interest	90	699	789	306	253	559
Commission	<u>5</u>	<u>7</u>	<u>12</u>	<u>7</u>	<u>1</u>	<u>8</u>
	<u>156</u>	<u>716</u>	<u>872</u>	<u>379</u>	<u>254</u>	<u>633</u>
<b>Income from investments</b>						
Listed	133	580	713	305	191	496
Unlisted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>133</u>	<u>580</u>	<u>713</u>	<u>305</u>	<u>191</u>	<u>496</u>

**4. Investment management fee**

	Year and period to 28 February 2002 £'000			Year to 28 February 2001 £'000		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Investment management fee					
- Ordinary shares	64	178	242	84	254	338
- C shares	<u>112</u>	<u>319</u>	<u>431</u>	<u>17</u>	<u>88</u>	<u>105</u>
	<u>176</u>	<u>497</u>	<u>673</u>	<u>101</u>	<u>342</u>	<u>443</u>

Further details of the Management Agreement under which the investment management fee is paid are given in the Report of the Directors.

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

5.	<b>Other expenses</b>	<b>Year to</b>			<b>Year to</b>		
		<b>28 February 2002</b>			<b>28 February 2001</b>		
		<b>Ordinary</b>	<b>C</b>	<b>Total</b>	<b>Ordinary</b>	<b>C</b>	<b>Total</b>
		<b>Shares</b>	<b>Shares</b>		<b>Shares</b>	<b>Shares</b>	
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Directors' fees	21	37	58	26	9	35
	Auditors' remuneration						
	– audit fees	5	9	14	11	2	13
	Other	<u>19</u>	<u>35</u>	<u>54</u>	<u>26</u>	<u>7</u>	<u>33</u>
	<b>Total</b>	<u><b>45</b></u>	<u><b>81</b></u>	<u><b>126</b></u>	<u><b>63</b></u>	<u><b>18</b></u>	<u><b>81</b></u>

**6. Directors' fees**

Inclusive of statutory deductions the remuneration of the chairman, who is the highest paid director was £18,145 (2001: £14,882). The remuneration of the other Directors (inclusive of statutory deductions or VAT) amounted to £39,397 (2001: £20,409). Close Investment Limited, of which Mr S J Hazell-Smith was a director until September 2001, received a management fee on his behalf of £10,232 (2001: £19,265).

**7. Tax on ordinary activities**

**(a) Tax charge for the year**

	<b>Ordinary Shares</b>			<b>C Shares</b>		
	<b>Year to</b>			<b>Year to</b>		
	<b>28 February 2002</b>			<b>28 February 2002</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Transfer to Ordinary Shares prior year	13	-	13	-	-	-
Transfer to Ordinary Shares current year	39	-	39	(39)	-	(39)
Tax attributable to capital expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60)</u>	<u>60</u>	<u>-</u>
	<u><b>52</b></u>	<u><b>-</b></u>	<u><b>52</b></u>	<u><b>(99)</b></u>	<u><b>60</b></u>	<u><b>(39)</b></u>

	<b>Ordinary Shares</b>			<b>C Shares</b>		
	<b>Year to</b>			<b>Year to</b>		
	<b>28 February 2001</b>			<b>28 February 2001</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
UK corporation tax at 20%	-	-	-	(26)	-	(26)
Tax attributable to capital expenses	<u>(50)</u>	<u>50</u>	<u>-</u>	<u>(18)</u>	<u>18</u>	<u>-</u>
	<u><b>(50)</b></u>	<u><b>50</b></u>	<u><b>-</b></u>	<u><b>(44)</b></u>	<u><b>18</b></u>	<u><b>(26)</b></u>

Corporation tax has been provided at 20% (2001: 20%).

**CLOSE BROTHERS AIM VCT PLC**

**(b) Factors affecting tax charge for the year**

	Ordinary Shares Year to 28 February 2002			C Shares Year to 28 February 2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	47	(2,511)	(2,464)	523	(1,677)	(1,154)
Tax charge/(credit) calculated on return on ordinary activities before taxation at the applicable rate of corporation tax of 20%	9	(502)	(493)	105	(335)	(231)
<i>Effects of:</i>						
Non taxable losses on investments (i)	-	466	466	-	272	272
Expenses charged to capital (ii)	-	-	-	(60)	60	-
Movement in excess management expenses	(36)	36	-	(4)	4	-
Non taxable income (i)	(12)	-	(12)	(2)	-	(2)
Prior Year Adjustment	<u>(13)</u>	<u>-</u>	<u>(13)</u>	<u>-</u>	<u>-</u>	<u>-</u>
UK Corporation tax charge/ (credit) for the year	<u>(52)</u>	<u>≡</u>	<u>(52)</u>	<u>39</u>	<u>≡</u>	<u>39</u>

- (i) Venture Capital Trusts are not subject to corporation tax on these items.
- (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 20% 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 AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

8. Dividends and other appropriations	Year to 28 February 2002			Year to 28 February 2001		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Dividends on equity shares:						
- interim revenue dividend of 0.50p per ordinary share (2001: 1.25p)	50	-	50	126	-	126
- interim revenue dividend of 1.0p per C share (2001: nil)	-	200	200	-	-	-
- special capital dividend of nil per ordinary share (2001: 25.00p)	-	-	-	2,519	-	2,519
- final revenue dividend of nil per ordinary share (2001: 1.00p)	-	-	-	100	-	100
- final revenue dividend of 1.00p per C share (2001: 1.25p)	-	200	200	-	156	156
- final capital dividend of 3.50p per ordinary share (2001: 5.00p per share)	<u>351</u>	<u>-</u>	<u>351</u>	<u>503</u>	<u>-</u>	<u>503</u>
	<u>401</u>	<u>400</u>	<u>801</u>	<u>3,248</u>	<u>156</u>	<u>3,404</u>
 9. Return/(loss) per share						
	Year to 28 February 2002			Year to 29 February 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Basic						
- ordinary shares	1.0p	(25.0)p	(24.0)p	1.8p	(18.3)p	(16.5)p
- C shares	<u>2.1p</u>	<u>(8.1)p</u>	<u>(6.0)p</u>	<u>1.4p</u>	<u>(0.9)p</u>	<u>0.5p</u>
	3.1p	(33.1)p	(30.0)p	3.2p	(19.2)p	(16.0)p
Diluted						
- ordinary shares	0.9p	(22.7)p	(21.8)p	1.6p	(16.7)p	(15.1)p
- C shares	<u>1.9p</u>	<u>(7.3)p</u>	<u>(5.4)p</u>	<u>1.4p</u>	<u>(0.9)p</u>	<u>0.5p</u>
	2.8p	(30.0)p	(27.2)p	3.0p	(17.6)p	(14.6)p

**Ordinary Shares**

The basic revenue return per ordinary share is based on the profit on ordinary activities after taxation, but before deduction of dividends of £99,000, (2001: £182,000), whilst the capital loss is based on the loss on ordinary activities after taxation, but before deduction of dividends of £2,511,000 (2001: £1,850,000). This is in respect of 10,062,822 ordinary shares (2001: 10,081,694 shares), being the weighted average number of ordinary shares in issue during the year.

The diluted earnings/(losses) is based upon the exercise of the option in full, mentioned in the Director's Report and note 15. Had the option become exercisable there would assume to be 11,072,822 ordinary shares in issue throughout the year. (2001: 11,091,694 shares).

**'C' Shares**

The basic revenue return per 'C' share is based on the return on ordinary activities after taxation but before deduction of dividends of £424,000 (2001: £175,000), whilst the capital loss is based on the loss on ordinary activities after taxation, but before deduction of dividends of £1,617,000 (2001: £111,000). This is in respect of 19,905,464 'C' shares (2001: 12,500,000 shares), being the weighted average number of 'C' shares in issue during the year.

The diluted (loss)/earnings is based upon the exercise of the option in full, mentioned in the Director's Report and note 15. Had the option become exercisable there would assume to be 21,906,464 'C' Shares were in issue throughout the year. (2001: 13,750,000 shares).

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

10. Fixed asset investments	Year to 28 February 2002			Year to 28 February 2001		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Qualifying AIM investments	7,387	6,607	13,994	9,601	2,271	11,872
Non qualifying listed investments	<u>995</u>	<u>8,992</u>	<u>9,987</u>	<u>1,995</u>	<u>8,983</u>	<u>10,978</u>
Total	<u>8,382</u>	<u>15,599</u>	<u>23,981</u>	<u>11,596</u>	<u>11,254</u>	<u>22,850</u>

	Ordinary Shares		
	Qualifying AIM £'000	Non- qualifying listed £'000	Total investments £'000
<b>Valuation basis</b>			
Opening valuation: 1 March 2001	9,601	1,995	11,596
Purchases at cost	1,797	-	1,797
Sales - proceeds	(1,677)	(1,001)	(2,678)
- realised gains on disposal	547	-	547
Permanent diminution	(250)	-	(250)
Realisation of revaluation gains/(losses) from previous years	212	(6)	206
(Decrease)/increase in unrealised appreciation	<u>(2,843)</u>	<u>7</u>	<u>(2,836)</u>
Closing valuation : 28 February 2002	<u>7,387</u>	<u>995</u>	<u>8,382</u>
<b>Historic cost basis</b>			
Opening book cost	7,845	1,999	9,844
Purchases at cost	1,797	-	1,797
Permanent diminution	(250)	-	(250)
Disposals at cost	<u>(1,130)</u>	<u>(1,001)</u>	<u>(2,131)</u>
Closing book cost	<u>8,262</u>	<u>998</u>	<u>9,260</u>
Opening unrealised gains/(losses)	1,756	(4)	1,752
(Decrease)/increase in unrealised appreciation	<u>(2,631)</u>	<u>1</u>	<u>(2,630)</u>
Closing unrealised losses	<u>(875)</u>	<u>(3)</u>	<u>(878)</u>

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

**10. Fixed asset investments (continued)**

	C Shares			Total Investments £'000
	Qualifying AIM £'000	Non- qualifying AIM £'000	Non- qualifying Listed £'000	
<b>Valuation basis</b>				
Opening valuation: 1 March 2001	2,271	-	8,983	11,254
Purchases at cost	5,715	8	5,990	11,713
Sales - proceeds	(16)	-	(5,994)	(6,010)
- realised (losses)/gains on disposal	(309)	-	5	(304)
Realisation of revaluation gains from previous years	-	-	-	-
(Decrease)/increase in unrealised appreciation	<u>(1,054)</u>	<u>(8)</u>	<u>8</u>	<u>(1,054)</u>
Closing valuation : 28 February 2002	<u>6,607</u>	<u>-</u>	<u>8,992</u>	<u>15,599</u>
<b>Historic cost basis</b>				
Opening book cost	2,311	-	8,984	11,295
Purchases at cost	5,715	8	5,990	11,713
Disposals at cost	<u>(325)</u>	<u>-</u>	<u>(5,989)</u>	<u>(6,314)</u>
Closing book cost	<u>7,701</u>	<u>8</u>	<u>8,985</u>	<u>16,694</u>
Opening unrealised losses	(40)	-	(1)	(41)
(Decrease)/increase in unrealised appreciation	<u>(1,054)</u>	<u>(8)</u>	<u>8</u>	<u>(1,054)</u>
Closing unrealised (losses)/gains	<u>(1,094)</u>	<u>(8)</u>	<u>7</u>	<u>(1,095)</u>

**11. Debtors**

	28 February 2002			28 February 2001		
	Ordinary Share £'000	C Shares £'000	Total £'000	Ordinary Share £'000	C Shares £'000	Total £'000
Other debtors	185	29	214	139	2	141
Prepayments and accrued income	<u>10</u>	<u>53</u>	<u>63</u>	<u>26</u>	<u>80</u>	<u>106</u>
	<u>195</u>	<u>82</u>	<u>277</u>	<u>165</u>	<u>82</u>	<u>247</u>

**12. Creditors: amounts falling due within one year**

	28 February 2002			28 February 2001		
	Ordinary Share £'000	C Shares £'000	Total £'000	Ordinary Share £'000	C Shares £'000	Total £'000
Other creditors	59	167	226	85	84	169
Proposed dividend	<u>351</u>	<u>200</u>	<u>551</u>	<u>605</u>	<u>156</u>	<u>761</u>
	<u>410</u>	<u>367</u>	<u>777</u>	<u>690</u>	<u>240</u>	<u>930</u>

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

<b>13.</b>	<b>Called up share capital</b>	<b>28 February 2002</b>	<b>28 February 2001</b>
		<b>£'000</b>	<b>£'000</b>
	<b>Authorised:</b>		
	20,000,000 Ordinary Shares of 50p each (2001: 20,000,000 Ordinary shares)	10,000	10,000
	25,000,000 'C' Shares of 50p each (2001: 25,000,000 'C' Shares)	<u>12,500</u>	<u>12,500</u>
		<u>22,500</u>	<u>22,500</u>
	<b>Allotted, called up and fully paid:</b>		
	10,040,000 Ordinary Shares of 50p each (2001: 10,075,000 shares)	5,020	5,038
	20,000,000 'C' shares of 50p each (2001: 12,500,000 'C' Shares)	<u>10,000</u>	<u>6,250</u>
		<u>15,020</u>	<u>11,288</u>

The Company allotted a further 7,510,000 50p 'C' shares at 100p on 5 March 2001. Issue costs totalling £375,500 were deducted from total funds raised of £7,510,000.

During the year the Company repurchased for cancellation the following shares;

	Price per share (p)	Ordinary Shares	'C' Shares	Total
26 July 2001	78.0	15,000	-	15,000
20 December 2001	80.0	15,000	-	15,000
20 December 2001	80.0	-	10,000	10,000
7 February 2002	80.0	<u>5,000</u>	<u>-</u>	<u>5,000</u>
		<b>35,000</b>	<b>10,000</b>	<b>45,000</b>
Percentage cancelled		<b>0.35%</b>	<b>0.08%</b>	

The manager has the option to subscribe for a maximum of 10% of the issued share capital of both class of share, at an exercise price in accordance with the option price mechanism.

<b>14.</b>	<b>Reserves</b>	<b>Ordinary shares</b>				
		<b>Capital redemption reserve</b>	<b>Special reserve</b>	<b>Unrealised capital reserve</b>	<b>Realised capital reserve</b>	<b>Revenue reserve</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Opening balances	12	4,508	1,752	248	15
	Capital redemption	18	(28)	-	-	-
	Capitalised expenses net of taxation	-	-	-	(178)	-
	Capital dividends proposed	-	-	-	(351)	-
	Realised gains in the current year	-	-	-	547	-
	Realised gains from previous years	-	-	(206)	206	-
	Permanent diminution	-	-	-	(250)	-
	Decrease in unrealised appreciation	-	-	(2,424)	-	-
	Retained profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49</u>
	Closing balances	<u>30</u>	<u>4,480</u>	<u>(878)</u>	<u>16</u>	<u>64</u>

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

	<b>C shares</b>					
	<b>Capital redemption reserve</b>	<b>Share Premium account</b>	<b>Special reserve</b>	<b>Unrealised capital reserve</b>	<b>Realised capital reserve</b>	<b>Revenue reserve</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening balances	-	5,625	-	(41)	(70)	19
Issue of capital net of expenses	-	3,379	-	-	-	-
Capital redemption	5	-	(8)	-	-	-
Cancellation of share premium	-	(9,004)	9,004	-	-	-
Cost of share premium cancellation	-	-	(18)	-	-	-
Decrease in value of investments	-	-	-	(1,054)	(304)	-
Capitalised expenses net of taxation	-	-	-	-	(259)	-
Retained profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24</u>
Closing balances	<u>5</u>	<u>-</u>	<u>8,978</u>	<u>(1,095)</u>	<u>(633)</u>	<u>43</u>

**15. Net asset value per share**

The net asset value per share and the net asset values at the period end calculated in accordance with the Articles of Association were as follows:

	<b>28 February 2002</b>		<b>28 February 2001</b>	
	<b>Ordinary Shares</b>	<b>C Shares</b>	<b>Ordinary Shares</b>	<b>C Shares</b>
Basic per ordinary shares	87.0 pence	86.5 pence	114.8 pence	94.3 pence
Diluted per ordinary share	87.4 pence	87.7 pence	113.0 pence	94.3 pence

The movement in the assets during the period attributable to shares were as follows:-

	<b>28 February 2002</b>		<b>28 February 2001</b>	
	<b>£'000</b>		<b>£'000</b>	
	<b>Ordinary Shares</b>	<b>C Shares</b>	<b>Ordinary Shares</b>	<b>C Shares</b>
Total net assets at beginning of the year	11,573	11,783	16,526	-
(Decrease)/increase in share capital	(18)	3,750	(12)	6,250
Increase in capital redemption	18	5	12	-
(Decrease)/increase in share premium	-	(5,249)	(4,545)	6,250
Issue costs of new capital subscribed	-	(376)	-	(625)
Creation of special reserve	-	9,004	4,545	-
Cost of share redemption	(28)	(8)	(30)	-
Cost of cancellation of share premium account	-	(18)	(7)	-
Total (loss)/return for the year	(2,412)	(1,193)	(1,668)	64
Dividends appropriated in the year	<u>(401)</u>	<u>(400)</u>	<u>(3,248)</u>	<u>(156)</u>
Total net assets at end of the year	<u>8,732</u>	<u>17,298</u>	<u>11,573</u>	<u>11,783</u>

**CLOSE BROTHERS AIM VCT PLC**

**15. Net asset value per share (continued)**

The basic net asset value per share is based on net assets at the year end, and on 10,040,000 ordinary shares and 20,000,000 C shares, being the respective number of shares in issue at the year end.

**Ordinary shares**

The diluted net asset value per ordinary share is based upon the exercise of the manager's option in full, thus creating the equivalent of 1,010,000 shares, and total shares in issue at the year end of 11,050,000. Further details of the option can be found in the Report of the Directors. In the event that NAV per share were to remain at its present level, it is not anticipated that the option would be exercised.

**'C' Shares**

The diluted net asset value per 'C' share is based upon the exercise of the manager's option in full, thus creating the equivalent of 2,001,000 shares, and total shares in issue at the year end of 22,001,000. Further details of the option can be found in the Report of the Directors. In the event that NAV per share were to remain at its present level, it is not anticipated that the option would be exercised.

**16. Reconciliation of movements in shareholders' funds**

	28 February 2002		28 February 2001	
	£'000		£'000	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares
Equity shareholders funds at beginning of the year	11,573	11,783	16,526	-
(Decrease)/increase in share capital	(18)	3,750	(12)	6,250
Increase in capital redemption	18	5	12	-
(Decrease)/increase in share premium	-	(5,249)	(4,545)	6,250
Issue cost of new capital subscribed	-	(376)	-	(625)
Creation of special reserve	-	9,004	4,545	-
Cost of share redemption	(28)	(8)	(30)	-
Cost of cancellation of share premium	-	(18)	(7)	-
Total (loss)/return for the year	(2,412)	(1,193)	(1,668)	64
Dividends appropriated in the year	(401)	(400)	(3,248)	(156)
Equity shareholders funds at end of the year	<u>8,732</u>	<u>17,298</u>	<u>11,573</u>	<u>11,783</u>

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

	28 February 2002		28 February 2001	
	£'000		£'000	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares
Beginning of year	502	687	1,398	-
Net cash inflow/(outflow)	<u>63</u>	<u>1,297</u>	<u>(896)</u>	<u>687</u>
End of year	<u>565</u>	<u>1,984</u>	<u>502</u>	<u>687</u>

**CLOSE BROTHERS AIM VCT PLC**

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

**18. Reconciliation of net revenue before finance costs and taxation to net cash (outflow)/inflow from operating activities**

	28 February 2002		28 February 2001	
	£'000		£'000	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares
Net revenue before finance costs and taxation	47	523	232	219
Investment management fee charged to capital	(178)	(319)	(254)	(88)
Decrease/(increase) in accrued income	4	27	17	(80)
(Decrease)/increase in other creditors	(26)	24	(38)	83
Tax deducted on investment income	—	(9)	(46)	(28)
Net cash (outflow)/inflow from operating activities	<u>(153)</u>	<u>246</u>	<u>(89)</u>	<u>106</u>

**19. Financial instruments and risk management**

**Financial assets and liabilities**

The Company's financial assets comprise equity and 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 and numerical disclosures below exclude short term debtors and creditors.

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

- interest rate risk;
- market price risk.

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

**Interest rate risk**

The Company's policy is to accept a degree of interest rate risk on non qualifying investments. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced the revenue return before tax to 28 February 2002 of the ordinary shares and 'C' shares by approximately 44 per cent and 22 per cent respectively, (2001: 14% ordinary shares, 17% 'C' shares).

**CLOSE BROTHERS AIM VCT PLC**

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

**19. Financial instruments and risk management (continued)**

Currency	Fixed Rate £'000		28 February 2002 Floating Rate £'000		No interest £'000	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares	Ordinary Shares	C Shares
	Sterling	<u>Nil</u>	<u>Nil</u>	<u>1,564</u>	<u>10,984</u>	<u>8,262</u>

Currency	Fixed Rate £'000		28 February 2001 Floating Rate £'000		No interest £'000	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares	Ordinary Shares	C Shares
	Sterling	<u>Nil</u>	<u>Nil</u>	<u>2,502</u>	<u>9,687</u>	<u>7,845</u>

Floating rate assets predominantly bear interest at rates based on quarterly LIBOR.

**Borrowing facilities**

The Company had no committed borrowing facilities as at 28 February 2002, (2001: £nil).

**Financial liabilities**

As at 28 February 2002 the Company has no financial liabilities other than short term creditors, (2001: £nil).

**Currency exposure**

As at 28 February 2002, the Company had no foreign currency exposures (2001: £nil).

**Fair values of financial assets and financial liabilities**

All the Company's financial assets and liabilities at 28 February 2002 are stated at fair value. See note 1 of the financial statements.

**Market price risk**

The Company's investment risk primarily comprises the equity value of its fully listed, AIM and OFEX investments.

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

**20. Contingencies, guarantees and financial commitments**

At the year end the Company had no contingencies, guarantees or financial commitments.

**Close Brothers AIM VCT PLC**

**Notes to the financial statements (continued)**

**21. Post balance sheet events**

As at the date of this report the 'C' shares portfolio had invested in the following.

- 1,296,296 shares in 1<sup>st</sup> Dental Laboratories at a cost of £350,000
- 3,529,411 shares in Advanced Medical Solutions at a cost of £300,000
- 450,000 shares in PM Group at a cost of £450,000
- 1,666,667 shares in Avionic Services at a cost of £350,000

As at the date of this report the 'Ord' shares portfolio had disposed of the following.

- 10,000 shares in Metnor Group for £23,700.
- 25,000 shares in Interlink Foods PLC for £106,000.

In addition the Company, on a monthly basis announces to the London Stock Exchange its net asset value (NAV). As at 30 April 2002, the Company's NAV was 92p per Ordinary share and 87p per 'C' share, before taking account of the final dividend.

**22. Related party transaction**

Under the terms of an agreement dated 19 September 2000, the Company has appointed Close Investment Limited, a wholly owned subsidiary of Close Brothers Group plc, to provide investment management, accounting, secretarial and administrative services. Details of the arrangements are given in the Report of the Directors. The total investment management fees at the year end, in respect of both class of share, amounted to £673,000 (2001: £443,000), of which £153,000 (2001: £143,000) was accrued at that date.

The Company appointed Close Brothers Investment Limited, a subsidiary of Close Brothers Group as sponsor to the 'C' Share offer. Close Brothers Investment Limited received £375,500, equivalent to 5 per cent. of the funds raised under the offer from which they paid all legal, marketing and administration expenses associated with the offer.

There were no other related party transactions requiring disclosure.

## CLOSE BROTHERS AIM VCT PLC

### NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Close Brothers AIM VCT PLC will be held at 11.00 am at 12 Appold Street, London EC2A 2AW on 26 June 2002 for the purpose of dealing with the following business, of which item 4 is special business.

#### Ordinary Business

- 1 To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 28 February 2002.
- 2 To reappoint Deloitte & Touche as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- 3 To approve a final revenue dividend of 1.0 pence per 'C' share and, a final capital dividend of 3.5 pence per ordinary share for the year to 28 February 2002.
- 4 To reappoint the following directors, all of whom retire by rotation and offer themselves for re-election.

Michael Reeve  
Roger Smith  
Francis Malcolm  
Stephen Hazell-Smith

#### Special Business

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

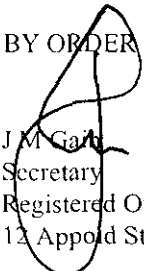
That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares and 'C' Shares of 50p each in the capital of the Company ("Shares") provided that:

- (a) the maximum aggregate number of Shares authorised to be purchased is 1,004,000 ordinary shares and 2,000,000 'C' shares (representing approximately 10% of the current issued share capital of each class of share);
- (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 a 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.

CLOSE BROTHERS AIM VCT PLC

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BY ORDER OF THE BOARD

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

Date: 16 May 2002

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/her 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 contract of service with the Company.