


Company number - 3477519

CLOSE BROTHERS AIM VCT PLC

*BB 2009*

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## CLOSE BROTHERS AIM VCT PLC

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### DIRECTORS AND ADMINISTRATION

**Directors**  
M A F Reeve FCA, Chairman  
R J Smith  
F K Malcolm  
S J Hazell-Smith

**Investment Manager**  
Close Investment Limited  
12 Appold Street  
London EC2A 2AW  
Tel: 020 7426 4000

**Secretary and Registered Office**  
J M Gain  
12 Appold Street  
London EC2A 2AW

**Company Administration**  
Close Venture Management  
12 Appold Street  
London  
EC2A 2AW

**Registrar**  
Capita IRG plc  
Balfour House  
390/398 High Road  
Ilford  
Essex IG1 1NQ  
Tel: 020 8478 8241

**Auditors**  
Deloitte & Touche  
London

**Safe Custodians**  
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 2003</b>	<b>Year to 28 February 2003</b>
Total return per share	(29.76) pence	(15.06) pence
Net dividends per share	0.50 pence	1.00 pence
Net asset value per share	56.73 pence	70.46 pence
Net assets	£5.68 million	£14.07 million

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

	<b>Pence per share</b>	<b>Pence per share</b>
Gross dividends for the period to 28 February 1999*	3.75	-
Net dividends for the year to 29 February 2000	12.25	-
Net dividends for the year/period to 28 February 2001	32.25	1.25
Net dividends for the year to 28 February 2002	4.00	2.00
Net dividends for the year to 28 February 2003	<u>0.50</u>	<u>1.00</u>
Total dividends (capital and revenue)	52.75	4.25
Net asset value at 28 February 2003	<u>56.73</u>	<u>70.46</u>
<b>Total return</b>	<b><u>109.48</u></b>	<b><u>74.71</u></b>

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

**FINANCIAL CALENDAR**

Ex dividend date	21 May 2003
Record date for final dividends	23 May 2003
Annual General Meeting	26 June 2003
Posting of dividend cheques in respect of the final dividends	27 June 2003
Announcement of interim results for the six months ended 31 August 2003	October 2003

### 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 V 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

In my statement this time last year I said that 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 continued to be the case with a few exceptions over the last year. However, I am afraid that this still remains to be recognised in their share prices. This is not surprising as the market registered further lows as the build up to the war in Iraq gathered strength at the end of our financial year in February and created further fear and uncertainty in the stock market. Since then things have started to improve in the market generally, with the FTSE 100 now just up on the year, a turnaround of 20% from its low point on 12 March. With the war in Iraq now over, the market is ignoring the potential pitfalls of the peace process and returning to the fundamental economic outlook. This is mixed, much still hangs on the pace of recovery of the US economy and the outlook would seem to be one of low growth.

In the period under review the value of the Ordinary Share and 'C' Share portfolio declined by 34.8% and 18.5% respectively if dividends are added back. This may be compared with an overall decline in the AIM index (dividends reinvested) of 32.6%. While as a single year this is a disappointing performance, it is worth reiterating that VCT portfolios can only invest in a subset (new issues by qualifying companies), of all the companies comprising the AIM index. Over its life to date, the ordinary share portfolio, again adding back dividends to produce comparable figures, has outperformed the AIM index with dividends reinvested. The Ordinary Share's portfolio is up by 15% compared to the index's fall of 43.6%. The 'C' Share's portfolio has fallen by 22.4% since its start in October 2000, while the AIM index is down by 66.2% in the same period. It is not therefore surprising that your company appears at the top of many independent performance tables.

At the end of the year the Ordinary Share portfolio was 89% invested in qualifying investments and the first tranche of the 'C' Share portfolio was fully invested. The 'C' Share portfolio as a whole was 59% invested in qualifying investments. We have a further 8 months to invest the balance. Although the pipeline of new qualifying investments is currently not flowing very freely, I am confident that we shall achieve within that period the necessary 70% invested in qualifying investments if not our target of 80%.

A schedule of investments is set out on pages 7 to 10 and a detailed report on the portfolio by our manager is set out on page 12.

**Dividends**

Shareholders will recall that the prospectuses issued in connection with both the Ordinary and 'C' Share issues stated that as the portfolio became fully invested revenue income would decline thus limiting the scope for revenue dividends. Last October the board declared no interim revenue dividend in respect of the Ordinary Shares and an interim dividend of 0.5 pence per share in respect of the 'C' Shares. At that time I also stated that it was unlikely that there would be a capital dividend in respect of either the Ordinary or 'C' Shares in respect of the current financial year unless there was a turnaround in stock market sentiment. By the end of the financial year not only had there been no such turnaround but market sentiment had declined further.

However your board is recommending a final revenue dividend of 0.50 pence per share in respect of both the Ordinary and 'C' Shares which make a total revenue distribution for the year of 0.50 pence per ordinary share (2002: 0.50 pence) and 1.00 pence per 'C' Share (2002: 2.00 pence). The final dividends will be paid on 27 June 2003 to shareholders on the register on 23 May 2003.

**Cancellation of shares**

During the year under review your board exercised its power to buy 32,000 Ordinary Shares at an average price of 63 pence per share and 38,000 'C' Shares at an average price of 65 pence per share. The prices paid represented a discount of approximately 12% and 19% respectively for Ordinary Shares and 'C' Shares 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.

**The Alternative Investment Market - AIM**

In December last year AIM celebrated the enrolment of the 700<sup>th</sup> company since it was founded in 1995. There are now 705 companies traded on AIM which have a total market capitalisation of £9.6 billion. Despite a slowdown in the number of new companies listing on AIM in 2002, the market was still responsible for 40% of all flotations by number across Europe during the year. It is in difficult market conditions such as those of the past year that the strengths of AIM with its tax breaks become apparent. Its relative resilience also reflects the fact that it caters for the very small niche businesses that are not so reliant on the economic environment and not so affected by big geopolitical events.

There has been much recent press coverage about the future of AIM under the proposed new European Directives. The fear is that several of these directives will remove the main distinctions between AIM and the Full List, leaving OFEX as the only flexible market with AIM-type flexible rules and tax breaks. This could potentially have a serious impact on the future availability of qualifying investments and as such it is something that your board and your manager are watching keenly. A number of potential ways around this problem are currently being aired. AIM's very success should make its future of some importance to the London Stock Exchange as it plainly is to the UK's economic growth prospects and the companies which have been able to raise capital on the market. All this makes the likelihood of an acceptable solution greater. Meanwhile, the legislation seems at present to have a five year phasing in period from its enactment, so the fund should have plenty of time to react to any changes that do occur.

**Outlook**

We have now experience of a bear market for three years. Pundits tell us that we are unlikely to see a repeat of the increases in values we saw in the 1990s for many years. Admittedly the type of huge bubble which burst two years ago is not witnessed by many generations. However, from little acorns do big trees grow and we invest in 'little acorns' which can grow much faster than mature trees. Increasingly companies in our portfolio are declaring dividends and a good proportion of them are making sound progress. In due course this will be recognised in their share price ratings. In my statement last year I said that in the next year or so they and other investments should realise the potential which vindicates our original investment decision. Perhaps the emphasis should now be on that word 'so'. Generally we have a promising portfolio and I see no reason why in due course such promise should not be realised.



Michael Reeve

Chairman

12 May 2003

### THE BOARD OF DIRECTORS

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

**Michael Reeve** (66) 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 other companies.

**Roger Smith** (64) 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** (59) BSc (Hons). He has worked with Brewin Dolphin Securities Limited of which he is a director and its predecessor companies since 1972. 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** (49) 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. Stephen Hazell-Smith is also currently Chairman of Phoenix VCT PLC and of Hoodless Brennan Partners PLC.

### 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** (51)

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** (40)

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 at 28 February 2003.

Company and Description	Market Value at 28 February 2003 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>Transport Systems.</b> Supplier of traffic management systems.	116	-	250	-	1,540,000	-	10.8
<b>Clipper Ventures.</b> Owners and organisers of the Clipper Around Alone round the world yacht races.	124	71	350	250	828,400	471,698	10.0
<b>1st Dental Laboratories.</b> Manufacturer of dental equipment.	-	292	-	350	-	1,296,296	9.6
<b>Bank Restaurant Group.</b> Restaurant chain operator.	47	94	250	500	1,250,000	2,500,000	8.8
<b>Conder Environmental.</b> Manufacture of oil spill recovery and pollution control equipment, sewage treatment and underground storage tanks.	122	243	212	423	1,060,000	2,115,000	8.5
<b>Avionic Services.</b> Systems and consultancy services to the airport and aviation sector.	-	208	-	350	-	1,666,667	8.1
<b>Deltex Medical Group.</b> Developer of non invasive heart monitoring devices.	81	163	239	478	956,896	1,913,796	7.7
<b>Hearing Enhancement.</b> Developer of the mini-loop system for the hard of hearing.	35	71	125	250	262,500	525,000	7.1
<b>Vianet.</b> Provider of remote monitoring devices for the vending machine industry.	10	130	400	200	308,000	4,000,000	7.0
<b>Pilat Media Global.</b> Software provider for the global multi-channel broadcasting market.	115	230	200	400	1,000,000	2,000,000	6.8
<b>Stagecoach Theatre Arts.</b> Operator of part-time performing arts schools for youngsters.	166	332	193	386	207,529	415,058	6.4
<b>Adval.</b> Design and delivery of bespoke training courses for human resources development for major corporations.	53	55	480	438	844,443	877,162	5.7
<b>Capeon.</b> Provider of audit, stock taking and commercial investigation services.	75	203	108	292	135,000	365,000	5.5
<b>Lloyds British Testing.</b> Engineering and support services to the construction industry.	-	324	-	332	-	1,620,759	5.1

**CLOSE BROTHERS AIM VCT PLC**

Company and Description	Market Value at 28 February 2003 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>Protec.</b> Development and installation of electronic security and information systems.	132	195	149	195	1,886,101	2,783,000	3.8
<b>Clarity Commerce Solutions.</b> Supplier of electronic point of sale software and membership software solutions to the leisure sector.	-	316	-	386	-	514,522	3.7
<b>PM Group.</b> Design, manufacture and service of weighing systems for the haulage and waste management industries.	-	635	-	410	-	410,000	3.3
<b>InterLink Foods.</b> Manufacturer of own label cakes for supermarket groups.	461	444	168	391	153,140	147,467	3.2
<b>Comeleon.</b> Provider of advanced imaging technologies.	18	35	263	525	159,252	318,504	3.1
<b>Hartest.</b> Manufacturer and distributor of specialist laboratory equipment.	-	186	-	298	-	3,719,576	3.1
<b>Ideal Shopping Direct.</b> Sales organisation direct to consumer via catalogue and TV channel.	168	212	269	200	395,000	500,000	3.1
<b>Tennet Life Science.</b> Developer of automated DNA technologies.	66	164	164	409	820,635	2,044,472	3.0
<b>AIF Group.</b> Provider of Web based solutions for the retail financial services sector.	66	132	200	400	228,572	457,143	2.8
<b>Warthog.</b> Developer of computer games software.	73	145	192	382	429,303	855,814	2.7
<b>Fitzhardinge.</b> Provider of real estate solutions to the UK and International property sectors.	208	417	225	450	195,653	391,304	2.5
<b>Advanced Medical Solutions Group.</b> Developer and manufacturer of woundcare products.	-	274	-	300	-	3,529,411	2.5
<b>Hartford.</b> London based restaurant and bar operator.	122	-	325	-	12,187,500	-	2.3
<b>GX networks.</b> Provider of telecommunications services.	110	250	450	500	4,908,947	11,095,000	2.2
<b>Fandem.</b> Manufacturer and distributor of bicycles, golfing equipment and snooker tables.	138	-	250	-	5,000,000	-	2.0
<b>Blooms of Bressingham.</b> Operator of garden centres.	58	43	340	190	267,582	200,000	1.9
<b>Honeycombe.</b> Managed pub operator in North West England.	279	-	293	-	532,000	-	1.8
<b>Landround.</b> Organiser of travel promotions and incentives for corporate clients.	150	-	205	-	100,000	-	1.8

**CLOSE BROTHERS AIM VCT PLC**

Company and Description	Market Value at 28 February 2003 £'000		Book Cost £'000		Holding (shares)		% of capital owned
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	
<b>Metnor Group.</b> Hot dip galvaniser of steel products.	343	-	208	-	207,865	-	1.4
<b>Oasis Healthcare.</b> Consolidator and operator of dental practices throughout the UK.	-	170	-	419	-	1,047,535	1.3
<b>Inventive Leisure.</b> Bar and nightclub operator.	271	-	261	-	275,000	-	1.2
<b>Mears.</b> Building maintenance contractor to local authorities, the MOD and the private sector.	409	-	79	-	606,062	-	1.1
<b>MacLellan.</b> Facilities management.	412	-	258	-	680,263	-	0.9
<b>Transcomm.</b> Operator of the Molsitex mobile network used for data communications.	47	-	288	-	721,000	-	0.7
<b>XKO.</b> Suppliers of business enterprise and e-commerce software and systems integration services.	62	-	251	-	209,000	-	0.7
<b>Fulcrum Pharma.</b> Provider of drug development services.	-	77	-	93	-	812,678	0.7
<b>Giardino Group.</b> Owner and operator of cafés and restaurants.	68	-	149	-	119,149	-	0.6
<b>Maclor.</b> Developer of off-patent medicines and medical devices.	23	-	139	-	102,777	-	0.5
<b>NMT Group.</b> Developer and manufacturer of safety syringes.	23	-	350	-	2,333,333	-	0.3
<b>Systems Union.</b> Provision of accounting software internationally.	22	-	46	-	35,471	-	0.1
<b>Total qualifying investments at 28 February 2003</b>	<b>4,673</b>	<b>6,111</b>	<b>8,329</b>	<b>10,197</b>			

It should be noted that although all investments were originally floated on the AIM or OFEX, some may progress to a full listing. The only current investment to have done so is XKO. This does not affect in any way the qualifying status of the holding for the first five years after the move to full listing.

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 following the year end:

Company and Description	Market Value at 9 May 2003 £'000		Book Cost £'000		Holding (shares)	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Chimer Ventures (convertible loan stock)	-	250	-	250	-	-
Ilivecars	-	414	-	300	-	1,200,000
Micron	-	412	-	389	-	1,555,860
Denex Medical	182	-	100	-	1,428,572	-
<b>Total as at 9 May 2003</b>	<b>182</b>	<b>1,076</b>	<b>100</b>	<b>939</b>		

The following are the details of non-qualifying investments held at 28 February 2003.

Holding	Market Value at 28 February 2003 £'000		Cost £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Chicorp FRN (due April 2003)	-	1,501	-	1,496
Sunamerica FRN (due April 2005)	997	-	998	-
Deutsche Bank FRN (due June 2005)	-	1,495	-	1,497
Yorkshire Building Society FRN (due October 2005)	-	1,501	-	1,499
Glencrich FRN (due April 2006)	-	1,503	-	1,497
<b>Total as at 28 February 2003</b>	<b>997</b>	<b>6,000</b>	<b>998</b>	<b>5,989</b>

**CLOSE BROTHERS AIM VCT PLC**

**Schedule of Disposals**

During the year ended 28 February 2003

Ordinary Shares

Company	Qualifying investments		Non-qualifying investments		Gain/(loss) £'000
	Book Cost £'000	Proceeds £'000	Book Cost £'000	Proceeds £'000	
Inter Link Foods	39	152	-	-	113
Metnor Group	10	24	-	-	14
Stenoak Associated Services	93	-	-	-	(93)
Topnotch	130	6	-	-	(124)
	<b>272</b>	<b>182</b>	<b>-</b>	<b>-</b>	<b>(90)</b>

UC Shares

Company	Qualifying investments		Non-qualifying investments		Gain/(loss) £'000
	Book Cost £'000	Proceeds £'000	Book Cost £'000	Proceeds £'000	
Northern Rock FRN	-	-	1,499	1,501	2
Nationwide Building Society FRN	-	-	1,497	1,500	3
Clarity Commerce Solutions	-	-	8	-	(8)
PM Group	40	65	-	-	25
Inter Link Foods	40	68	-	-	28
	<b>80</b>	<b>133</b>	<b>3,004</b>	<b>3,001</b>	<b>50</b>

Post year ended 28 February 2003

Ordinary Shares

Company	Qualifying investments		Non-qualifying investments		Gain/(loss) £'000
	Book Cost £'000	Proceeds £'000	Book Cost £'000	Proceeds £'000	
Sunamerica FRN	-	-	998	996	(2)

## MANAGER'S REVIEW

### Portfolio

The year under review was a difficult one for equities in general and for small companies in particular. After a relatively stable year up to the end of May 2002, the stockmarket fell steadily until October when it started to recover. The recovery was, however, short-lived and the FTSE 100 once again led the rest of the market down in January and February of this year, ending the year 28.3% down. Unfortunately, a general lack of interest in smaller companies meant that the AIM Index failed to participate in any rallies by the wider market and underperformed both the FTSE 100 and the FT All Share indices over the year, falling by 32.6% in the year. It is surprising that against this background AIM was responsible for 40% of European new issues by number in 2002 as well as many secondary offerings although not all of these were qualifying. However, much of this activity was concentrated in the first half of the year and the relatively buoyant new issue activity that we reported on at the interim stage did not carry through into the second half, which was much quieter. The flow of secondary issues continued throughout the year, although many of these were companies looking for lifelines having failed to reach profitability within their existing facilities. Because of distressed circumstances, many of these issues came at more attractive prices.

It is disappointing to report that the Ordinary Share net asset value fell by 34.8% over the year. After a relatively robust performance in the first half, the portfolio was affected by the wholesale de-rating of even its more established holdings as investors became preoccupied with the prospect of war in the Middle East and terrorist threats and lost interest in investing in all smaller companies. A share price would typically be hit by a seller accepting a discount to the market price, thus establishing a new lower price level. This general malaise was also exacerbated by some individual holdings which like *Deltex* and *Clipper* were raising money in adverse market conditions. We commented on the poor share price performance of non-profitable companies in the interim statement and those holdings have continued to hold the portfolio back. Even *Inter Link Foods*, which has continued to deliver good profits growth saw its share price marked down by 25% on the back of a fundraising to buy the fruit loaf manufacturer *Soreen*. We expect the acquisition to enhance profit growth in the future although the share price may take some months to recover. The poor performance of the asset value in the year was in contrast to the progress that many of the holdings in the portfolio are making. We expect maiden dividends from *Systems Union*, *Conder*, *Ideal Shopping* and *Stagecoach Theatre Arts* before this time next year. It will join *MacLellan*, which announced its maiden dividend in early March this year.

The VC Share portfolio fared better in asset value terms, falling by 18.5% in the year. This was largely due to the higher proportion of cash in the portfolio. With the exception of *Inter Link Foods*, it has fewer mature investments and its performance this year will depend less on a re-rating of smaller company shares and more on the individual progress of its investments.

### Portfolio Activity

#### Ordinary Share Portfolio

The portfolio is listed on pages 7 to 9 and consists of 35 holdings at a cost of £8.3m. At the end of the year it was 89% invested in qualifying holdings. During the year the fund made three qualifying investments, two of which were either made or committed in the first half of the year, and only one, *AIT* was a new holding. As we have already said, the second half was much quieter in terms of VCTable issues of any quality and we have taken the view that it is better to support our existing holdings which are still struggling to achieve profitability, but where the investment case holds good, rather than adopt new ones. On this basis we made a further investment of £90,000 in *Transport Systems* in the second half. A change in the management team should result in a turnaround of the business which was suffering from poor controls. We have also committed to an investment of £100,000 in *Deltex* since the year end. The management team has been strengthened by the addition of a new chief executive and sales of probes for monitoring blood flow are at last on a rising trend in the UK. The money raised is to be used to capitalise on the award of a reimbursement code in the US which means that consultants using the *Deltex* probe can be paid to do so. Establishing a base in the US is important to achieving a sensible valuation for the shares that do not reflect any of the upside at the fundraising price. Despite having to write down the original investment, it makes sense to add to the holding at these levels.

We have not made many sales during the year because of the lack of better investments to replace the more established holdings that have been sold to pay out capital dividends in the past. On the basis that companies such as Interlink Foods, Mears, MacLellan and Inventive Leisure are all growing at above the market rate and trade on modest ratings we view the potential upside in these as significant should the market recover some of its lost confidence. Meanwhile, more than 50% of the portfolio by value will be dividend paying in the current year, indicating its increasing maturity. The only full disposal in the year was of Topnotch, the health club operator. The company had over-borrowed to an extent that we considered to be dangerous in an industry downturn.

#### **'C' Share Portfolio**

The 'C' Share Portfolio is listed on pages 7 to 9 and consists of 29 investments at a cost of £10.2 million. Of the four investments made or committed to in the second half, two, AIT and Huveaux were new companies and the other two, Maelor and Clipper were additions to existing holdings. Huveaux started life just over a year ago as a shell company formed to invest in publishing assets. The fund became involved in the latest deal to buy a specialist school publishing business to add to the parliamentary directories business that it bought last year. It is a profitable dividend paying company. Maelor is an existing holding in the Ordinary portfolio where a change in management has improved the chances of reaching profitability and achieving significant sales of its medical devices. Clipper is a further investment via a convertible bond to finance a new fleet of boats. The potential upside depends on them successfully building the sponsorship profile of the next Clipper and Around Alone races, scheduled to run in 2005. There were two small partial disposals for a profit in the first half. The majority of investments in the 'C' Share Portfolio are immature at this stage with less than half of the investments currently profitable. This year we expect around a third of the existing portfolio to reach profitability and it is encouraging to report that two more, Capcon and Fitzhardinge joined the dividend list last year. At the end of the year, the first tranche of the portfolio was fully invested and the overall portfolio 59% invested.

#### **Outlook**

The problem facing both portfolios is how to realise proper value from their investments if market conditions do not improve from the very low level they have reached. Even profitable dividend paying companies achieving above average growth are struggling to be seen in the current environment, although that should change if the stock market stabilises and the economic climate remains dull, as growth should once again command a premium. This is why we have retained our holdings in more mature companies to provide a balance in the portfolio and hopefully some early gains should the smaller company market bounce.

The problem for non-profitable companies is even more challenging. We have seen in the cases of Deltex, Maelor and Clipper for example how the market punishes share prices where a fund raising is deemed necessary for survival. For this reason we have examined the viability of all further investments in existing holdings very closely, applying strict criteria on valuation and potential risk and reward. We have also worked hard to encourage the management teams of some of the underperforming investments in the portfolios to cut costs and focus on surviving even if it means abandoning a more exciting future business plan for the time being. Many such decisions have had to be taken in the light of difficult current conditions. We would not necessarily be advocating that more exciting plans be shelved permanently. However, with investors' interests foremost even the most exciting plans have to recognize the immediate reality. As a result, for some of these companies it now looks increasingly likely that the eventual exit may be to a corporate buyer. Indeed, Blooms has recently announced several approaches and we expect this sort of activity to gather momentum, which itself should stimulate some presently depressed share prices. We do not believe though that we have to depend on takeover approaches solely to see higher share prices. There are several holdings in the portfolios which are expected to turn profitable over the next eighteen months and which should have considerable upside when they achieve this milestone. For the moment these shares are ignored and deemed too small to warrant any interest. We strongly believe that investors are missing several attractive situations, which will reap shareholders handsome returns.

**Andrew Buchanan**  
**Kate Tidbury**

Close Investment Limited

12 May 2003

**CLOSE BROTHERS AIM VCT PLC**

**REPORT OF THE DIRECTORS**

The Directors submit their fifth report and accounts of the Company for the year ended 28 February 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 an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 28 February 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 28 February 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 and Mangers Review.

The Company is not an investment company as defined in Section 266 of the Companies Act 1985.

**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 2003	18	204	222
Net interim revenue dividend of 0.50p per share, paid on 15 November 2002	-	(100)	(100)
Net final revenue dividends of 0.50p per share, payable on 27 June 2003	<u>(51)</u>	<u>(100)</u>	<u>(151)</u>
Revenue transferred (from)/to reserves	<u>(33)</u>	<u>4</u>	<u>(29)</u>
Realised capital return attributable to shareholders	(221)	(232)	(453)
Unrealised capital return attributable to shareholders	<u>(2,780)</u>	<u>(2,980)</u>	<u>(5,760)</u>
Capital transferred from reserves	<u>(3,001)</u>	<u>(3,212)</u>	<u>(6,213)</u>
Total transferred from reserves	<u>(3,034)</u>	<u>(3,208)</u>	<u>(6,242)</u>

**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 2003 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%	40,000	0.20%

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

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.

Stephen Hazell-Smith purchased 15,000 'C' Shares in the market at 53 pence per share on 18 February 2003.

### **Management Agreement**

The Company has entered into a management agreement with Close Investment Limited ("the Manager") for a fixed term, which may be terminated by either party on 12 months' notice. 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 9 May 2003 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 2003. 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:

#### 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 1,000,800 Ordinary Shares and 1,996,200 '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.

#### 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 2003 (2002 - nil).

By Order of the Board,

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

12 May 2003

## 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 at least four times each year 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 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 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 2003 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

## DIRECTORS' REMUNERATION REPORT

### Introduction

This report is submitted in accordance with the Directors Remuneration Report Regulations 2002 in respect of the year ended 28 February 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

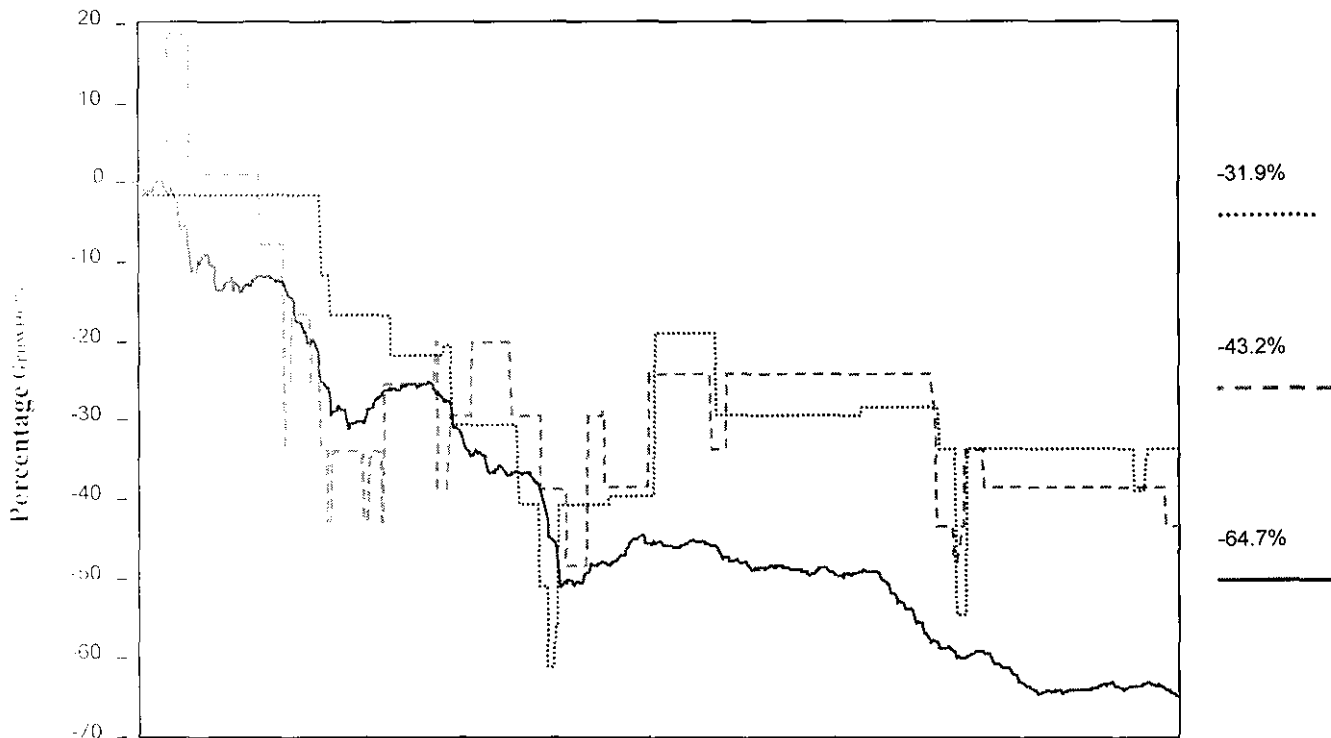
The company's policy is that fees payable to non-executive directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration, market equivalents are considered in comparison to the overall activities and size of the Company.

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. The aggregate non-executive Directors' fees will not exceed £75,000 per annum.

### Performance graph

The graph below shows the performance of Close Brothers AIM VCT PLC's Ordinary Share price against the FTSE AIM index for the period since the launch of the 'C' Shares in October 2000. The Directors consider this to be the nearest equivalent benchmark, but, would remind investors that shares in VCTs generally continue to trade at a discount to the actual net asset value of the Company.

..... Close Brothers AIM C      ————— FTSE AIM Index      - - - - - Close Brothers AIM VCT Ords  
Percentage Growth Total Return



From 20 Oct 2000 to 31 March 2003

## CLOSE BROTHERS AIM VCT PLC

### Service contracts

No director has a service contract with the Company.

### Directors' remuneration

The following items have been audited

The following table shows a breakdown of the remuneration of individual Directors, inclusive of National Insurance or VAT:

	Year ended 28 February 2003			Year ended 28 February 2002		
	Fees £'000	Expenses £'000	Total £'000	Fees £'000	Expenses £'000	Total £'000
Nigel Reeve	19	-	19	18	-	18
Frank Malcolm	15	3	18	15	3	18
Roger Smith	16	-	16	15	-	15
Stephen Hazell-Smith	<u>16</u>	<u>-</u>	<u>16</u>	<u>6</u>	<u>-</u>	<u>6</u>
	<u>66</u>	<u>3</u>	<u>69</u>	<u>54</u>	<u>3</u>	<u>57</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 Roger Smith whose services are provided by Central Industrial Holdings Limited. In addition, expenses paid in respect of Frank Malcolm have been reimbursed to Brewin Dolphin.

In addition to Directors' remuneration the Company pay annual premiums in respect of Directors' liability insurance.

By order of the Board



Company  
Secretary

11 Nov 2003

**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 PLC for the year ended 28 February 2003 which comprise the statement of total return, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes 1 to 21. 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 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 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.

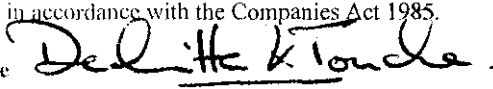
**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 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

Chartered Accountants and Registered Auditors  
London



17 May 2003

**Close Brothers AIM VCT PLC**  
**Statement of Total Return (incorporating the revenue account)**  
**for the year ended 28 February 2003**

	Note	Ordinary Shares 28 February 2003			'C' Shares 28 February 2003			Total 28 February 2003		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	2	-	(2,872)	(2,872)	-	(2,931)	(2,931)	-	(5,803)	(5,803)
Investment income	3	110	-	110	392	-	392	502	-	502
Investment management fee	4	(43)	(129)	(172)	(93)	(281)	(374)	(136)	(410)	(546)
Other expenses	5	(49)	-	(49)	(95)	-	(95)	(144)	-	(144)
<b>Return/(loss) on ordinary activities before tax</b>		18	(3,001)	(2,983)	204	(3,212)	(3,008)	222	(6,213)	(5,991)
Tax on ordinary activities	7	-	-	-	-	-	-	-	-	-
<b>Return/(loss) attributable to equity shareholders</b>		18	(3,001)	(2,983)	204	(3,212)	(3,008)	222	(6,213)	(5,991)
Equity dividends	8	(51)	-	(51)	(200)	-	(200)	(251)	-	(251)
Transfer (from)/to reserves		(33)	(3,001)	(3,034)	4	(3,212)	(3,208)	(29)	(6,213)	(6,242)
Return (loss) per share (pence)	9	0.2	(29.9)	(29.7)	1.0	(16.1)	(15.1)	0.7	(20.7)	(20.0)

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 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	<u>52</u>	-	<u>52</u>	<u>(99)</u>	<u>60</u>	<u>(39)</u>	<u>(47)</u>	<u>60</u>	<u>13</u>
<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	<u>(50)</u>	<u>(351)</u>	<u>(401)</u>	<u>(400)</u>	-	<u>(400)</u>	<u>(450)</u>	<u>(351)</u>	<u>(801)</u>
<b>Transfer to/(from) reserves</b>		<u>49</u>	<u>(2,862)</u>	<u>(2,813)</u>	<u>24</u>	<u>(1,617)</u>	<u>(1,593)</u>	<u>73</u>	<u>(4,479)</u>	<u>(4,406)</u>
Return (loss) per share (pence)	9	1.0	(25.0)	(24.0)	2.1	(8.1)	(6.0)	1.7	(13.7)	(12.0)

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 2003**

	Note	Ordinary Shares 28 February 2003 £'000	'C' Shares 28 February 2003 £'000	Total 28 February 2003 £'000
<b>Fixed asset investments</b>				
Qualifying investments		4,673	6,111	10,784
Non-qualifying investments		<u>997</u>	<u>6,000</u>	<u>6,997</u>
Total fixed asset investments	10	5,670	12,111	17,781
<b>Current assets</b>				
Debtors	11	43	441	484
Cash at bank and in hand		<u>40</u>	<u>1,700</u>	<u>1,740</u>
		83	2,141	2,230
Creditors: amounts falling due within one year	12	<u>(76)</u>	<u>(186)</u>	<u>(262)</u>
Net current assets		<u>7</u>	<u>1,955</u>	<u>1,962</u>
Total assets		<u>5,677</u>	<u>14,066</u>	<u>19,743</u>
<b>Capital and reserves</b>				
Called up share capital	13	5,004	9,981	14,985
Special reserve	14	4,460	8,953	13,413
Capital redemption reserve	14	46	24	70
Realised capital reserve	14	(206)	(864)	(1,070)
Unrealised capital reserve	14	(3,658)	(4,075)	(7,733)
Revenue reserve	14	<u>31</u>	<u>47</u>	<u>78</u>
Total equity shareholders' funds	16	<u>5,677</u>	<u>14,066</u>	<u>19,743</u>
Net asset value per share (pence)	15	56.73	70.46	65.87

The financial statements on pages 22 to 41 were approved by the Board of Directors on 12 May 2003 and were signed on its behalf by



Michael Reeve  
Chairman

## CLOSE BROTHERS AIM VCT PLC

**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
Creditors: amounts falling due within one year	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</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>Net asset value per share (pence)</b>	15	86.97	86.49	86.65

CLOSE BROTHERS AIM VCT PLC

**Close Brothers AIM VCT PLC**  
**Cash Flow Statement**  
**for the year ended 28 February 2003**

	Note	Ordinary Shares Year to 28 February 2003 £'000	'C' Shares Year to 28 February 2003 £'000	Total Year to 28 February 2003 £'000
<b>Operating activities</b>				
Dividend income received		57	28	85
Investment income received		54	316	370
Deposit interest received		10	66	76
Other income received		-	-	-
Investment management fees paid		(222)	(469)	(691)
Other cash payments		(34)	(62)	(96)
<b>Net cash outflow from operating activities</b>	18	<u>(135)</u>	<u>(121)</u>	<u>(256)</u>
<b>Taxation</b>				
UK income tax repaid		-	-	-
<b>Capital expenditure and financial investment</b>				
Purchase of qualifying investments		(340)	(2,965)	(3,305)
Purchase of non-qualifying investments		-	-	-
Disposals of qualifying investments		315	132	447
Disposals of non-qualifying investments		-	3,001	3,001
<b>Net cash (outflow)/inflow from investing activities</b>		<u>(25)</u>	<u>168</u>	<u>143</u>
<b>Equity dividends paid</b>				
Revenue dividends paid on ordinary shares		-	(100)	(100)
Capital dividends paid on ordinary shares		(351)	(200)	(551)
<b>Net cash outflow before financing</b>		<u>(511)</u>	<u>(253)</u>	<u>(764)</u>
<b>Financing</b>				
Issue of equity net of expenses		-	-	-
Redemption of shares net of expenses		<u>(14)</u>	<u>(31)</u>	<u>(45)</u>
<b>Net cash outflow from financing</b>		<u>(14)</u>	<u>(31)</u>	<u>(45)</u>
<b>Decrease in cash in the year</b>	17	<u>(525)</u>	<u>(284)</u>	<u>(809)</u>

**Close Brothers AIM VCT PLC**  
**Cash Flow Statement**  
**for the year ended 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 corporation tax paid		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>63</u>	<u>1,297</u>	<u>1,360</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 2003

#### 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 1985 relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on the total return or balance sheet. 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 2003.

**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 is dealt with in the realised capital reserve.

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

**Income and expenses**

All income and expenses are treated on the accruals basis and dividend income is included in revenue when 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. The balance of other expenses has 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 2003			Year to 28 February 2002		
	£'000			£'000		
	Ordinary Shares £'000	'C' Shares £'000	Total £'000	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Realised gains/(losses) on disposal	1	57	58	547	(304)	243
Permanent diminution	(93)	(8)	(101)	(250)	-	(250)
Increase in unrealised depreciation	<u>(2,780)</u>	<u>(2,980)</u>	<u>(5,760)</u>	<u>(2,630)</u>	<u>(1,054)</u>	<u>(3,684)</u>
Losses for the year	<u>(2,872)</u>	<u>(2,931)</u>	<u>(5,803)</u>	<u>(2,333)</u>	<u>(1,358)</u>	<u>(3,691)</u>

3. Investment income

	Year to 28 February 2003			Year to 28 February 2002		
	£'000			£'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	59	33	92	61	10	71
UK unfranked investment income	<u>42</u>	<u>293</u>	<u>335</u>	<u>72</u>	<u>570</u>	<u>642</u>
	101	326	427	133	580	713
<b>Other income</b>						
Deposit interest	9	66	75	18	129	147
Commission	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>7</u>	<u>12</u>
<b>Total income</b>	<u>110</u>	<u>392</u>	<u>502</u>	<u>156</u>	<u>716</u>	<u>872</u>
<b>Total income comprises</b>						
Dividends	59	33	92	61	10	71
Interest	51	359	410	90	699	789
Commission	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>7</u>	<u>12</u>
	<u>110</u>	<u>392</u>	<u>502</u>	<u>156</u>	<u>716</u>	<u>872</u>
<b>Income from investments</b>						
Listed	101	326	427	133	580	713
Unlisted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>101</u>	<u>326</u>	<u>427</u>	<u>133</u>	<u>580</u>	<u>713</u>

4. Investment management fee

	Year to 28 February 2003			Year to 28 February 2002		
	£'000			£'000		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Investment management fee</b>						
- Ordinary Shares	43	129	172	64	178	242
- 'C' Shares	<u>93</u>	<u>281</u>	<u>374</u>	<u>112</u>	<u>319</u>	<u>431</u>
	<u>136</u>	<u>410</u>	<u>546</u>	<u>176</u>	<u>497</u>	<u>673</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. Other expenses	Year to 28 February 2003			Year to 28 February 2002		
	Ordinary Shares £'000	'C' Shares £'000	Total £'000	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Directors' fees	24	45	69	21	37	58
Auditors' remuneration audit fees	5	10	15	5	9	14
Other	<u>20</u>	<u>40</u>	<u>60</u>	<u>19</u>	<u>35</u>	<u>54</u>
Total	<u>49</u>	<u>95</u>	<u>144</u>	<u>45</u>	<u>81</u>	<u>126</u>

6. Directors' fees

Inclusive of statutory deductions, the remuneration of the chairman, who is the highest paid Director was £19,068 (2002: £18,145). The remuneration of the other Directors (inclusive of statutory deductions or VAT) amounted to £49,442 (2002: £39,397).

7. Tax on ordinary activities

(a) Tax charge for the year

	Ordinary Shares Year to 28 February 2003			'C' Shares Year to 28 February 2003		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK Corporation tax at 20%	-	-	-	-	-	-
Tax attributable to capital expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	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
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>52</u>	<u>-</u>	<u>52</u>	<u>(99)</u>	<u>60</u>	<u>(39)</u>

Corporation tax has been provided at 20% (2002: 20%).

**CLOSE BROTHERS AIM VCT PLC**

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

	Ordinary Shares Year to 28 February 2003			'C' Shares Year to 28 February 2003		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	18	(3,001)	(2,983)	204	(3,212)	(3,008)
Tax charge at the standard rate	4	(600)	(596)	41	(642)	(601)
<b>Factors affecting the charge</b>						
Non taxable losses on investments (i)	-	574	574	-	586	586
Expenses charged to capital (ii)	(26)	26	-	(56)	56	-
Movement in excess management expenses	34	-	34	22	-	22
Non taxable income (i)	<u>(12)</u>	<u>-</u>	<u>(12)</u>	<u>(7)</u>	<u>-</u>	<u>(7)</u>
UK Corporation tax charge	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	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	18	(3,001)	(2,983)	204	(3,212)	(3,008)
Tax charge at the standard rate	4	(600)	(596)	41	(642)	(601)
<b>Factors affecting the charge</b>						
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)	<u>(12)</u>	<u>-</u>	<u>(12)</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
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 2003			Year to 28 February 2002		
		Ordinary Shares £'000	'C' Shares £'000	Total £'000	Ordinary Shares £'000	'C' Shares £'000	Total £'000
	Dividends on equity shares:						
	- interim revenue dividend of 0.0p per Ordinary share (2002: 0.5p)	-	-	-	50	-	50
	- interim revenue dividend of 0.5p per C share (2002: 1.0p)	-	100	100	-	200	200
	- final revenue dividend of 0.5p per Ordinary share (2002: 0.0p)	51	100	151	-	200	200
	- final capital dividend of nil p per share (2002: 3.50p per Ordinary share)	-	-	-	351	-	351
		<u>51</u>	<u>200</u>	<u>251</u>	<u>401</u>	<u>400</u>	<u>801</u>
9.	Return/(loss) per share	Year to 28 February 2003			Year to 29 February 2002		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Basic						
	- ordinary shares	0.2p	(29.9)p	(29.7)p	1.0p	(25.0)p	(24.0)p
	- C shares	<u>1.0p</u>	<u>(16.1)p</u>	<u>(15.1)p</u>	<u>2.1p</u>	<u>(8.1)p</u>	<u>(6.0)p</u>
	- total	0.7p	(20.7)p	(20.0)p	1.7p	(13.7)p	(12.0)p

Ordinary Shares

The revenue return per Ordinary Share is based on the profit on ordinary activities after taxation, but before deduction of dividends of £18,000. (2002: £99,000), whilst the capital loss is based on the loss on ordinary activities after taxation, but before deduction of dividends of £3,001,000 (2002: £2,511,000). This is in respect of 10,030,137 ordinary shares (2002: 10,063,822 shares), being the weighted average number of ordinary shares in issue during the year.

'C' Shares

The revenue return per 'C' Share is based on the return on ordinary activities after taxation but before deduction of dividends of £204,000 (2002: £424,000), whilst the capital loss is based on the loss on ordinary activities after taxation, but before deduction of dividends of £3,212,000 (2002: £1,617,000). This is in respect of 19,977,055 'C' shares (2002: 19,905,164 shares), being the weighted average number of 'C' shares in issue during the year.

**CLOSE BROTHERS AIM VCT PLC**

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

10. Fixed asset investments	Year to 28 February 2003			Year to 28 February 2002		
	Ordinary Shares £'000	'C' Shares £'000	Total £'000	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Qualifying AIM investments	4,673	6,111	10,784	7,387	6,607	13,994
Non qualifying listed investments	997	6,000	6,997	995	8,992	9,987
Total	<u>5,670</u>	<u>12,111</u>	<u>17,781</u>	<u>8,382</u>	<u>15,599</u>	<u>23,981</u>

	Ordinary Shares		
	Qualifying AIM £'000	Non- qualifying listed £'000	Total investments £'000
<b>Valuation basis</b>			
Opening valuation: 1 March 2002	7,387	995	8,382
Purchases at cost	340	-	340
Sales - proceeds	(180)	-	(180)
- realised gains on disposal	1	-	1
Permanent diminution	(93)	-	(93)
Realisation of revaluation losses from previous years	(9)	-	(9)
(Decrease)/increase in unrealised appreciation	<u>(2,773)</u>	<u>2</u>	<u>(2,771)</u>
Closing valuation : 28 February 2003	<u>4,673</u>	<u>997</u>	<u>5,670</u>
<b>Historical cost basis</b>			
Opening book cost	8,262	998	9,260
Purchases at cost	340	-	340
Permanent diminution	(93)	-	(93)
Disposals at cost	<u>(179)</u>	<u>-</u>	<u>(179)</u>
Closing book cost	<u>8,330</u>	<u>998</u>	<u>8,428</u>
Opening unrealised losses	(875)	(3)	(878)
(Decrease)/increase in unrealised appreciation	<u>(2,782)</u>	<u>2</u>	<u>(2,780)</u>
Closing unrealised losses	<u>(3,657)</u>	<u>(1)</u>	<u>(3,658)</u>

**CLOSE BROTHERS AIM VCT PLC**

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

10. Fixed asset investments (continued)	'C' Shares			
	Qualifying AIM £'000	Non- qualifying AIM £'000	Non- qualifying Listed £'000	Total Investments £'000
<i>Valuation basis</i>				
Opening valuation: 1 March 2002	6,607	-	8,992	15,599
Purchases at cost	2,576	-	-	2,576
Sales - proceeds	(132)	-	(3,001)	(3,133)
- realised (losses)/gains on disposal	52	-	5	57
Permanent diminution	-	(8)	-	(8)
Realisation of revaluation gains from previous years	50	-	4	54
(Decrease)/increase in unrealised appreciation	<u>(3,042)</u>	<u>8</u>	<u>-</u>	<u>(3,034)</u>
Closing valuation : 28 February 2003	<u>6,111</u>	<u>-</u>	<u>6,000</u>	<u>12,111</u>
<i>Historical cost basis</i>				
Opening book cost	7,701	8	8,985	16,694
Permanent diminution	-	(8)	-	(8)
Purchases at cost	2,576	-	-	2,576
Disposals at cost	<u>(80)</u>	<u>-</u>	<u>(2,996)</u>	<u>(3,076)</u>
Closing book cost	<u>10,197</u>	<u>-</u>	<u>5,989</u>	<u>16,186</u>
Opening unrealised losses	(1,094)	(8)	7	(1,095)
(Decrease)/increase in unrealised appreciation	<u>(2,992)</u>	<u>8</u>	<u>4</u>	<u>(2,980)</u>
Closing unrealised (losses)/gains	<u>(4,086)</u>	<u>-</u>	<u>11</u>	<u>(4,075)</u>

11. Debtors	28 February 2003			28 February 2002		
	Ordinary Share £'000	'C' Shares £'000	Total £'000	Ordinary Share £'000	'C' Shares £'000	Total £'000
Other debtors	-	397	397	135	8	143
Inter class debtors	32	-	32	50	-	50
Prepayments and accrued income	<u>11</u>	<u>44</u>	<u>55</u>	<u>10</u>	<u>74</u>	<u>84</u>
	<u>43</u>	<u>441</u>	<u>484</u>	<u>195</u>	<u>82</u>	<u>277</u>

12. Creditors: amounts falling due within one year	28 February 2003			28 February 2002		
	Ordinary Share £'000	'C' Shares £'000	Total £'000	Ordinary Share £'000	'C' Shares £'000	Total £'000
Other creditors	25	54	79	59	117	176
Inter class creditors	-	32	32	-	50	50
Proposed dividend	<u>51</u>	<u>100</u>	<u>151</u>	<u>351</u>	<u>200</u>	<u>551</u>
	<u>76</u>	<u>186</u>	<u>262</u>	<u>410</u>	<u>367</u>	<u>777</u>

**CLOSE BROTHERS AIM VCT PLC**

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

13.	<b>Called up share capital</b>	<b>28 February 2003</b> <b>£'000</b>	<b>28 February 2002</b> <b>£'000</b>
	<i>Authorised:</i>		
	20,000,000 Ordinary Shares of 50p each (2002: 20,000,000 Ordinary Shares)	10,000	10,000
	25,000,000 'C' Shares of 50p each (2002: 25,000,000 'C' Shares)	<u>12,500</u> <u>22,500</u>	<u>12,500</u> <u>22,500</u>
	<i>Allotted, called up and fully paid:</i>		
	10,008,000 Ordinary Shares of 50p each (2002: 10,040,000 Shares)	5,004	5,020
	19,962,000 'C' Shares of 50p each (2002: 20,000,000 'C' Shares)	<u>9,981</u> <u>14,985</u>	<u>10,000</u> <u>15,020</u>

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

	Price per share (p)	Ordinary Shares	'C' Shares	Total
23 July 2002	65.0	-	25,000	25,000
7 October 2002	63.0	22,000	-	22,000
7 October 2002	65.0	-	3,000	3,000
16 October 2002	63.0	10,000	-	10,000
8 November 2002	65.0	<u>-</u>	<u>10,000</u>	<u>10,000</u>
		<b>32,000</b>	<b>38,000</b>	<b>70,000</b>
Percentage cancelled		<b>0.32%</b>	<b>0.19%</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.

14.	<b>Reserves</b>	<b>Ordinary Shares</b> <b>at 28 February 2003</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	30	4,480	(878)	16	64
	Capital redemption	16	(20)	-	-	-
	Capitalised expenses net of taxation	-	-	-	(129)	-
	Realised losses in the current year	-	-	-	(93)	-
	Decrease in unrealised appreciation	-	-	(2,780)	-	-
	Retained profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33)</u>
	Closing balances	<u>46</u>	<u>4,460</u>	<u>(3,658)</u>	<u>(206)</u>	<u>31</u>

**CLOSE BROTHERS AIM VCT PLC**

Close Brothers AIM VCT PLC

Notes to the financial statements (continued)

**'C' Shares  
at 28 February 2003**

	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Unrealised capital reserve £'000	Realised capital reserve £'000	Revenue reserve £'000
Opening balances	5	-	8,978	(1,095)	(633)	43
Capital redemption	19	-	(25)	-	-	-
Realised profits for the year	-	-	-	-	50	-
Decrease in value of investments	-	-	-	(2,980)	-	-
Capitalised expenses net of taxation	-	-	-	-	(281)	-
Retained profit for the year	-	-	-	-	-	4
Closing balances	<u>24</u>	<u>-</u>	<u>8,953</u>	<u>(4,075)</u>	<u>(864)</u>	<u>47</u>

15. Net asset value per share

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

	28 February 2003		28 February 2002	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Basic per ordinary shares	56.7 pence	70.4 pence	87.0 pence	86.5 pence

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

	28 February 2003 £'000		28 February 2002 £'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Total net assets at beginning of the year	8,732	17,298	11,573	11,783
(Decrease)/increase in share capital	(16)	(19)	(18)	3,750
Increase in capital redemption	16	19	18	5
Decrease in share premium	-	-	-	(5,249)
Issue costs of new capital subscribed	-	-	-	(376)
Creation of special reserve	-	-	-	9,004
Cost of share redemption	(21)	(24)	(28)	(8)
Cost of cancellation of share premium account	-	-	-	(18)
Total loss for the year	(2,983)	(3,008)	(2,412)	(1,193)
Dividends appropriated in the year	<u>(51)</u>	<u>(200)</u>	<u>(401)</u>	<u>(400)</u>
Total net assets at end of the year	<u>5,677</u>	<u>14,066</u>	<u>8,732</u>	<u>17,298</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 10,008,000 Ordinary Shares and 19,962,000 'C' Shares, being the respective number of shares in issue at the year end.

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

	28 February 2003		28 February 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Equity shareholders funds at beginning of the year	8,732	17,298	11,573	11,783
(Decrease)/increase in share capital	(16)	(19)	(18)	3,750
Increase in capital redemption	16	19	18	5
(Decrease)/increase in share premium	-	-	-	(5,249)
Issue cost of new capital subscribed	-	-	-	(376)
Creation of special reserve	-	-	-	9,004
Cost of share redemption	(21)	(24)	(28)	(8)
Cost of cancellation of share premium	-	-	-	(18)
Total (loss)/return for the year	(2,983)	(3,008)	(2,412)	(1,193)
Dividends appropriated in the year	<u>(51)</u>	<u>(200)</u>	<u>(401)</u>	<u>(400)</u>
Equity shareholders' funds at end of the year	<u>5,677</u>	<u>14,066</u>	<u>8,732</u>	<u>17,298</u>

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

	28 February 2003		28 February 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Beginning of year	565	1,984	502	687
Net cash (outflow)/inflow	<u>(525)</u>	<u>(284)</u>	<u>63</u>	<u>1,297</u>
End of year	<u>40</u>	<u>1,700</u>	<u>565</u>	<u>1,984</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 2003		28 February 2002	
	£'000		£'000	
	Ordinary Shares	'C' Shares	Ordinary Shares	'C' Shares
Net revenue before finance costs and taxation	18	204	47	523
Investment management fee charged to capital	(129)	(281)	(178)	(319)
(Increase)/decrease in accrued income	(1)	30	4	27
Decrease in inter class balances	11	(11)	-	-
(Decrease)/increase in other creditors	(34)	(63)	(26)	24
Tax deducted on investment income	-	-	-	(9)
Net cash (outflow)/inflow from operating activities	<u>(135)</u>	<u>(121)</u>	<u>(153)</u>	<u>246</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, 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.

**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 2003 of the Ordinary Shares and 'C' Shares by approximately 72 per cent, and 46 per cent, respectively, (2002: 44% Ordinary Shares, 22% '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 2003 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>1,038</u>	<u>7,689</u>	<u>8,329</u>	<u>10,197</u>

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>	<u>7,708</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 2003, (2002: £nil).

**Financial liabilities**

As at 28 February 2003, the Company has no financial liabilities other than short term creditors, (2002: £nil).

**Currency exposure**

As at 28 February 2003, the Company had no foreign currency exposures (2002: £nil).

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

All the Company's financial assets and liabilities at 28 February 2003 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 there were no contingencies, guarantees or financial commitments that have not been accounted for.

Included in note 11, other debtors, is an amount for £388,965. This represents a cash commitment made by the 'C' Shares in relation to the purchase of 1,555,860 shares in Maelor. Trading in these shares commenced on 3 March 2003.

Close Brothers AIM VCT PLC

Notes to the financial statements (continued)

21. Post balance sheet events

As at the date of this report following the year end of the Company the Ordinary' Shares portfolio has invested in the following:

- 1,428,572 shares in Deltex Medical Group for £100,000

In addition the 'Ordinary' shares portfolio has disposed of the following;

- £1 million nominal value Sunamerica Floating Rate Note for £996,000.

As at the date of this report following the year end of the Company the 'C' Shares portfolio has invested in the following;

- £250,000 convertible unsecured loan stock in Clipper Ventures; and,
- 1,200,000 shares in Huveaux at a cost of £300,000.

The Company, on a monthly basis announces to the London Stock Exchange its net asset value (NAV). As at 30 April 2003, the Company's NAV was approximately 57 pence per Ordinary Share and 69 pence per 'C' Share, before taking account of the final dividend.

## CLOSE BROTHERS AIM VCT PLC

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### 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 2003 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 2003.
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 0.5 pence per Ordinary Share and, a final revenue dividend of 0.5 pence per 'C' Share for the year to 28 February 2003.
4. To approve the Directors' remuneration report.

#### 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 1,000,800 Ordinary Shares and 1,996,200 '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. Ginn  
Secretary  
Registered Office  
12 Abbold Street, London EC2A 2AW

Date: 12 May 2003

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.

**CLOSE BROTHERS AIM VCT PLC**

CLOSE BROTHERS AIM VCT PLC

Form of proxy for the Annual General Meeting to be held on 26 June 2003

I/We.....(BLOCK CAPITALS please)  
 being a holder/s of Ordinary Shares in Close Brothers AIM VCT PLC and entitled  
 to attend and vote at the above Annual General Meeting, hereby appoint the duly elected  
 Chairman\* of the Meeting or failing him

.....  
 as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of  
 the Company to be held at 11.00 am on 26 June 2003 and at any adjournment thereof in  
 respect of the resolutions set out in the Notice of Meeting.

My/our proxy is to vote as indicated below:

		<b>For</b>	<b>Against</b>
Resolution Number 1	Report and Accounts		
Resolution Number 2	Appointment of Auditors		
Resolution Number 3	Approve final dividend		
Resolution Number 4	Approve Directors remuneration report		
Resolution Number 5	(Special Resolution) Purchase of shares		

..... Signed ..... Date

Notes

- 1 \*If any other proxy is preferred, strike out the reference to the Chairman stated above. add the name of the proxy you wish to appoint and initial the alteration. Failure to initial the alteration will deem the Chairman of the Meeting to be your proxy. A proxy need not be a member of the Company.
- 2 If the appointor is a Corporation, this form must be under its common seal or under the hand of some officer or attorney in that behalf.
- 3 Please insert an "X" in either the "For" or "Against" column. If both spaces are left blank, the proxy will exercise his/her discretion as to whether, and if so how, he/she votes.
- 4 To be valid, this form of proxy must be completed and deposited at the office of the Company's Registrars, Capita IRG plc, Balfour House, 390/398 High Road, Ilford Essex IG1 1NQ, not later than 48 hours prior to the time fixed for the holding of the Meeting.
- 5 In the case of joint holders, only one need sign but the names of all joint holders should be shown.
- 6 The completion and return of this form of proxy will not preclude you from attending and voting at the meeting should you subsequently decide to do so.