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## DIRECTORS AND ADMINISTRATION

| | |
|---|---|
| **Company number** | 03477519 |
| **Directors** | M A F Reeve FCA, Chairman<br>R J Smith<br>F K Malcolm<br>S J Hazell-Smith |
| **Investment Manager** | Close Investment Limited<br>10 Crown Place<br>London EC2A 4FT<br>Tel: 020 7655 3100 |
| **Secretary and Registered Office** | C Kinnear<br>10 Crown Place<br>London EC2A 4FT |
| **Company Administration** | Close Venture Management<br>4 Crown Place<br>London<br>EC2A 4BT |
| **Registrar** | Capita Registrars plc<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent<br>Tel: 020 8478 8241 |
| **Auditors** | Deloitte & Touche LLP<br>London |
| **Safe Custodians** | RBSI Custody Bank Ltd<br>Liberte House<br>19-23 La Motte Street<br>St Helier<br>Jersey JE4 5RL<br><br>Capita Trust Company Ltd<br>Guildhall House<br>81-87 Gresham Street<br>London EC2V 7QE |

## FINANCIAL HIGHLIGHTS

| | Ordinary Shares Year to 29 February 2004 | 'C' Shares Year to 29 February 2004 |
|---|---|---|
| Total return per share | 33.62 pence | 27.07 pence |
| Net dividends per share | 0.25 pence | 0.50 pence |
| Net asset value per share | 90.22 pence | 97.13 pence |
| Net assets | £8.95 million | £19.31 million |

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

| | Ordinary Shares Pence per share | 'C' Shares Pence per share |
|---|---|---|
| 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 | 0.50 | 1.00 |
| Net dividends for the year to 29 February 2004 | 0.25 | 0.50 |
| Total dividends (capital and revenue) | 53.00 | 4.75 |
| Net asset value at 29 February 2004 | 90.22 | 97.13 |
| **Total return** | **143.22** | **101.88** |

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

The Ordinary Shares were first listed on 17 March 1998
The 'C' Shares were first listed on 23 October 2000

## FINANCIAL CALENDAR

| | |
|---|---|
| Ex dividend date | 12 May 2004 |
| Record date for final dividends | 14 May 2004 |
| Conversion of 'C' Shares into Ordinary Shares | 31 May 2004 |
| Annual General Meeting | 9 June 2004 |
| Posting of dividend cheques in respect of the final dividends | 9 June 2004 |
| Announcement of interim results for the six months ended 31 August 2004 | October 2004 |

## CAPITAL STRUCTURE

Close Brothers AIM VCT was launched in the spring of 1998 and raised £10.1 million from private investors through an issue of Ordinary Shares. Between October 2000 and March 2001 a further £20.01 million was raised through an issue of 'C' Shares. Furthermore, between 16 March 2004 and final closing on 5 April 2004 the company raised £3.3 million by way of a 'D' Share issue. The 'C' Shares will be merged and converted into Ordinary Shares on 31 May 2004 at a conversion ratio determined by a price mechanism related to the respective net assets per share of both the Ordinary Shares and 'C' Shares at 29 February 2004. The 'D' Shares will subsequently be converted into the newly aggregated Ordinary Share capital of the Company on 31 May 2008. 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 or OFEX 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 AIM or OFEX which qualify for venture capital trust purposes. It is the Manager's intention to manage 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, in proportion to funds raised under each class of share. The funds allocated to Qualifying Investments by the 'D' shares will be invested in a similarly broad portfolio. All business sectors on AIM and OFEX are considered for investment by the Manager, subject to the requirement to undertake a qualifying trade.

**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 triple 'A'.

## CHAIRMAN'S STATEMENT

The year ended 29 February 2004 was a good one for your company. The market mood, which was at its lowest ebb at the end of February 2003, started to improve in March last year and gathered momentum in the smaller company and AIM markets as 2003 progressed. This confidence manifested itself in an increased number of flotations and fundraisings as the backlog of primary issues which had built up over the previous eighteen months began to unwind. The net asset value of the Ordinary Shares increased by approximately 59% and that of the 'C' Shares, which included more cash, by approximately 38%. These increases more than made up for the decrease in values experienced in the previous year. They may be compared with an increase in the AIM index (dividends reinvested) of 65% although it should be borne in mind that the AIM index includes companies which do not qualify as VCT investments, and that resource companies (which do not qualify for VCT investments) were the main drivers of the second half performance of the index.

At the end of the year, the Ordinary Share portfolio was 83% invested in qualifying investments and the 'C' Share portfolio 73% so invested. A schedule of investments is set out on pages 8 to 11 and a review by our managers is set out on pages 13 and 14.

### Dividends

Shareholders are reminded that as the portfolios become fully invested, income will decline thus limiting the scope for revenue dividends. Your board is recommending a final revenue dividend of 0.25p per Ordinary Share (2003: 0.5p revenue dividend for the year) and a final revenue dividend of 0.5p per 'C' Share (2003: 1.00p revenue dividend for the year). It is your Board's policy to declare capital dividends when able which unfortunately is not the case for either the 'C' Shares or Ordinary Shares in respect of the year under review, although the potential for paying them in future has improved considerably since this time last year.

### Cancellation of shares and management of the discount

During the year under review your Board exercised its power to buy 104,500 Ordinary Shares and 69,000 'C' Shares at an average price of 58.1p and 63.2p respectively.

Your Board has been concerned at the large disparity between the market value of your shares and their corresponding net asset value which has widened over the years. It is taking active steps on behalf of shareholders to manage this discount with a view to reducing it substantially. Meanwhile, I would like to draw your attention to the request in the circular sent to shareholders in January, that shareholders wishing to sell their holding should first contact the Company which will endeavour to facilitate such sales. At the forthcoming AGM shareholders' consent will again be sought to renew the Board's power to make such purchases.

### Conversion of 'C' Shares into Ordinary Shares

As set out in the 'C' Share prospectus published in 2000, 'C' Shares will be converted into Ordinary Shares on 31 May 2004 on the basis of a calculation of the respective net asset value of the two share classes as at 29 February 2004. In line with the Company's Articles of Association the Directors are proposing to do this in two stages. As at stage one, the 'C' Shareholders will receive additional new 'C' Shares in a ratio of 0.077 for 1 in order to align the net asset values of the two classes of shares. The total 'C' Shares will then be re-designated as Ordinary Shares and convert on a one for one basis. Thus, for every 'C' Share held, the holder will end up with 1.077 Ordinary Shares. Following this conversion, ignoring any further purchases of shares by your company for cancellation, there will be approximately 31.3 million Ordinary Shares in issue. The new Ordinary Shares are expected to commence trading on 1 June 2004. The 'C' Share certificates will cease to be valid from 1 June 2004 and new Ordinary Share certificates will be sent to the 'C' Shareholders as soon as practicable thereafter, and by no later than 21 June 2004.

**The Alternative Investment Market – AIM**

Last year I drew attention to some of the fears about the future of AIM particularly in the face of European Community legislation. These have not arisen in the period under review and the recovery in investor sentiment has led to rising share prices which have in turn produced an increasing number of good new issues. As at 29 February 2004 there were 761 companies traded on AIM, and with 34 joining in March, it is likely there will be over 800 by the end of April. It is to be hoped that this trend continues and the flow should be helped by the taxation changes for VCTs announced in the Budget.

The noticeable feature of AIM is that it has continued to grow in terms of the number of companies traded on it throughout the six years of your Company's life and has been able to raise new capital for companies whatever the market conditions. AIM seems set for a good future because it meets real demands from both companies and investors. The proposed EU legislation is some way off, and, as AIM gathers strength, it becomes likely that it will evolve and adapt despite this.

**Changes in taxation benefits**

In December 2003 the Treasury published proposals, which if implemented, would change the tax benefits available to investors in VCTs. The Chancellor in his budget in March 2004 published amendments to these proposals which are now incorporated in the Finance Bill are and likely to become law in July of this year. The main proposals are that after 6 April 2004 capital gains tax deferral relief for investments in VCTs will be withdrawn, the rate of income tax relief for investments in qualifying VCT shares will increase from 20% to 40% and the upper limit for this relief is increased from £100,000 to £200,000.

These changes are to be welcomed as they are likely to reverse the decline over the last two years in the amounts raised by VCTs just at a time when it is likely that there will be an increase in the financial requirements of qualifying companies on AIM.

**Further Share Issues**

Shareholders will have received my letter dated 16 January 2004 outlining proposals for the offer for subscription of up to £15 million new 'D' Shares, the continuation of the Company as a venture capital trust until at least the Annual General Meeting to be held in 2009 and various other Company related matters. These were the subject of special resolutions which were passed at the Extraordinary General Meeting held in February of this year. As at 5 April £3.34 million 'D' Shares were allotted. This was a satisfactory outcome bearing in mind that many potential investors are waiting for the new tax benefits to come into effect.

It is the Board's intention to issue further 'D' Shares, up to a total of 15 million, later in the year after conversion of the 'C' Shares into Ordinary Shares has taken place and when the proposed taxation changes outlined above become law upon the Finance Act being given Royal Assent. At the same time your Board intends to make a tender offer to Ordinary shareholders (including the holders of the converted 'C' Shares) for up to 10% of their shares at a price closer to the net asset value of the Company. Meanwhile, for those seeking to invest sooner and who are prepared to assume that the proposals contained in the Finance Bill will become law in the summer, your Board will be seeking shareholders' permission at the AGM to issue up to a further 20% of the enlarged Ordinary Share capital of the Company, of which 10% will be offered for subscription, by way of a 'top-up', immediately,. Your Board believes that shareholders who participate in either the Ordinary Share top up or the further 'D' Share issue should qualify for the 40% income tax relief announced in the budget in respect of such investment.

**Outlook**

It is encouraging that the 'C' portfolio is now in overall surplus. The same would have been true of the Ordinary portfolio had not some profitable holdings been sold prior to the year end. The risk analysis of both portfolios has shown a significant improvement and the flow of new issues which qualify as VCT investments shows no sign of slowing. We therefore look to the future with some degree of confidence.

**Michael Reeve** Michael Reeve

Chairman

7 May 2004

## THE BOARD OF DIRECTORS

The board comprises four directors, all of whom are independent of the Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Board has wide experience of investment in both smaller growing companies and larger quoted companies.

**Michael Reeve** (67) MA, FCA is the chairman 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 Plc from 1977-80. He is currently chairman of Finsbury Growth Trust PLC and a director of a number of other companies.

**Roger Smith** (65) BSc (Hons). Roger Smith is chairman of Central Industrial Holdings Limited, a family owned investment company with a wide range of interests and investments. He is also non-executive chairman of European Motor Holdings PLC, chairman of Harpenden Building Society and is the chairman of the Central Finance Board of the Methodist Church. He has concentrated his activities in, first, the oil and gas sector where between 1969 and 1988 he worked for Tricentrol plc reaching the position of deputy chairman, and, secondly, in motor retail distribution where he was chairman of Trimco Plc from 1979 until 1992.

**Francis Malcolm** (60) BSc (Hons). Frank Malcolm joined the Inland Revenue as an Inspector of Taxes in 1967. He left in 1969 and then spent 3 years as an investment analyst with Edinburgh Investment Trust. He has since worked for Brewin Dolphin Securities Limited, the Sponsor, and its predecessor companies. His work involves the provision of advice to, and fundraising for, a wide variety of quoted companies.

**Stephen Hazell-Smith** (50) 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 currently Chairman of Phoenix VCT PLC and of Hoodless Brennan Partners PLC.

## THE MANAGER

Close Investment Limited was formerly called Rutherford Asset Management Limited ("RAML"). RAML was established in June 1992 to specialise in investment in small and unquoted companies. In August 1994, RAML was appointed as the investment manager to the newly formed Beacon Investment Trust plc ("Beacon"), one of the first investment vehicles to specialise in what was then the Rule 4.2 trading facility of the London Stock Exchange. Beacon was converted into an open ended investment company ("OEIC") in December 1999.

RAML played a leading role in the establishment of AIM. In May 1997 RAML was acquired by Close Brothers Group plc and changed its name to Close Investment Limited.

Close Investment Limited also manages capital gains tax deferral portfolios which invest exclusively in companies quoted on AIM or OFEX. In addition, it advises a range of portfolios which seek to achieve benefits for their investors such as accelerated taper relief or inheritance tax relief. It has been managing both the Ordinary Share and 'C' Share portfolios of the Company since their inception as separate funds and has recently been appointed manager to the Close Second AIM VCT..

The executive directors of Close Investment Limited are as follows.

**Andrew Buchanan** (52)

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. After a period at Hoare Govett he joined RAML in 1993 and has been responsible for managing the Close Beacon Investment Fund since its establishment in 1994. In addition to the Company, Andrew manages another VCT and EIS portfolios, which invest in AIM and OFEX companies.

**Kate Tidbury** (41)

Kate Tidbury joined Close Investment Limited in November 2000 after a career which has included experience both as investment analyst and a fund manager, including periods as an analyst with Sheppards and Chase and Panmure Gordon. From 1993 to 2000 she managed funds totalling £180m including specialist ethical and small and mid-cap funds, initially for the Co-operative Bank, and then for Colonial First State Investments. In addition to the Company, Kate manages inheritance tax and other specialist AIM portfolios.

## DETAILS OF THE PORTFOLIO OF INVESTMENTS

The following are the details of qualifying equity investments at 29 February 2004, ranked by percentage of voting equity owned by the company.

| Company and Description | Market Value at 29 February 2004 £'000 Ordinary Shares | Market Value at 29 February 2004 £'000 'C' Shares | Book Cost £'000 Ordinary Shares | Book Cost £'000 'C' Shares | Holding (shares) Ordinary Shares | Holding (shares) 'C' Shares | % of equity owned |
|---|---|---|---|---|---|---|---|
| **Transport Systems.** Supplier of traffic management systems. | 310 | - | 300 | - | 1,940,000 | - | 10.4 |
| **1st Dental Laboratories.** Operator of dental equipment. | - | 373 | - | 350 | - | 1,296,296 | 9.6 |
| **Hearing Enhancement.** Developer of the mini-loop system for the hard of hearing. | - | - | - | - | 1,282,500 | 525,000 | 9.5 |
| **Conder Environmental.** Manufacture of oil spill recovery and pollution control equipment, sewage treatment and underground storage tanks. | 180 | 360 | 212 | 423 | 1,060,000 | 2,115,000 | 8.5 |
| **Pilat Media Global.** Software provider for the global multi-channel broadcasting market. | 603 | 1,340 | 180 | 400 | 900,000 | 2,000,000 | 6.6 |
| **Stagecoach Theatre Arts.** Operator of part-time performing arts schools for youngsters. | 254 | 508 | 193 | 386 | 207,529 | 415,058 | 6.4 |
| **Deltex Medical Group.** Developer of non invasive heart monitoring devices. | 451 | 541 | 227 | 478 | 1,595,468 | 1,913,796 | 5.7 |
| **Capcon.** Provider of audit, stock taking and commercial investigation services. | 68 | 184 | 108 | 292 | 135,000 | 365,000 | 5.4 |
| **Clipper Ventures.** Owners and organisers of the Clipper and Around Alone round the world yacht races. | 147 | 84 | 350 | 250 | 828,400 | 471,698 | 5.2 |
| **Bank Restaurant Group.** Restaurant chain operator. | 31 | 62 | 250 | 500 | 1,250,000 | 2,500,000 | 5.2 |
| **Lloyds British Testing.** Engineering and support services to various industries. | - | 182 | - | 332 | - | 1,620,759 | 5.1 |
| **Adval.** Design and delivery of bespoke training courses for human resources development for major corporations. | 35 | 36 | 480 | 438 | 844,443 | 877,162 | 5.0 |
| **Maelor.** Developer of off-patent medicines and medical devices. | 26 | 397 | 139 | 389 | 102,777 | 1,555,860 | 4.9 |
| **Vianet.** Provider of remote monitoring devices for the vending machine industry. | 27 | 496 | 400 | 300 | 308,000 | 5,666,667 | 4.6 |
| **Focus Solutions Group.** Provision of software solutions and e-commerce tools to the financial services industry. | - | 588 | - | 262 | - | 1,069,170 | 3.8 |
| **AIT Group.** Provider of CRM software for the financial services sector. | 475 | 949 | 300 | 600 | 628,572 | 1,257,143 | 3.7 |

| Company and Description | Market Value at 29 February 2004 £'000 | | Book Cost £'000 | | Holding (shares) | | % of equity owned |
|---|---|---|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares | |
| **Clarity Commerce Solutions.** Supplier of electronic point of sale software and membership software solutions to the leisure sector. | - | 280 | - | 386 | - | 514,522 | 3.3 |
| **Protec.** Development and installation of electronic security and information systems. | 245 | 362 | 149 | 195 | 1,886,101 | 2,783,000 | 3.2 |
| **Ideal Shopping Direct.** TV shopping channel. | 182 | 230 | 269 | 200 | 395,000 | 500,000 | 3.1 |
| **PM Group.** Design, manufacture and service of weighing systems for the haulage and waste management industries. | - | 929 | - | 380 | - | 380,000 | 2.9 |
| **Hartest.** Manufacturer and distributor of specialist laboratory equipment. | - | 214 | - | 298 | - | 3,719,576 | 2.7 |
| **InterLink Foods.** Manufacturer of own label cakes for supermarket groups | 461 | 660 | 113 | 391 | 103,140 | 147,467 | 2.6 |
| **Advanced Medical Solutions Group.** Developer and manufacturer of woundcare products. | - | 406 | - | 300 | - | 3,529,411 | 2.5 |
| **Hartford.** London based restaurant and bar operator. | 183 | - | 325 | - | 12,187,500 | - | 2.3 |
| **Tepnel Life Science.** Developer of automated DNA technologies. | 111 | 276 | 164 | 409 | 820,635 | 2,044,472 | 2.2 |
| **Avionic Services.** Systems and consultancy services to the airport and aviation sector. | - | 83 | - | 350 | - | 1,666,667 | 1.9 |
| **Fitzhardinge.** Provider of real estate solutions to the UK and International property sectors. | 249 | 499 | 225 | 450 | 195,653 | 391,304 | 1.9 |
| **Blooms of Bressingham.** Operator of garden centres. | 122 | 91 | 340 | 190 | 267,582 | 200,000 | 1.8 |
| **Flightstore Group.** In flight intranet services to international airlines. | - | 254 | - | 178 | - | 1,780,000 | 1.8 |
| **Honeycombe.** Managed pub operator in North West England. | 372 | - | 293 | - | 532,000 | - | 1.7 |
| **Landround.** Organiser of travel promotions and incentives for corporate clients. | 384 | - | 205 | - | 100,000 | - | 1.7 |
| **Huveaux.** Parliamentary and educational publishing group. | - | 690 | - | 300 | - | 1,200,000 | 1.7 |
| **Metnor Group.** Hot dip galvaniser of steel products and engineering services. | 457 | - | 208 | - | 207,865 | - | 1.4 |
| **Oasis Healthcare.** Consolidator and operator of dental practices throughout the UK. | - | 207 | - | 419 | - | 1,047,535 | 1.3 |
| **Tandem.** Manufacturer and distributor of bicycles, golfing equipment and snooker tables. | 74 | - | 250 | - | 500,000 | - | 1.3 |

| Company and Description | Market Value at 29 February 2004 £'000 Ordinary Shares | 'C' Shares | Book Cost £'000 Ordinary Shares | 'C' Shares | Holding (shares) Ordinary Shares | 'C' Shares | % of equity owned |
|---|---|---|---|---|---|---|---|
| **Inventive Leisure.** Bar and nightclub operator. | 190 | - | 261 | - | 275,000 | - | 1.2 |
| **Cobra Bio-Manufacturing.** Manufactures vaccines for protection against infectious diseases, bio-terrorist attacks and cancer. | - | 212 | - | 186 | - | 232,123 | 1.2 |
| **The Clapham House Group.** Acquires and develops restaurants across the UK. | - | 235 | - | 181 | - | 180,723 | 1.2 |
| **Immedia Broadcasting.** Designer and operator of in-store radio stations in the UK. | - | 158 | - | 148 | - | 134,091 | 1.2 |
| **MacLellan.** Facilities management. | 490 | - | 258 | - | 680,263 | - | 0.9 |
| **Pipex.** Provider of telecommunications services. | 565 | 1,276 | 450 | 499 | 4,908,947 | 11,095,000 | 0.9 |
| **Tanfield.** Engineering. | 13 | 26 | 263 | 525 | 159,252 | 318,504 | 0.8 |
| **XKO.** Suppliers of business enterprise and e-commerce software and systems integration services. | 201 | - | 251 | - | 209,000 | - | 0.8 |
| **Armour Group.** Producer of smart leads and assemblies for in-car entertainment communication applications. | - | 378 | - | 200 | - | 444,444 | 0.8 |
| **Fulcrum Pharma.** Provider of drug development services. | - | 73 | - | 93 | - | 812,678 | 0.7 |
| **Mears.** Building maintenance contractor to local authorities, the MOD and the private sector. | 471 | - | 44 | - | 339,062 | - | 0.6 |
| **Warthog.** Developer of computer games software. | 11 | 21 | 192 | 382 | 429,303 | 855,814 | 0.4 |
| **NMT Group.** Developer and manufacturer of safety syringes. | 18 | - | 350 | - | 2,333,333 | - | 0.3 |
| **Cardpoint.** Provision of electronic payment transactions. | - | 142 | - | 52 | - | 98,235 | 0.3 |
| **Systems Union.** Provision of accounting software internationally. | 43 | - | 46 | - | 35,471 | - | 0.1 |
| **Total qualifying equity investments at 29 February 2004** | **7,449** | **13,802** | **7,795** | **12,112** | | | |

The following are the details of qualifying loan investments at 29 February 2004.

| Company and Description | Market Value at 29 February 2004 £'000 | | Book Cost £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| **Avionic Services.** Systems and consultancy services to the airport and aviation sector. | - | 160 | - | 160 |
| **Clipper Ventures.** Owners and organisers of the Clipper and Around Alone round the world yacht races. | - | 250 | - | 250 |
| **Adval.** Design and delivery of bespoke training courses for human resources development for major corporations. | - | 150 | - | 150 |
| **Tanfield.** Engineering. | - | 75 | - | 75 |
| **Total qualifying loan investments at 29 February 2004** | **-** | **635** | **-** | **635** |

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. 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.

**Qualifying investments made after the year end:**

| Company | Market Value at 6 May 2004 £'000 | | Book Cost £'000 | | Holding (shares) | |
|---|---|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Laminate Flooring Direct | - | 277 | - | 250 | - | 500,000 |
| Bond International | - | 336 | - | 269 | - | 672,500 |
| Media Square | | 359 | - | 340 | - | 1,890,634 |
| **Total as at 6 May 2004** | **-** | **972** | **-** | **859** | | |

The following are the details of non-qualifying investments held at 29 February 2004.

| Holding | Market Value at 29 February 2004 £'000 | | Cost £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Deutsche Bank FRN (due June 2005) | - | 1,500 | - | 1,497 |
| Yorkshire Building Society FRN (due October 2005) | - | 1,501 | - | 1,499 |
| Barclays FRN (due April 2006) | - | 1,503 | - | 1,497 |
| Huveaux (1,001 equity shares) | - | 1 | - | 1 |
| **Total as at 29 February 2004** | **-** | **4,505** | **-** | **4,494** |

## Schedule of Disposals

The following investments were disposed of during the year ended 29 February 2004.

**Ordinary Shares**

| Company | Qualifying investments Book Cost £'000 | Qualifying investments Proceeds £'000 | Non-qualifying investments Book Cost £'000 | Non-qualifying investments Proceeds £'000 | (Loss)/gain £'000 |
|---|---|---|---|---|---|
| Sunamerica FRN | - | - | 998 | 996 | (2) |
| Mears | 35 | 347 | - | - | 312 |
| Deltex Medical | 112 | 215 | - | - | 103 |
| Pilat Media Group | 20 | 50 | - | - | 30 |
| Inter Link Foods | 55 | 223 | - | - | 168 |
| Giardino | 150 | 96 | - | - | (54) |
| Transcommunications | 290 | 113 | - | - | (177) |
| | **662** | **1,044** | **998** | **996** | **380** |

**'C' Shares**

| Company | Qualifying investments Book Cost £'000 | Qualifying investments Proceeds £'000 | Non-qualifying investments Book Cost £'000 | Non-qualifying investments Proceeds £'000 | Gain £'000 |
|---|---|---|---|---|---|
| Citicorp FRN | - | - | 1,496 | 1,500 | 4 |
| PM Group | 30 | 58 | - | - | 28 |
| | **30** | **58** | **1,496** | **1,500** | **32** |

The following investments were disposed of post the year ended 29 February 2004

**'C' Shares**

| Company | Qualifying investments Book Cost £'000 | Qualifying investments Proceeds £'000 | Non-qualifying investments Book Cost £'000 | Non-qualifying investments Proceeds £'000 | Gain/(loss) £'000 |
|---|---|---|---|---|---|
| Barclays FRN | - | - | 1,497 | 1,501 | 4 |
| | **-** | **-** | **1,497** | **1,501** | **4** |

**Provision**

Hearing Enhancement placed its operating subsidiary into liquidation in April 2004. The directors have therefore provided against the full cost of the investment and treated the cost as a realised loss in the capital reserves.

The Ordinary Share portfolio had £227,000 invested at cost, whilst the 'C' Share portfolio had £250,000 invested at cost.

## MANAGER'S REVIEW

### Introduction

The year under review saw a dramatic recovery in the fortunes of equities which reached cyclical lows in March 2003 ahead of the war with Iraq. In the UK, the recovery was initially led by the larger capitalisation stocks in the FTSE 100 followed by the mid and smaller cap stocks which soon overtook their larger brethren. On AIM, the recovery was far more measured, with early buying being private client led as institutions sought the liquidity of larger companies in order to enjoy the initial upside. It was not until September that institutions re-entered the AIM arena in any meaningful way although the steep rise in the resource sector and the number of new flotations on AIM in this area meant that the recovery in the AIM Index continued and outpaced most other indices by the end of the period with an overall gain of 64%. It was however very much a year of two halves, with the first half seeing a recovery in general AIM prices and the second half dominated by the outperformance of the resource stocks which formed the largest sector on AIM by the end of the period. Mirroring this, new issue activity was muted in the first half, and almost entirely focused on VCT and EIS qualifying investments. It picked up in the last half of the year, although the majority of issues in November and December were in the resource sector and therefore by definition non qualifying for VCTs. However, we have seen some record months for flotations and the indications are that there is a healthy pipeline of potential issues.

Against the background outlined above, the net asset value for the Ordinary Shares rose by 59% to 90p in the year, more than recovering the losses of the previous 12 months. Most of this recovery was achieved in the first half of the year, as reported in the interim statement because of the high proportion of more mature companies in the portfolio which had been the first to bounce from their lows. In the second half of the year the movement in asset value was held back, as many existing AIM companies, not in the resource sector, fell from the radar screen as institutions chased opportunities in new issues, many of which were in the resource sector. Some of the relative underperformance of the portfolio in the period to the end of December was made up for by an exceptionally good January, as interest once again returned to existing market stock. However, it was not enough to lock in the gains made relative to the AIM index in the first half of the year despite the continued progress that the majority of the investments in the portfolio have made. One feature which we have not welcomed has been companies which we hold being bid for at a premium to a depressed price but at a value which we consider to be cheap on a longer term view, especially where this involves us taking a loss on the original investment. We are working hard to help companies we are invested in to achieve a fair valuation for their shares on the market to try and mitigate the risks of this happening.

The net asset value of the 'C' Share portfolio rose by 38% in the period, less than the more fully invested Ordinary portfolio, to 97p which was quite well ahead of its previous year end value of 70p. This reflected two things, the amount of cash which was still being invested during the period and the younger nature of its investments which are maturing now. We expect a number of them to show maiden profits in the current year.

### Portfolio Activity

<u>Ordinary Share Portfolio</u>

The portfolio is listed on pages 8 to 11 and consists of 33 holdings at a cost of £7.8 million. At the end of the year it was 83% invested in qualifying holdings. This was down from the 92% figure at the interim stage as we took profits in some of the more mature investments as prices rose. These included Mears, which is now on a prospective p/e in the 20's although still showing profits growth of 30%, Deltex which we had topped up by £100,000 in a placing at 7p and Interlink Foods and Pilat Media which had seen good recoveries in their share prices. The fund also received cash bids for its Giardino and Transcomm shares. Unfortunately both bids were at a discount to the price at which we originally invested, although they represented a premium to the recent share prices of both companies. In the wake of the very depressed market conditions of a year ago, the risk of investments being taken over at a price which does not reflect good value for existing investors remains, although it is not as great now as it has been. During the year the fund made four qualifying investments at a cost of £354,000, all of which were additions to existing investments and made in the first half of the year. They were AIT, Deltex, Transport Systems and Hearing Enhancement. The latter has unfortunately since been suspended and has put its trading subsidiary into liquidation. Despite having the promise of a good product it remains to be seen if it can survive. Consequently, the directors have written the valuation down to nil.

In general the earlier stage investments in the portfolio have had their prospects radically improved by the increased appetite for risk in the market, which has led to many of these holdings successfully raising funds. Warthog, still suffering losses because of the pressure that games developers have been put under by the publishers has raised enough money to fund partnerships with intellectual property owners. Deltex raised enough money to fund studies for its technology in a series of NHS trusts. Comeleon, now called Tanfield Group, raised enough funds to facilitate a reverse takeover which has turned the investment into a reasonably substantial engineering company with turnover of £12m. Clipper also recently announced a successful fund raising which will pay for its new boats. It has also been signing some good sponsorship deals for the 2005 Clipper race.

It is encouraging that more investments in the portfolio are moving into the territory of profitability and the prospects of dividends are improving. Pilat Media recently announced maiden profits for the year to December 2003 together with a much improved order book stretching out several years. The share price has more than doubled in the past six months. Pipex, formerly GX Networks, is now generating cash on a monthly basis and we look forward to the announcement of maiden profits there. AIT is now profitable, although a large contract win which would make the shares look cheap at the current level is still elusive. Of the more mature holdings, Maclellan, Mears, Metnor, Interlink Foods and Landround have all produced good figures or trading statements and we look forward to further appreciation in their share prices.

'C Share Portfolio

The 'C' share portfolio is listed on pages 8 to 11 and consists of 38 investments at a cost of £12.7 million. At the end of the year it was 73% invested in qualifying holdings, with the additions in the second half being made at the end of the period when the flow of qualifying issues started to pick up. In addition to the seven qualifying investments added in the first half, we added eight holdings at a cost of £1,081,000 in the second half of the year. Of these, Vianet, Tanfield and Avionics were additions to existing holdings to finance working capital, in the former case to finance a distribution deal with Alcatel and in the latter case to finance orders for airport systems which are finally coming through. Armour Group and Adval were both existing profitable AIM companies raising money for acquisitions and Flightstore, Immedia and Clapham House were new VCTable flotations. We took some profits in PM Group in the second half of the year.

**Outlook**

In the interim report we commented on the increased level of trading volumes in shares and the better feel of the market generally. This followed through in a rush of primary issues on AIM in December, and activity has continued to be high so far in 2004. Enough of these have been qualifying for VCT purposes for us to feel confident of raising the level of cover in the 'C' portfolio above 80% and to get on with investing the newly raised 'D' Share money. The Chairman in his report has commented on the fact that the investments in the 'C' portfolio are now showing an overall profit, and it is encouraging to think that the prospect of a capital dividend is now more realistic and should become more so as the existing investments continue to mature and make progress.

The new proposed VCT legislation announced in the budget promises a much healthier fund raising environment although we are cautious that it could have an inflationary effect on the pricing of new issues as that money will have to be invested in the market on a three year timetable. It is for that reason that we have increased the pace of investment in the 'C' Shares in what we perceive to be relatively favourable market conditions available currently. We should then be in a position to realise capital profits as they arise without jeopardising VCT status, for example by the portfolio having less than 70% invested in qualifying investments.

Meanwhile, the economic outlook would still appear to favour smaller company investments. The domestic economy remains buoyant although an increase in inflationary pressure remains a risk. Although interest rates are now rising, they are still historically low, and most VCTable investments are too young for bank debt to play a large part in their capital structures. Currency fluctuations tend not to be a problem for companies with a predominantly domestic business. The biggest overall risk factor is that markets take fright again as the result of further terrorist attacks, in which case smaller company shares would fall with the rest. However, if the larger stocks remain locked in their current trading range smaller companies achieving genuine growth should be able to give superior returns.

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

**Close Investment Limited** **7 May 2004**

## REPORT OF THE DIRECTORS

The Directors submit their sixth report and accounts of the Company for the year ended 29 February 2004.

### Principal Activity and Status

The principal activity of the Company is that of a venture capital trust. It was approved by the Inland Revenue as a venture capital trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. 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 29 February 2004 is subject to review should there be any subsequent enquiry under corporation tax self assessment. The Company is not a close company for taxation purposes. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the year is contained in the Chairman's Statement.

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

### *Results and Dividends*

| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
|---|---|---|---|
| Revenue return attributable to shareholders for the year ended 29 February 2004 | 20 | 119 | 139 |
| Net final revenue dividends of 0.25p per Ordinary share and 0.50p per 'C' Share payable on 9 June 2004 | (25) | (99) | (124) |
| **Revenue transferred (from)/to reserves** | **(5)** | **20** | **15** |
| Realised capital return attributable to shareholders | 16 | (501) | (485) |
| Unrealised capital return attributable to shareholders | 3,312 | 5,776 | 9,088 |
| **Capital transferred to reserves** | **3,328** | **5,275** | **8,603** |
| **Total transferred to reserves** | **3,323** | **5,295** | **8,618** |

### *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 29 February 2004 and at the date of this Report were:

| | Ordinary Shares | | 'C' Shares | |
|---|---|---|---|---|
| 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 | 1.01% | 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.

### Future Developments and Post Balance Sheet Events

The outlook of the Company is discussed in greater detail in the Chairman's Statement and the Manager's Review. All post balance sheet events are described in note 21 of this report.

**Management Agreement**

The Company, following ratification at an EGM on 12 February 2004, has extended its 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).

The options attached to the 'D' Shares allow the Manager to subscribe for the equivalent of 10% of the issued 'D' Shares of the Company, pursuant to the Prospectus dated 16 January 2004. The options may be exercised in whole or in part during the period 2009 to 2012 (or earlier in certain limited circumstances).

**Auditors**

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

**Substantial Interests**

As at 29 February 2004 the Company was not aware of any beneficial interest exceeding 3 per cent. of any class of the issued share capital.

**Statement of directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

**Suppliers' payment policy**

The Company's policy is to pay all supplier invoices within 30 days of the invoice date, or as otherwise agreed. There were no outstanding trade creditors at 29 February 2004 (2003 - nil).

**Annual General Meeting**

The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT at 11.00 am on 9 June 2004. 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 purposes:

**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 10% of the Ordinary Share capital in issue following conversion of the 'C' Shares and 10% of the 'D' Shares in issue at 5 April 2004.

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.

**Authority to allot shares**

A special resolution, number 6 in the notice of meeting, will authorise that the Directors be empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred upon them by paragraph 2.2 of the special resolution passed on 12 February 2004 as if section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to the allotment of up to 6,000,000 Ordinary Shares of 50 pence each in the capital of the Company and shall expire on 30 June 2005 , except that the Company may, before such expiry, make an offer or agreement which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board,

C Kinnear
Secretary
10 Crown Place
London EC2A 4FT

7 May 2004

## STATEMENT OF CORPORATE GOVERNANCE

**Background**

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

**Application of the Principles of the Code**

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

**Board of Directors**

The Board consists solely of non-executive Directors. Mr 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 of which Mr Smith is Chairman. Written terms of reference have been constituted for the Audit Committee. It meets as required throughout the year. The Committee overviews 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 which has been in place for the year under review and up to the date of this report 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, undertakes an annual 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 and administrators 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 29 February 2004 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.

## DIRECTORS' REMUNERATION REPORT

### Introduction

*This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 29 February 2004.*

### 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

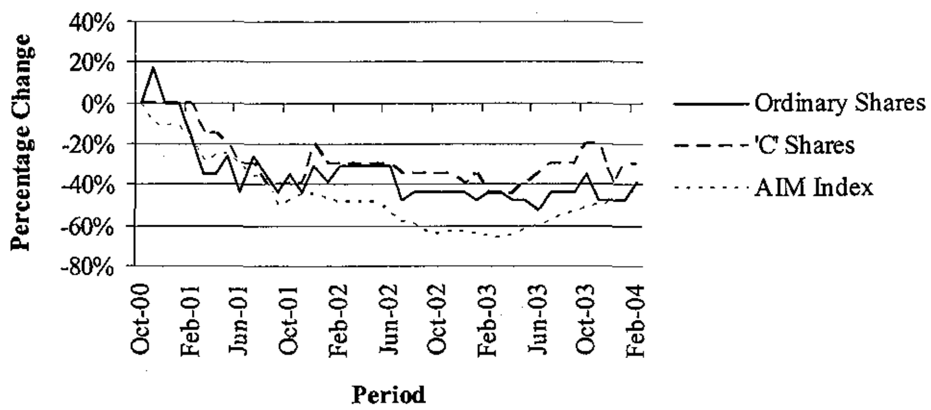
The Company's policy is that fees payable to non-executive directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration, market equivalents are considered in comparison to the overall activities and size of the Company.

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. Following ratification at the EGM held on 12 February 2004 the aggregate non-executive Directors' fees will not exceed £125,000 per annum for the forthcoming and subsequent years. For the current year aggregate fees would not exceed £75,000.

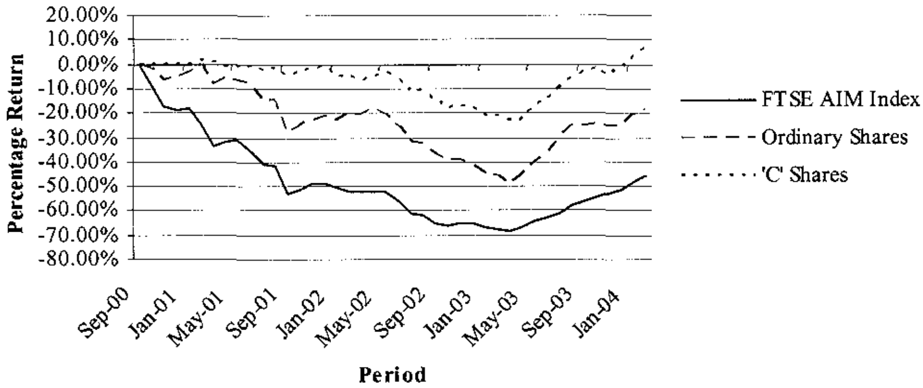
### Performance graphs

The graphs below show the performance of Close Brothers AIM VCT PLC's Ordinary Share and 'C' Shares prices and net asset values against the FTSE AIM index with dividends reinvested since the launch of the 'C' Shares in October 2000. The Directors consider this to be the most appropriate benchmark, but, would remind investors that approximately 30% of the AIM index is attributable to resource sector stocks which the VCT cannot invest in. It should also be noted that shares in VCTs generally continue to trade at a discount to the actual net asset value of the Company.

**Share Price Against AIM Index**



## Total Return with Dividends Reinvested




**Service contracts**

No Director has a service contract with the Company.

**Directors' remuneration**

The following items have been audited.

The following table shows an analysis of the remuneration of individual Directors exclusive of employers' NIC or VAT.

| | Year ended 29 February 2004 £'000 | | | Year ended 28 February 2003 £'000 | | |
|---|---|---|---|---|---|---|
| | Fees £'000 | Expenses £'000 | Total £'000 | Fees £'000 | Expenses £'000 | Total £'000 |
| Michael Reeve | 18 | - | 18 | 18 | - | 18 |
| Frank Malcolm | 13 | 2 | 15 | 13 | 3 | 16 |
| Roger Smith | 13 | - | 13 | 13 | - | 13 |
| Stephen Hazell-Smith | 13 | - | 13 | 13 | - | 13 |
| | 57 | 2 | 59 | 57 | 3 | 60 |

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. 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

C Kinnear
**Secretary**

7 May 2004

## 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 29 February 2004 which comprise the statement of total return, the balance sheet, the cash flow statement 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 group's corporate governance procedures or its risk and control procedures.

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company as at 29 February 2004 and the total return for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

**Deloitte & Touche LLP**
**Chartered Accountants and Registered Auditors**
London

7 May 2004

# Close Brothers AIM VCT PLC
## Statement of Total Return (incorporating the revenue account)
## for the year ended 29 February 2004

| | Note | Ordinary Shares 29 February 2004 | | | 'C' Shares 29 February 2004 | | | Total 29 February 2004 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains on investments | 2 | - | 3,465 | 3,465 | - | 5,558 | 5,558 | - | 9,023 | 9,023 |
| Investment income | 3 | 113 | - | 113 | 323 | - | 323 | 436 | - | 436 |
| Investment management fee | 4 | (45) | (137) | (182) | (99) | (297) | (396) | (144) | (434) | (578) |
| Other expenses | 5 | (48) | - | (48) | (91) | - | (91) | (139) | - | (139) |
| **Return on ordinary activities before tax** | | 20 | 3,328 | 3,348 | 133 | 5,261 | 5,394 | 153 | 8,589 | 8,742 |
| Tax on ordinary activities | 7 | - | - | - | (14) | 14 | - | (14) | 14 | - |
| **Return attributable to equity shareholders** | | 20 | 3,328 | 3,348 | 119 | 5,275 | 5,394 | 139 | 8,603 | 8,742 |
| Equity dividends | 8 | (25) | - | (25) | (99) | - | (99) | (124) | - | (124) |
| **Transfer (from)/to reserves** | | (5) | 3,328 | 3,323 | 20 | 5,275 | 5,295 | 15 | 8,603 | 8,618 |
| Return per share (pence) | 9 | | | | | | | | | |
| Basic | | 0.2 | 33.4 | 33.6 | 0.6 | 26.5 | 27.1 | 0.5 | 28.8 | 29.3 |
| Diluted | | 0.2 | 30.3 | 30.5 | 0.5 | 24.1 | 24.6 | 0.4 | 26.2 | 26.6 |

The revenue column of this statement represents the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.
The accompanying notes are an integral part of this statement.

# Close Brothers AIM VCT PLC

## Statement of Total Return (incorporating the revenue account)
## for the prior year ended 28 February 2003

| | Note | Ordinary Shares 28 February 2003 Revenue £'000 | Ordinary Shares 28 February 2003 Capital £'000 | Ordinary Shares 28 February 2003 Total £'000 | 'C' Shares 28 February 2003 Revenue £'000 | 'C' Shares 28 February 2003 Capital £'000 | 'C' Shares 28 February 2003 Total £'000 | Total 28 February 2003 Revenue £'000 | Total 28 February 2003 Capital £'000 | Total 28 February 2003 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) |
| **Return/(loss) on ordinary activities before tax** | | *18* | *(3,001)* | *(2,983)* | *204* | *(3,212)* | *(3,008)* | *222* | *(6,213)* | *(5,991)* |
| Tax on ordinary activities | 7 | - | - | - | - | - | - | - | - | - |
| **Return/(loss) attributable to equity shareholders** | | 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 | | | | | | | | | |
| Basic | | 0.2 | (29.9) | (29.7) | 1.0 | (16.1) | (15.1) | 0.7 | (20.7) | (20.0) |
| Diluted | | 0.2 | (27.2) | (27.0) | 0.9 | (14.6) | (13.7) | 0.7 | (18.8) | (18.1) |

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 29 February 2004

| | Note | Ordinary Shares<br>29 February 2004<br>£'000 | 'C' Shares<br>29 February 2004<br>£'000 | Total<br>29 February 2004<br>£'000 |
|---|---|---|---|---|
| **Fixed asset investments** | | | | |
| Qualifying investments | | 7,449 | 14,437 | 21,886 |
| Non-qualifying investments | | - | 4,505 | 4,505 |
| Total fixed asset investments | 10 | 7,449 | 18,942 | 26,391 |
| **Current assets** | | | | |
| Debtors | 11 | 485 | 54 | 539 |
| Cash at bank and in hand | | 1,062 | 510 | 1,572 |
| | | 1,547 | 564 | 2,111 |
| **Creditors: amounts falling due within one year** | 12 | (51) | (195) | (246) |
| **Net current assets** | | 1,496 | 369 | 1,865 |
| **Total assets** | | 8,945 | 19,311 | 28,256 |
| **Capital and reserves** | | | | |
| Called up share capital | 13 | 4,957 | 9,941 | 14,898 |
| Special reserve | 14 | 4,405 | 8,903 | 13,308 |
| Capital redemption reserve | 14 | 93 | 64 | 157 |
| Realised capital reserve | 14 | (190) | (1,365) | (1,555) |
| Unrealised capital reserve | 14 | (346) | 1,701 | 1,355 |
| Revenue reserve | 14 | 26 | 67 | 93 |
| **Total equity shareholders' funds** | 16 | 8,945 | 19,311 | 28,256 |
| **Net asset value per share (pence)** | 15 | 90.22 | 97.13 | 94.83 |

The financial statements on pages 23 to 41 were approved by the Board of Directors on 7 May 2004 and were signed on its behalf by

Michael Reeve

**Michael Reeve**
**Chairman**

# 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 |
|---|---|---|---|---|
| **Fixed asset investments** | | | | |
| Qualifying investments | | 4,673 | 6,111 | 10,784 |
| Non-qualifying investments | | 997 | 6,000 | 6,997 |
| Total fixed asset investments | 10 | 5,670 | 12,111 | 17,781 |
| **Current assets** | | | | |
| Debtors | 11 | 43 | 441 | 484 |
| Cash at bank and in hand | | 40 | 1,700 | 1,740 |
| | | 83 | 2,141 | 2,224 |
| **Creditors: amounts falling due within one year** | 12 | (76) | (186) | (262) |
| **Net current assets** | | 7 | 1,955 | 1,962 |
| **Total assets** | | 5,677 | 14,066 | 19,743 |
| **Capital and reserves** | | | | |
| 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 | 31 | 47 | 78 |
| **Total equity shareholders' funds** | 16 | 5,677 | 14,066 | 19,743 |
| **Net asset value per share (pence)** | 15 | 56.73 | 70.46 | 65.87 |

# Close Brothers AIM VCT PLC
## Cash Flow Statement
## for the year ended 29 February 2004

| | Note | Ordinary Shares Year to 29 February 2004 £'000 | 'C' Shares Year to 29 February 2004 £'000 | Total Year to 29 February 2004 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Dividend income received | | 86 | 70 | 156 |
| Investment income received | | 10 | 195 | 205 |
| Deposit interest received | | 24 | 51 | 75 |
| Other income received | | - | 5 | 5 |
| Investment management fees paid | | (176) | (382) | (558) |
| Other cash payments | | (66) | (98) | (164) |
| **Net cash outflow from operating activities** | 18 | (122) | (159) | (281) |
| **Taxation** | | | | |
| UK income tax repaid | | - | - | - |
| **Capital expenditure and financial investment** | | | | |
| Purchase of qualifying investments | | (354) | (2,445) | (2,799) |
| *Purchase of non-qualifying investments* | | - | (1) | (1) |
| Disposals of qualifying investments | | 614 | 58 | 672 |
| Disposals of non-qualifying investments | | 996 | 1,500 | 2,496 |
| **Net cash inflow/(outflow) from investing activities** | | 1,256 | (888) | 368 |
| **Equity dividends paid** | | | | |
| Revenue dividends paid on ordinary shares | | (51) | (100) | (151) |
| Capital dividends paid on ordinary shares | | - | - | - |
| **Net cash inflow/(outflow) before financing** | | 1,083 | (1,147) | (64) |
| **Financing** | | | | |
| Redemption of shares net of expenses | | (61) | (43) | (104) |
| **Net cash outflow from financing** | | (61) | (43) | (104) |
| **Increase/(decrease) in cash in the year** | 17 | 1,022 | (1,190) | (168) |

# 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 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| 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) |
| **Net cash outflow from operating activities** | 18 | (135) | (121) | (256) |
| **Taxation** | | | | |
| UK corporation tax repaid | | - | - | - |
| **Capital expenditure and financial investment** | | | | |
| 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 |
| **Net cash (outflow)/inflow from investing activities** | | (25) | 168 | 143 |
| **Equity dividends paid** | | | | |
| Revenue dividends paid on ordinary shares | | - | (100) | (100) |
| Capital dividends paid on ordinary shares | | (351) | (200) | (551) |
| **Net cash outflow before financing** | | (511) | (253) | (764) |
| **Financing** | | | | |
| Redemption of shares net of expenses | | (14) | (31) | (45) |
| **Net cash outflow from financing** | | (14) | (31) | (45) |
| **Decrease in cash in the year** | 17 | (525) | (284) | (809) |

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 29 February 2004

1. **ACCOUNTING POLICIES**

**True and fair override**

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

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) issued in January 2003. 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 or permanent diminution in value of investments, management expenses charged to capital 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.

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

**Investments**

Listed investments and investments quoted on AIM or OFEX 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. All expenses, save for management fees, are allocated to each class of share in relation to the funds raised.

**Issue costs**

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

**Taxation**

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

Deferred taxation is considered in accordance with FRS 19 on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recovered to the extent that it is regarded as more likely than not that they will be recovered.

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

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

## 2. Gains/(losses) on investments

| | Year to 29 February 2004 £'000 | | | Year to 28 February 2003 £'000 | | |
|---|---|---|---|---|---|---|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Realised gains on disposal | 380 | 32 | 412 | 1 | 57 | 58 |
| Permanent diminution | (227) | (250) | (477) | (93) | (8) | (101) |
| Increase/(decrease) in unrealised revaluation | 3,312 | 5,776 | 9,088 | (2,780) | (2,980) | (5,760) |
| Total gains/(losses) for the year | 3,465 | 5,558 | 9,023 | (2,872) | (2,931) | (5,803) |

## 3. Investment income

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| **Income from investments** | | | | | | |
| UK franked investment income | 84 | 63 | 147 | 59 | 33 | 92 |
| UK unfranked investment income | 4 | 175 | 179 | 42 | 293 | 335 |
| | 88 | 238 | 326 | 101 | 326 | 427 |
| **Other income** | | | | | | |
| Loan Stock Interest | - | 27 | 27 | - | - | - |
| Deposit interest | 25 | 53 | 78 | 9 | 66 | 75 |
| Commission | - | 5 | 5 | - | - | - |
| **Total income** | 113 | 323 | 436 | 110 | 392 | 502 |
| | | | | | | |
| **Total income comprises** | | | | | | |
| Dividends | 84 | 63 | 147 | 59 | 33 | 92 |
| Interest | 29 | 255 | 284 | 51 | 359 | 410 |
| Commission | - | 5 | 5 | - | - | - |
| | 113 | 323 | 436 | 110 | 392 | 502 |
| | | | | | | |
| **Income from investments** | | | | | | |
| Listed | 88 | 238 | 326 | 101 | 326 | 427 |
| Unlisted | - | - | - | - | - | - |
| | 88 | 238 | 326 | 101 | 326 | 427 |

## 4. Investment management fee

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | | | | | | |
| - Ordinary Shares | 45 | 137 | 182 | 43 | 129 | 172 |
| - 'C' Shares | 99 | 297 | 396 | 93 | 281 | 374 |
| | 144 | 434 | 578 | 136 | 410 | 546 |

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

## 5. Other expenses

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Directors' fees | 23 | 41 | 64 | 24 | 45 | 69 |
| Auditors' remuneration | | | | | | |
| – audit fees | 5 | 10 | 15 | 5 | 10 | 15 |
| Other | 20 | 40 | 60 | 20 | 40 | 60 |
| Total | 48 | 91 | 139 | 49 | 95 | 144 |

## 6. Directors' fees

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

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Directors' fees | 21 | 36 | 57 | 20 | 37 | 57 |
| National Insurance and/or VAT | 2 | 3 | 5 | 3 | 6 | 9 |
| Expenses | - | 2 | 2 | 1 | 2 | 3 |
| | 23 | 41 | 64 | 24 | 45 | 69 |

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

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

## 7. Tax on ordinary activities

| | Ordinary Shares Year to 29 February 2004 | | | 'C' Shares Year to 29 February 2004 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| UK Corporation tax at 19% | - | - | - | (14) | - | (14) |
| Tax attributable to capital expenses | - | - | - | - | 14 | 14 |
| | - | - | - | (14) | 14 | - |

| | 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 | - | - | - | - | - | - |
| | - | - | - | - | - | - |

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19%. The actual Tax charge for the current and previous year is below the standard rate for the reasons set out in the following reconciliation.

| | Ordinary Shares Year to 29 February 2004 | | | 'C' Shares Year to 29 February 2004 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Profit before taxation | 20 | 3,328 | 3,348 | 133 | 5,261 | 5,394 |
| Tax on profit at the standard rate | 4 | 632 | 636 | 25 | 1,000 | 1,025 |
| **Factors affecting the charge** | | | | | | |
| Non-taxable income | (16) | - | (16) | (12) | - | (12) |
| Expenses charged to capital | (26) | 26 | - | (56) | 56 | - |
| Excess management expenses | 38 | - | 38 | 57 | (14) | 43 |
| Non-taxable gains on investments | - | (658) | (658) | - | (1,056) | (1,056) |
| | - | - | - | 14 | (14) | - |

| | 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 |
| Profit before taxation | 18 | (3,001) | (2,983) | 204 | (3,212) | (3,008) |
| Tax on profit at the standard rate | 4 | (600) | (596) | 41 | (642) | (601) |
| **Factors affecting the charge** | | | | | | |
| Non-taxable income | (12) | - | (12) | (7) | - | (7) |
| Expenses charged to capital | (26) | 26 | - | (56) | 56 | - |
| Excess management expenses | 34 | - | 34 | 22 | - | 22 |
| Non-taxable losses on investments | - | 574 | 574 | - | 586 | 586 |
| | - | - | - | - | - | - |

*Notes*

(i) *Venture Capital Trusts are not subject to corporation tax on capital gains.*

(ii) Tax relief on expenses charged to capital has been determined by allocating tax relief to all expenses proportionately by reference to the applicable corporation tax rate of 19% and allocating the relief in accordance with the SORP.

(iii) No deferred tax asset or liability has arisen in the year.

(iv) The Company has not recognised a deferred tax asset on timing differences relating to the management expenses going forward due to the uncertainty surrounding its recovery. The amount of this unrecognized asset is £135,000 (2003: £53,000). The asset would be recovered if the Company made sufficient taxable gains in the future to utilize these losses.

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

**8. Dividends and other appropriations**

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Dividends on equity shares: | | | | | | |
| - interim revenue dividend of nil p per 'C' Share (2003: 0.5p) | - | - | - | - | 100 | 100 |
| - final revenue dividend of 0.25p per Ordinary Share (2003: 0.5p) | 25 | - | 25 | 51 | - | 51 |
| - final revenue dividend of 0.5p per 'C' Share (2003: 0.5p) | - | 99 | 99 | - | 100 | 100 |
| | 25 | 99 | 124 | 51 | 200 | 251 |

**9. Return/(loss) per share**

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Basic | | | | | | |
| - Ordinary Shares | 0.2p | 33.4p | 33.6p | 0.2p | (29.9)p | (29.7)p |
| - 'C' Shares | 0.6p | 26.5p | 27.1p | 1.0p | (16.1)p | (15.1)p |
| - Total | 0.4p | 28.8p | 29.3p | 0.7p | (20.7)p | (20.0)p |

| | Year to 29 February 2004 | | | Year to 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Diluted | | | | | | |
| - Ordinary Shares | 0.2p | 30.3p | 30.5p | 0.2p | (27.2)p | (27.0)p |
| - 'C' Shares | 0.5p | 24.1p | 24.6p | 0.9p | (14.6)p | (13.7)p |
| - Total | 0.4p | 26.2p | 26.6p | 0.7p | (18.8)p | (18.1)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 £20,000, (2003: £18,000), whilst the capital return is based on the gain on ordinary activities after taxation, but before deduction of dividends of £3,328,000 (2003: loss of £3,001,000). This is in respect of 9,955,145 Ordinary Shares (2003: 10,030,137 shares), being the weighted average number of shares in issue during the year.

The diluted return is based upon the exercise of the managers option, thus creating a further 1,010,000 shares in issue throughout 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 £119,000 (2003: £204,000), whilst the capital return is based on the gain on ordinary activities after taxation, but before deduction of dividends of £5,275,000 (2003: loss of £3,212,000). This is in respect of 19,935,560 'C' Shares (2003: 19,977,055 shares), being the weighted average number of shares in issue during the year.

The diluted return is based upon the exercise of the managers option, thus creating a further 2,001,000 shares in issue throughout the year.

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

**10. Fixed asset investments**

| | Year to 29 February 2004 Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Year to 28 February 2003 Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Qualifying AIM investments | 7,449 | 14,437 | 21,886 | 4,673 | 6,111 | 10,784 |
| Non qualifying AIM investments | - | 1 | 1 | - | - | - |
| Non qualifying listed investments | - | 4,504 | 4,504 | 997 | 6,000 | 6,997 |
| Total | 7,449 | 18,942 | 26,391 | 5,670 | 12,111 | 17,781 |

| | Ordinary Shares Qualifying AIM £'000 | Non-qualifying listed £'000 | Total investments £'000 |
|---|---|---|---|
| **Valuation basis** | | | |
| Opening valuation: 1 March 2003 | 4,673 | 997 | 5,670 |
| Purchases at cost | 354 | - | 354 |
| Sales - proceeds | (1,044) | (996) | (2,040) |
| - realised gain/(loss) on disposal | 382 | (2) | 380 |
| Permanent diminution | (227) | - | (227) |
| Increase in unrealised appreciation | 3,311 | 1 | 3,312 |
| Closing valuation : 29 February 2004 | 7,449 | - | 7,449 |
| **Historical cost basis** | | | |
| Opening book cost: 1 March 2003 | 8,330 | 998 | 9,328 |
| Purchases at cost | 354 | - | 354 |
| Permanent diminution | (227) | - | (227) |
| Disposals at cost | (662) | (998) | (1,660) |
| Closing book cost: 29 February 2004 | 7,795 | - | 7,795 |
| Opening unrealised losses | (3,657) | (1) | (3,658) |
| Increase in unrealised appreciation | 3,311 | 1 | 3,312 |
| Closing unrealised losses | (346) | - | (346) |

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

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

| | 'C' Shares | | | | |
|---|---|---|---|---|---|
| | **Qualifying AIM** | **Qualifying Loan Notes** | **Non-qualifying AIM** | **Non-qualifying Listed** | **Total Investments** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Valuation basis** | | | | | |
| Opening valuation: 1 March 2003 | 6,111 | - | - | 6,000 | 12,111 |
| Purchases at cost | 2,195 | 635 | 1 | - | 2,831 |
| Sales - proceeds | (58) | - | - | (1,500) | (1,558) |
| - realised gains on disposal | 28 | - | - | 4 | 32 |
| Permanent diminution | (250) | - | - | - | (250) |
| Increase in unrealised appreciation | 5,776 | - | - | - | 5,776 |
| Closing valuation : 29 February 2004 | 13,802 | 635 | 1 | 4,504 | 18,942 |
| **Historical cost basis** | | | | | |
| Opening book cost: 1 March 2003 | 10,197 | - | - | 5,989 | 16,186 |
| Permanent diminution | (250) | - | - | - | (250) |
| Purchases at cost | 2,195 | 635 | 1 | - | 2,831 |
| Disposals at cost | (30) | - | - | (1,496) | (1,526) |
| Closing book cost: 29 February 2004 | 12,112 | 635 | 1 | 4,493 | 17,241 |
| Opening unrealised (losses)/gains | (4,086) | - | - | 11 | (4,075) |
| Increase in unrealised appreciation | 5,776 | - | - | - | 5,776 |
| Closing unrealised gains | 1,690 | - | - | 11 | 1,701 |

**11. Debtors**

| | 29 February 2004 | | | 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | **Ordinary Share** | **'C' Shares** | **Total** | **Ordinary Share** | **'C' Shares** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Other debtors | 430 | 11 | 441 | - | 397 | 397 |
| Inter class debtors | 50 | - | 50 | 32 | - | 32 |
| Prepayments and accrued income | 5 | 43 | 48 | 11 | 44 | 55 |
| | 485 | 54 | 539 | 43 | 441 | 484 |

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

| | 29 February 2004 | | | 28 February 2003 | | |
|---|---|---|---|---|---|---|
| | **Ordinary Share** | **'C' Shares** | **Total** | **Ordinary Share** | **'C' Shares** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Other creditors | 26 | 46 | 72 | 25 | 54 | 79 |
| Inter class creditors | - | 50 | 50 | - | 32 | 32 |
| Proposed dividend | 25 | 99 | 124 | 51 | 100 | 151 |
| | 51 | 195 | 246 | 76 | 186 | 262 |

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

| 13. | Called up share capital | 29 February 2004 £'000 | 28 February 2003 £'000 |
|---|---|---|---|
| | **Authorised:** | | |
| | 20,000,000 Ordinary Shares of 50p each (2003: 20,000,000 Ordinary Shares) | 10,000 | 10,000 |
| | 25,000,000 'C' Shares of 50p each (2003: 25,000,000 'C' Shares) | 12,500 | 12,500 |
| | 25,000,000 'D' Shares of 50p each (2003: Nil) | 12,500 | - |
| | | 35,000 | 22,500 |
| | **Allotted, called up and fully paid:** | | |
| | 9,913,500 Ordinary Shares of 50p each (2003: 10,008,000 Shares) | 4,957 | 5,004 |
| | 19,883,000 'C' Shares of 50p each (2003: 19,962,000 'C' Shares) | 9,941 | 9,981 |
| | | 14,898 | 14,985 |

All class of share rank pari passu as to rights to attend and vote at any general meeting of the Company.

The rights of members to receive dividends is derived from the net income attributable to the net assets of each class of share.

The capital and assets of the Company shall on a winding up, prior to the conversion of each class of share, be divided amongst the holders of each class of share pro rata according to their shareholding.

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

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

| | Price per share (p) | Ordinary Shares | 'C' Shares | Total |
|---|---|---|---|---|
| Prior year adjustment | | (10,000) | 10,000 | - |
| 22 May 2003 | 51.0 | 8,000 | - | 8,000 |
| 28 May 2003 | 51.0 | 10,000 | - | 10,000 |
| 4 June 2003 | 51.0 | 15,000 | - | 15,000 |
| 16 July 2003 | 60.0 | 10,000 | - | 10,000 |
| 8 September 2003 | 60.0 | - | 6,000 | 6,000 |
| 26 September 2003 | 60.0 | 9,000 | - | 9,000 |
| 29 October 2003 | 55.0 | - | 19,000 | 19,000 |
| 3 November 2003 | 78.0 | - | 15,000 | 15,000 |
| 8 December 2003 | 60.0 | 12,500 | - | 12,500 |
| 14 January 2004 | 60.0 | - | 15,000 | 15,000 |
| 4 February 2004 | 60.0 | - | 10,000 | 10,000 |
| 5 February 2004 | 60.0 | 30,000 | - | 30,000 |
| 20 February 2004 | 71.0 | - | 4,000 | 4,000 |
| 23 February 2004 | 70.0 | 10,000 | - | 10,000 |
| | | **94,500** | **79,000** | **173,500** |
| **Percentage cancelled** | | **0.95%** | **0.40%** | |

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

## 14. Reserves

**Ordinary Shares at 29 February 2004**

| | Capital redemption reserve £'000 | Special reserve £'000 | Unrealised capital reserve £'000 | Realised capital reserve £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| Opening balances | 46 | 4,460 | (3,658) | (206) | 31 |
| Prior year adjustment | 6 | 7 | - | - | - |
| Capital redemption | 41 | (62) | - | - | - |
| Capitalised expenses net of taxation | - | - | - | (137) | - |
| Realised gains in the current year | - | - | - | 380 | - |
| Permanent diminution | - | - | - | (227) | - |
| Increase in unrealised appreciation | - | - | 3,312 | - | - |
| Retained loss for the year | - | - | - | - | (5) |
| Closing balances | 93 | 4,405 | (346) | (190) | 26 |

**'C' Shares at 29 February 2004**

| | Capital redemption reserve £'000 | Special reserve £'000 | Unrealised capital reserve £'000 | Realised capital reserve £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| Opening balances | 24 | 8,953 | (4,075) | (864) | 47 |
| Prior year adjustment | (6) | (7) | - | - | - |
| Capital redemption | 46 | (43) | - | - | - |
| Capitalised expenses net of taxation | - | - | - | (283) | - |
| Realised gains for the year | - | - | - | 32 | - |
| Permanent diminution | - | - | - | (250) | - |
| Increase in unrealised appreciation | - | - | 5,776 | - | - |
| Retained profit for the year | - | - | - | - | 20 |
| Closing balances | 64 | 8,903 | 1,701 | (1,365) | 67 |

## 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:

| | 29 February 2004 | | 28 February 2003 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Basic per ordinary shares | 90.22 | 97.13 | 56.73 | 70.46 |

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

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

| | 29 February 2004 £'000 | | 28 February 2003 £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Total net assets at beginning of the year | 5,677 | 14,066 | 8,732 | 17,298 |
| Decrease in share capital | (47) | (46) | (16) | (19) |
| Increase in capital redemption | 47 | 46 | 16 | 19 |
| Prior year adjustment | 7 | (7) | - | - |
| Cost of share redemption | (62) | (43) | (21) | (24) |
| Total return for the year | 3,348 | 5,394 | (2,983) | (3,008) |
| Dividends appropriated in the year | (25) | (99) | (51) | (200) |
| Total net assets at end of the year | 8,945 | 19,311 | 5,677 | 14,066 |

The basic net asset value per share is based on net assets at the year end, and on 9,913,500 Ordinary Shares and 19,883,000 'C' Shares, being the respective number of shares in issue at the year end.

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

| | 29 February 2004 £'000 | | 28 February 2003 £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Equity shareholders' funds at beginning of the year | 5,677 | 14,066 | 8,732 | 17,298 |
| Decrease in share capital | (47) | (46) | (16) | (19) |
| Increase in capital redemption | 47 | 46 | 16 | 19 |
| Prior year adjustment | 7 | (7) | - | - |
| Cost of share redemption | (62) | (43) | (21) | (24) |
| Total return for the year | 3,348 | 5,394 | (2,983) | (3,008) |
| Dividends appropriated in the year | (25) | (99) | (51) | (200) |
| Equity shareholders' funds at end of the year | 8,945 | 19,311 | 5,677 | 14,066 |

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

| | 29 February 2004 £'000 | | 28 February 2003 £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Beginning of year | 40 | 1,700 | 565 | 1,984 |
| Net cash inflow/(outflow) | 1,022 | (1,190) | (525) | (284) |
| End of year | 1,062 | 510 | 40 | 1,700 |

**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**

| | 29 February 2004 £'000 | | 28 February 2003 £'000 | |
|---|---|---|---|---|
| | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| Net revenue before finance costs and taxation | 20 | 133 | 18 | 204 |
| Investment management fee charged to capital | (137) | (297) | (129) | (281) |
| Decrease/(increase) in accrued income | 6 | 1 | (1) | 30 |
| (Increase)/decrease in inter class balances | (13) | 13 | 11 | (11) |
| Increase/(decrease) in other creditors | 2 | (8) | (34) | (63) |
| Tax deducted on investment income | - | (1) | - | - |
| Net cash outflow from operating activities | (122) | (159) | (135) | (121) |

**19. Financial instruments and risk management**

**Financial assets and liabilities**
The Company's financial assets comprise equity, loan stock, 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.

**Borrowing facilities**
The Company had no committed borrowing facilities as at 29 February 2004, either in Sterling or any foreign currency (2003: nil).

**Fair values of financial assets and financial liabilities**
All the Company's financial assets and liabilities as at 29 February 2004 are stated at fair value, unless otherwise stated. See note 1 of the financial statements.

**Interest rate risk**
The Company's policy is to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced profit before tax for the year to 29 February 2004 of the Ordinary Shares and 'C' Shares by approximately 8 per cent. and 25 per cent. respectively, (2003: 72% Ordinary Shares, 46% 'C' Shares).

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

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

The Company's financial instruments at 29 February 2004 at cost and all denominated in Sterling consist of the following:

| 29 February 2004 | | | | | |
|---|---|---|---|---|---|
| Fixed Rate £'000 | | Floating Rate £'000 | | No interest £'000 | |
| Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| - | 635 | 1,062 | 5,003 | 7,795 | 12,113 |

| 28 February 2003 | | | | | |
|---|---|---|---|---|---|
| Fixed Rate £'000 | | Floating Rate £'000 | | No interest £'000 | |
| Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares | Ordinary Shares | 'C' Shares |
| - | - | 1,038 | 7,689 | 8,329 | 10,197 |

Floating rate assets predominantly bear interest at rates based on quarterly LIBOR.
Fixed rate assets bear interest at an average of 6.7% per annum and have an average remaining life of five years.

**Market price risk**
The Company's investment risk primarily comprises the equity value of its AIM and OFEX quoted investments.

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

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

At the year end the Company had no contingencies, guarantees or financial commitments that have not been accounted for.

**21. Post balance sheet events**

As at the date of this report, following the year end of the Company, there has been no investment activity in relation to the Ordinary Share portfolio.

The 'C' Share portfolio at the date of this report has invested further funds as follows;

- Purchased 672,500 shares in Bond International for £269,000
- Purchased 500,000 shares in Laminate Flooring for £250,000
- Purchased 1,890,634 shares in Media Square for £340,314

In addition the Company repurchased for cancellation on 7 May 130,000 'C' Shares at 70 pence per share.

The Company issued 3,343,628 'D' Shares between 16 March 2004 and 5 April 2004, for a net consideration, after issue costs, of £3,176,446. To date the Company has made the following investments in relation to the 'D' Shares as follows;

- Purchased 190,561 shares in Pilat Media for £104,809
- Purchased 810,272 shares in Media Square for £145,849

The Company, on a monthly basis announces to the London Stock Exchange its net asset value (NAV). As at 30 April 2004, the Company's NAV was approximately 88 pence per Ordinary Share and 94 pence per 'C' Share, before taking account of the final dividend.

The directors have deemed it necessary to provide against the full cost of the investment in Hearing Enhancement, representing £227,000 from the Ordinary Share portfolio and £250,000 from the 'C' Share portfolio.

## 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 10 Crown Place, London EC2A 4FT on 9 June 2004 for the purpose of dealing with the following business, of which items 5 and 6 are special business.

### Ordinary Business

1 *To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 29 February 2004.*

2 To reappoint Deloitte & Touche LLP as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

3. To approve a final revenue dividend of 0.25 pence per Ordinary Share plus and, a final revenue dividend of 0.5 pence per 'C' Share for the year to 29 February 2004.

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 'D' 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 3,131,876 Ordinary Shares and 334,362 'D' Shares (representing approximately 10% of the issued share capital of the 'D' Shares and Ordinary Shares following conversion);

(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.*

6. THAT, the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred upon them by paragraph 2.2 of the special resolution passed on 12 February 2004 as if section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to the allotment of up to 6,000,000 Ordinary Shares of 50 pence each in the capital of the Company and shall expire on 30 June 2005 , except that the Company may, before such expiry, make an offer or agreement which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD

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

Date: 7 May 2004

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.