CLOSE BROTHERS

PROTECTED

# VCT

PLC

## Interim Report
## for the six months to
## 30 September 2002

# CLOSE BROTHERS PROTECTED VCT PLC

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# Directors and administration

| | |
|---|---|
| **Directors** | D M Bralsford MSc, FCA, FCT, Chairman<br>G W Pitman MA, FCA, ACMA<br>C Holdsworth Hunt MSI<br>J T Snook MA, ACA, MSI |
| **Investment Manager** | Close VCT Management<br>12 Appold Street<br>London EC2A 2AW<br>Tel: 020 7426 4000 |
| **Secretary and Registered Office** | J M Gain<br>12 Appold Street<br>London EC2A 2AW |
| **Registrar** | Capita IRG plc<br>Balfour House<br>390/398 High Road<br>Ilford<br>Essex IG1 1NQ<br>Tel: 020 8478 8241 |
| **Independent Reporting Accountants** | Deloitte & Touche<br>London |
| **Taxation Adviser** | Ernst & Young<br>Rolls House<br>7 Rolls Buildings<br>Fetter Lane<br>London EC4A 1NH |

# Investment Objectives

Close Brothers Protected VCT PLC commenced trading in April 1997 and raised a total of £27.9 million from private investors. Within the overall aim of maximising the considerable tax benefits available to shareholders in a venture capital trust, the Company's investment strategy was designed to meet the requirements of investors who seek to protect the capital value of their investment whilst still providing an attractive level of return. Following shareholder approval at the August EGM to change the Company's investment policy, the investments made by Close Brothers Protected VCT PLC will in the longer term fall into three distinct categories as follows.

- **Qualifying Asset Based Investments**

  The Company intends to replace over time the loan portfolio guaranteed by The Royal Bank of Scotland with asset based investments principally in the hotel, care home and residential development sectors.

- **Qualifying Equity Investments**

  The Company invests up to 30 per cent. of its funds in new ordinary shares issued by companies quoted on AIM to provide a broadly based and diversified equity portfolio.

- **Non-Qualifying Investments**

  10 per cent. is invested in cash and floating rate notes with banks with a Moody's rating of A and above.

**Summary of dividends and net asset value as at 30 September 2002**

| | **Pence per share** |
|---|---|
| Gross dividend for the year to 31 March 1998 | 4.00 |
| Gross interim dividends and net final dividend for the year to 31 March 1999 | 4.00 |
| Net dividend for the year to 31 March 2000 | 4.00 |
| Net dividend for the year to 31 March 2001 | 3.25 |
| Net dividend for the year to 31 March 2002 | 2.25 |
| Net dividend for the six months to 30 September 2002 | 0.50 |
| Net asset value at 30 September 2002 | 83.29 |
| Total | 101.29 |

**Notes**

1 Following the cessation of tax credits on 5 April 1999, dividends paid by VCTs no longer benefit from tax credits.

2 The above table does not take into account the income tax relief of 20 per cent. or the capital gains tax deferral relief of 40 per cent. upon subscription for shares in the Company.

# Chairman's Statement

## Review

The General Meetings held on 14 August 2002, following the completion of the VCT's fifth year of trading, formed a major milestone in the Company's history. Well over 90 per cent. of votes cast approved the continuation of the Company as a VCT for a further five years, and shareholders overwhelmingly approved a change in investment policy to build up a portfolio of high yielding, asset-based investments, aimed at improving the dividend yield. In addition, those shareholders who wished to dispose of their shares at a price close to net asset value have been able to do so in full, with some 2.4 million shares bought in for cancellation, at 86 pence per share under the Tender Offer. This represents 8.8 per cent. of the issued share capital, out of the 10 per cent. on offer.

## Investment Review

The market turmoil commented on in last year's annual report and accounts has continued, and at 30 September 2002 the AIM Index was some 44 per cent. lower than the level when your Company began trading in April 1997, while the FT-SE 100 Index had fallen by 12 per cent. over the same period. Against this, the VCT has performed relatively well, with the Company's AIM portfolio, after allowing for realisations, having fallen by only 8 per cent. Net asset value at the half year, meanwhile, has fallen to 83.3 pence, after the payment of total dividends of 18 pence since launch. At 30 September, the VCT had investments in a total of 35 quoted companies. The new issues market has been quiet over the period, with new investments totalling £660,000 made in two companies. Disposals, meanwhile, have been made in three companies, generating proceeds of £352,000 and a net loss of £117,000.

Following the change in investment policy affected from mid August, the first asset-based investment of £1 million has now been made, into Youngs VCT Limited, in which our co-investee Close Brothers Venture Capital Trust is already invested and which has undertaken successful residential property developments along the South Coast. The initial gross yield on the investment is 9.35 per cent. before allowing for the share of any development profits. Since 30 September the VCT has invested £250,000 in City Screen (Liverpool) Limited, a company set up to develop a cinema in Liverpool. Further asset-based investments are currently scheduled later in the year for a residential development in Walton-on-Thames, a new build Express-by-Holiday Inn hotel at Stansted airport and a care home for people with learning disabilities in East Anglia, the latter two in conjunction with Close Brothers Venture Capital Trust. While these new investments are unlikely to have a material effect on the Company's dividend for the current year, it is intended that the new investment policy will support our increasing level of pay-outs in future years.

The following is a summary of the Company's 10 largest qualifying AIM investments at 30 September 2002:

| **Company** | **Activity** | **Cost £'000** | **Valuation at 30 September 2002 £'000** | **Percentage of AIM portfolio value %** |
|---|---|---|---|---|
| CRC Group Plc | Service and repair of mobile telephone and computer equipment | 200 | 616 | 12.4% |
| Inter Link Foods Plc | Food manufacturer and supplier | 159 | 470 | 9.5% |
| MacLellan Group Plc | Facilities management | 182 | 387 | 7.8% |
| Advanced Medical Solutions Group Plc | Manufacturer and supplier of medical consumables | 300 | 282 | 5.7% |
| AIT Group Plc | Customer relationship management software solutions provider | 360 | 257 | 5.2% |
| Intelligent Environments Plc | E-commerce application provider | 298 | 255 | 5.2% |
| Fountains Plc | Vegetation management services | 276 | 235 | 4.8% |
| Clipper Ventures Plc | Organisation and hospitality management of round the world yacht races | 350 | 232 | 4.7% |
| Fitzhardinge plc | Real estate solutions provider | 250 | 223 | 4.5% |
| Xpertise Group Plc | IT training provider | 400 | 210 | 4.2% |
| Total top ten holdings | | 2,775 | 3,167 | 64.0% |
| 25 other AIM holdings | | 5,090 | 1,785 | 36.0% |
| Total AIM investments at 30 September 2002 | | 7,865 | 4,952 | 100% |

## Results and Dividend

As at 30 September 2002 the net assets of the Company were £20.7 million, or 83.3 pence per share compared with net assets at 31 March 2002 of £25.1 million, or 90.9 pence per share and net assets at 30 September 2001 of £24.9 million, or 89.9 pence per share. The general decline in the AIM market referred to above led to unrealised losses on investments in the six months of £1.9 million leading to an overall total capital loss for the period of £2 million (2001: £2.7 million). Net income before taxation amounted to £135,000 in the six months against £320,000 in the comparable period last year, the reduction in profits being attributable partly to declining interest rates and reduced cash balances following the Tender Offer and partly due to the costs of the Tender Offer and associated shareholder resolutions. The Board has therefore declared a net interim dividend of 0.5 pence per share (2001: 0.75 pence). The dividend will be paid on 15 January 2003 to shareholders on the register on 20 December 2002.

**Martin Bralsford**
Chairman
10 December 2002

# Independent review report by the auditors on the interim information to Close Brothers Protected VCT PLC

## Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2002 which comprises the statement of total return, the balance sheet, the cash flow statement and related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reason for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2002.

**Deloitte & Touche**

Chartered Accountants
London

10 December 2002

# Unaudited Statement of Total Return

**(incorporating the profit and loss account)**
**for the six months to 30 September 2002**

| | Six months to 30 September 2002 | | | Six months to 30 September 2001 | | | Year to 31 March 2002 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **Net losses on investments** | – | (1,951) | (1,951) | – | (2,612) | (2,612) | – | (2,022) | (2,022) |
| **Income** | 259 | – | 259 | 412 | – | 412 | 692 | – | 692 |
| **Investment management fees** (note 1) | (45) | (66) | (111) | (45) | (92) | (137) | (88) | (173) | (261) |
| **Other expenses** | (79) | (39) | (118) | (47) | (23) | (70) | (94) | (46) | (140) |
| **Return on ordinary activities before tax** | 135 | (2,056) | (1,921) | 320 | (2,727) | (2,407) | 510 | (2,241) | (1,731) |
| **Tax on ordinary activities** | (6) | 5 | (1) | (56) | 20 | (36) | (75) | 32 | (43) |
| **Return attributable to shareholders** | 129 | (2,051) | (1,922) | 264 | (2,707) | (2,443) | 435 | (2,209) | (1,774) |
| **Dividends** (note 2) | (124) | – | (124) | (208) | – | (208) | (415) | (207) | (622) |
| **Transfer to/(from) reserves** | 5 | (2,051) | (2,046) | 56 | (2,707) | (2,651) | 20 | (2,416) | (2,396) |
| **Return per ordinary share** (note 3) | 0.5p | (7.6)p | (7.1)p | 0.9p | (9.7)p | (8.8)p | 1.6p | (8.0)p | (6.4)p |

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

# Unaudited Summary Balance Sheet

## at 30 September 2002

| | 30 September 2002 £'000 | 30 September 2001 £'000 | 31 March 2002 £'000 |
|---|---|---|---|
| **Fixed asset investments** | | | |
| Qualifying investments | 17,457 | 18,599 | 17,774 |
| Non-qualifying investments | 2,005 | 4,010 | 4,007 |
| **Total fixed asset investments** | 19,462 | 22,609 | 21,781 |
| **Current assets** | | | |
| Debtors | 101 | 291 | 267 |
| Cash at bank and in hand | 1,380 | 2,354 | 3,624 |
| | 1,481 | 2,645 | 3,891 |
| **Creditors: due within one year** | (225) | (312) | (527) |
| **Net current assets** | 1,256 | 2,333 | 3,364 |
| **Net assets** | 20,718 | 24,942 | 25,145 |
| **Represented by:** | | | |
| Called up share capital | 12,445 | 13,863 | 13,832 |
| Special reserve | 9,984 | 12,416 | 12,365 |
| Capital redemption reserve | 1,493 | 75 | 106 |
| Capital reserve | | | |
| *realised* | (328) | (166) | 12 |
| *unrealised* | (2,917) | (1,318) | (1,206) |
| Revenue reserve | 41 | 72 | 36 |
| **Total equity shareholders' funds** | 20,718 | 24,942 | 25,145 |
| **Net asset value per ordinary share** | 83.3p | 89.9p | 90.9p |

This interim report was approved by the Board of Directors on 10 December 2002.

Signed on behalf of the Board of Directors by

**Martin Bralsford**

Chairman

# Unaudited Cash Flow Statement

**for the six months to 30 September 2002**

| | Six months to 30 September 2002 £'000 | Six months to 30 September 2001 £'000 | Year to 31 March 2002 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Investment income received | 278 | 255 | 481 |
| Deposit interest received | 89 | 41 | 75 |
| Other income received | 1 | 1 | 1 |
| Investment management fees paid | (118) | (154) | (278) |
| Other cash payments | (150) | (78) | (141) |
| Net cash inflow from operating activities | 100 | 65 | 138 |
| **Taxation** | | | |
| UK corporation tax repaid | – | 110 | 232 |
| **Investing activities** | | | |
| Purchase of investments | (2,635) | (768) | (1,910) |
| Disposals of investments | 3,087 | 1,730 | 4,206 |
| Net cash inflow from investing activities | 452 | 962 | 2,296 |
| **Equity dividends paid** | | | |
| Dividends paid on ordinary shares | (414) | (556) | (764) |
| Net cash inflow before financing | 138 | 581 | 1,902 |
| **Financing** | | | |
| Purchase of shares net of expenses | (2,382) | (92) | (143) |
| **(Decrease)/increase in cash and cash equivalents** | (2,244) | 489 | 1,759 |

# Notes to the interim results for the six months to 30 September 2002

## 1. Accounting Policies

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

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

In the opinion of the directors the presentation adopted enables the Company to report in a manner consistent with the sector within which it operates. The Directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act 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 reserves*
The following are accounted for in this reserve:

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

*Unrealised reserve*
The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held.

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

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

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

## Notes to the financial statements for the six months to 30 September 2002 (continued)

**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.

**Management expenses**

100 per cent. of management fees relating to AIM investments and 33 per cent. of all other expenses, representing the proportion of the investment management expenses attributable to the enhancement of the value of the investments of the Company, have been charged to capital reserves, net of corporation tax. In addition, following the change in investment policy, 50 per cent. of Management fees relating to new asset based investments will be charged to capital.

**Taxation**

The interim financial information has been prepared on the basis of accounting policies consistent with those applied in the 2001 financial statements. Taxation associated to capital expenses is applied in accordance with the SORP.

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

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

### 2. Dividend

The interim revenue dividend of 0.50 pence per Ordinary Share, amounting to £124,445 will be paid on 15 January 2003 to shareholders registered on 20 December 2002.

### 3. Return per share

Return per share has been calculated on 26,947,759 Ordinary Shares (2001: 27,796,827), being the weighted number of shares in issue throughout the period.

### 4. Other information

The information for the six months ended 30 September 2002 and 30 September 2001 does not constitute statutory accounts within the terms of section 240 of the Companies Act 1985, and is unaudited. The information for the year ended 31 March 2002 does not constitute statutory accounts within the terms of section 240 of the Companies Act 1985 and is derived from the statutory accounts for that financial year, which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

### 5. Publication

This interim report is being sent to shareholders and copies will be made available to the public at the registered office of the Company.

Close Brothers Protected VCT PLC