

**Close Brothers  
Venture Capital Trust PLC**



**Report & Financial Statements  
for the year ended  
31 March 2006**



*The Crown Hotel in Harrogate, recently acquired by The Crown Hotel Harrogate Limited*

*37 Degrees Health Club  
developed by  
The Tower Bridge  
Health Club Limited*



*The Picturehouse Cinema  
in Greenwich, operated by  
CS (Greenwich) Limited*



*The Express by Holiday Inn at Stansted Airport, developed by Kew Green VCT (Stansted) Limited*



---

CONTENTS

<b>Page</b>	
2	Directors and administration
3	Investment objectives
4	Financial highlights and financial calendar
5	Chairman's statement
7	The Board of Directors and the Manager
8	The Manager
9	The portfolio of investments
15	Report of the Directors
18	Statement of corporate governance
20	Directors' remuneration report
22	Independent auditors' report
24	Statement of total return
25	Balance sheet
26	Cash flow statement
27	Notes to the financial statements
39	Notice of meeting



**DIRECTORS AND ADMINISTRATION**

<b>Company number</b>	3142609
<b>Directors</b>	D J Watkins MBA (Harvard), Chairman (US citizen) R M Davidson J M B L Kerr ACMA J G T Thornton MBA, FCA
<b>Investment manager</b>	Close Venture Management Limited 4 Crown Place London EC2A 4BT Tel: 020 7422 7830
<b>Secretary and registered office</b>	Close Venture Management Limited 10 Crown Place London EC2A 4FT
<b>Registrar</b>	Capita Registrars Northern House Penistone Road Fenay Bridge Huddersfield, HD8 0LA Tel: 0870 1623 131
<b>Auditors</b>	Deloitte & Touche LLP London
<b>Custodians</b>	Capita Trust Company Ltd Guildhall House 81-87 Gresham Street London EC2V 7QE



## INVESTMENT OBJECTIVES

Close Brothers Venture Capital Trust PLC ("Close Brothers VCT" or the "Company") is a venture capital trust which raised a total of £39.7 million through an issue of Ordinary Shares in the spring of 1996 and through an issue of "C" Shares in the following year. The Company offers tax-paying investors substantial tax benefits at the time of investment, on payment of dividends and on the ultimate disposal of the investment. Its investment strategy is to minimise the risk to investors whilst maintaining an attractive yield. This is achieved as follows:

- qualifying unquoted investments are predominantly in specially-formed companies which provide a high level of asset backing for the capital value of the investment;
- Close Brothers VCT PLC invests alongside selected partners with proven experience in the sectors concerned;
- investments are normally structured as a mixture of equity and loan stock. The loan stock represents the majority of the finance provided, and is secured on the assets of the investee company. Funds managed or advised by Close Venture Management Limited typically own 50 per cent. of the equity of the investee company;
- other than the loan stock issued to funds managed or advised by Close Venture Management Limited and, in certain circumstances, temporary bridging finance prior to further investment by funds managed or advised by Close Venture Management Limited, investee companies do not normally have external borrowings; and
- a clear strategy for the realisation of each qualifying unquoted investment within five years or shortly thereafter is identified from the outset.

## FINANCIAL CALENDAR

Ex-dividend date for first dividend year ending 31 March 2007	12 July 2006
Record date for first dividend year ending 31 March 2007	14 July 2006
Annual General Meeting	1 August 2006
Posting of dividend cheques in respect of the first interim dividend	4 August 2006
Announcement of interim results for the six months ended 30 September 2006	December 2006
Payment of second dividend	January 2007



FINANCIAL HIGHLIGHTS

	31 March 2006	31 March 2005 (restated*)
Dividends paid per ordinary share (pence)	11.75	9.75
Revenue return per ordinary share (pence)	5.96	5.87
Capital return per ordinary share (pence)	1.56	5.91
Net asset value per ordinary share (pence)	116.49	120.64
	<b>Ordinary shares (Pence)</b>	<b>'C' shares (Pence)</b>
<b>Shareholder value created per share since launch*:</b>		
Gross revenue dividends paid during the year ended 31 March 1997	2.00	–
Gross revenue dividends paid during the year ended 31 March 1998	5.20	2.00
Gross interim dividends and net final dividend paid during the year ended 31 March 1999	11.05	8.75
Net revenue and capital dividends paid during the year ended 31 March 2000	3.00	2.70
Net revenue and capital dividends paid during the year ended 31 March 2001	8.55	4.80
Net revenue dividends paid during the year ended 31 March 2002	7.60	7.60
Net revenue and capital dividends paid during the year ended 31 March 2003	7.70	7.70
Net revenue and capital dividends paid during the year ended 31 March 2004	8.20	8.20
Net revenue and capital dividends paid during the year ended 31 March 2005	9.75	9.75
Net revenue and capital dividends paid during the year ended 31 March 2006	11.75	11.75
Total dividends paid to date	74.80	63.25
Net asset value	116.49	116.49
<b>Total return to 31 March 2006</b>	<b>191.29</b>	<b>179.74</b>

\*The change in presentation of the above table in comparison to prior periods reflects the adoption of FRS 21 which requires only dividends paid or approved by shareholders to be disclosed in each period. See note 3 to the financial statements for further explanation.

Notes:

- i) Dividends paid before 5 April 1999 were paid to qualifying shareholders inclusive of the associated tax credit. The dividends for the year to 31 March 1999 were maximised in order to take advantage of this tax credit.
- ii) A capital dividend of 2.55 pence in the year to 31 March 2000 enabled the Ordinary Shares and the 'C' Shares to merge on an equal basis.
- iii) Revenue dividends to date amount to 59.8 pence for holders of original Ordinary Shares and 50.8 pence for holders of original 'C' Shares.
- iv) Capital dividends to date amount to 15.0 pence for holders of original Ordinary Shares and 12.45 pence for holders of original 'C' Shares.
- v) All dividends paid by the Company are free of income tax. It is an Inland Revenue requirement that dividend vouchers indicate the tax element should dividends have been subject to income tax. Investors should ignore this figure on their dividend voucher and need not disclose any income they receive from a VCT on their tax return.
- vi) The net asset value of the Company is not its share price as quoted on the official list of the London Stock Exchange. The share price of the Company can be found in the Investment Companies section of the Financial Times on a daily basis.
- vii) The dividends of 9.75 pence paid during the year ended 31 March 2005 are made up of the second interim dividend and the final dividend in respect of the year ended 31 March 2004 of 3.75 pence and 1.75 pence respectively; and of the interim dividend in respect of the year ended 31 March 2005 of 4.25 pence. The dividends of 11.75 pence paid during the year ended 31 March 2006 are made up of the final dividend in respect of the year ended 31 March 2005 of 4.75 pence, and of the first and second interim dividend in respect of the year ended 31 March 2006 of 4.5 pence and 2.5 pence respectively.



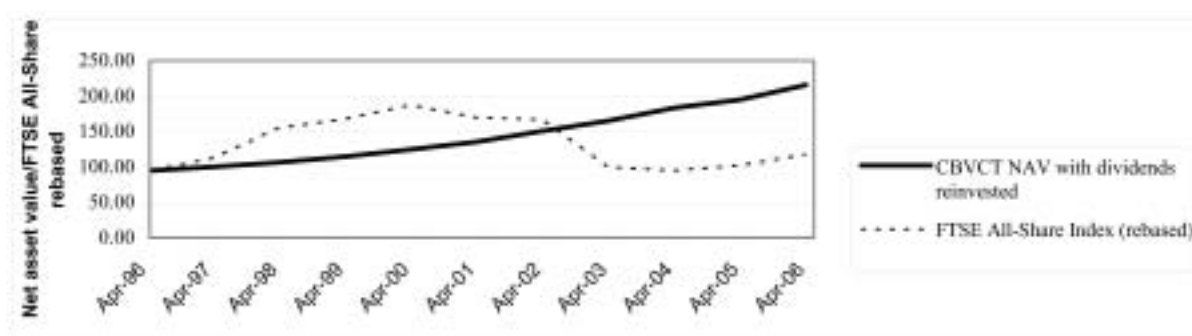


## CHAIRMAN'S STATEMENT

I am pleased to report that your Company's investment portfolio continues to show progress. Overall, including amounts previously reserved for investment, some £2.3m was invested in existing investee companies while £3.7m was invested in new companies. In addition, following the year end, the Company's two nursing home investments, Applecroft and Barleycroft Care Homes (based in Dover and Romford respectively) were sold for an aggregate capital profit of over £1m and a total rate of return on the investments of approximately 20% per annum.

Your Company's net asset value per share is now 116.5 pence per share and the Company has recorded a Total Return of 7.5 pence per share for the year. Under the new accounting standards recently introduced, dividends are recognised in the year in which they are declared, rather than in respect of the year in which they are proposed. Total dividends paid in the financial year amounted to 11.75 pence. This included the final dividend of 4.75 pence for the previous financial year, along with the first interim dividend of 4.5 pence, and an additional second interim dividend which was specifically paid as a result of these changes. From now on, it is your Board's intention to pay first and second interim dividends, to be announced at the time of the final and interim results. Following the disposals referred to above, the Company's capital reserves continue to grow and it is now your Company's intention to pay out annual dividends of 10 pence per share paid out from both revenue and realised capital profits, for so long as its realised reserves enable it to do so. This further enhances the Company's established pattern of dividends and I am sure will be most welcome to shareholders.

The performance of the net asset value of the ordinary shares against the FTSE All Share with dividends invested in both cases, is shown below:



### Review of investments and prospects

Our key investment areas continue to be the hotel, care home, leisure and residential property development sectors.

In the hotel sector both the former Days Inn Hotel at the Mailbox development in Birmingham (now rebranded under the Ramada brand) and in particular the 183 bedroom Express by Holiday Inn at Stansted Airport, performed well and showed a further uplift in value. We believe that both hotels have yet further capacity for growth. Against this, we have made provisions against the value of our three star hotels, The Bear at Hungerford, The Bell at Sandwich and the Crown at Harrogate. Each of these represents a turnaround opportunity, including refurbishment and the introduction of new management to existing long established and well respected hotels. Whilst the prospects of these units, we believe, remain strong and while their trading income has grown considerably, the turn-around processes are each taking longer than we initially anticipated. Until their trading potential is proven, we feel that it is prudent to make provisions against cost.

Following the sale of the two nursing home investments, the Company does not currently have any nursing home investments. We are nevertheless looking at a number of potential investment opportunities in the south of England. In the leisure sector, meanwhile, we have made considerable progress in building up a portfolio of companies owning and operating public houses around the UK and have also invested in two new health and fitness club projects. The first, the



**CHAIRMAN'S STATEMENT**  
**(continued)**

Weybridge Club, is currently developing a club on a thirty-acre freehold site in Weybridge, Surrey. The second, Tower Bridge Healthclub, has developed a leasehold club just next to Tower Bridge on the south bank of the River Thames. The club opened in May and already has over 1,500 members. Our residential development companies, meanwhile, continue to operate satisfactorily in a quiet market.

**New accounting standards**

During the year, the Company adopted the new Financial Reporting Standards ("FRS") 21-26, which have been issued with the intention to move to more internationally consistent accounting treatment and disclosure. The effect of these changes is disclosed in full in note 3 to the financial statements.

The main effects of these changes on the accounts is to classify loan stock investments as "loans and receivables" which are valued at amortised cost, and to account for dividends during the period in which they are declared.

**Results and dividends**

As at 31 March 2006 net asset value was £41.80m or 116.50 pence per share which compares with a re-stated net asset value at 31 March 2005 of £43.29m or 120.60 pence per share (which is stated before accruing for the final dividend of 4.75 pence per share). Revenue return before taxation was £2.68m compared to £2.88m for the previous period. The Board now declares a first dividend of 5 pence per share, including 2.50 pence paid out of realised capital reserves. This dividend will be paid on 4 August 2006 to shareholders registered on 14 July 2006.

**John Kerr**  
Director

5 July 2006





## THE BOARD OF DIRECTORS

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

**David Watkins (61)** MBA (Harvard), Chairman. From 1972 until 1991 he worked at Goldman Sachs, where he was Head of Euromarkets Syndication and Head of the European Real Estate Department. He subsequently joined Mountleigh Group PLC where he worked as a director for 12 months on the restructuring of the business. Until late 1995 he worked at Baring Securities Limited as Head of Equity Capital Markets - London, before leaving to join Capital Risk Strategies (UK) Limited, a consultancy formed to provide risk management solutions to large corporations. From 1985 to 1990 he was a director of the Association of International Bond Dealers, and from 1986 to 1990 was a member of the Council of the London Stock Exchange. He is currently a director of Close Income & Growth VCT PLC and a number of private UK companies.

**Roderick Davidson (68)**. He joined B S Stock & Co, stockbrokers in Bristol in 1960, becoming a partner in 1965 and managing director of Stock Beech & Co. Limited in 1985. In 1990 he joined Albert E Sharp where he managed investment portfolios on behalf of pension funds, charitable trusts and private investors. He retired in the spring of 1998. He is chairman of Close Brothers Development VCT PLC.

**John Kerr (63)** ACMA. John Kerr has worked as a venture capitalist and also in manufacturing and service industries. He held a number of finance and general management posts in the UK and USA, before joining SUMIT Equity Ventures, an independent Midlands based venture capital company, where he was managing director from 1985 to 1992. He then became chief executive of Price & Pierce Limited, which acted as the UK agent for overseas producers of forestry products, before leaving in 1997 to become finance director of Ambion Brick, a building material company bought out from Istock PLC. After retiring in 2002, he now works as a consultant. He is also a director of Close Income & Growth VCT PLC.

**Jonathan Thornton (59)** MBA, FCA. He retired as a director of Close Brothers Group plc in 1998. In 1984 he was responsible for establishing Close Brothers Private Equity. Prior to this he worked for both 3i plc and Cinven. He is a director of Close Brothers Development VCT PLC.

## THE MANAGER

Close Venture Management Limited, which is authorised and regulated by the Financial Services Authority, is the Manager of Close Brothers Venture Capital Trust PLC. In addition to Close Brothers Venture Capital Trust PLC, it manages a further five VCTs with total funds under management of £240 million.

Close Venture Management Limited won the 'VCT Manager of the Year' at the 2005 and 2006 Growth Company Awards and 'Best VCT Provider' category in the Professional Adviser Awards 2005 and 2006.

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

The following are specifically responsible for the management and administration of the VCTs managed by Close Venture Management Limited:

**Patrick Reeve, (46), MA, ACA**. He qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined the Close Brothers Group plc in 1989, initially in the development capital subsidiary, where he was a director specialising in the financing of smaller unquoted companies.



**THE MANAGER**  
**(continued)**

He joined the corporate finance division in 1991, where he was also a director. He established Close Venture Management Limited with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

**Henry Stanford, (41), MA, ACA.** He qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group plc in 1992. He became an assistant director in 1996 and transferred to Close Venture Management Limited in 1998 to concentrate on VCT investment.

**Will Fraser-Allen (35), BA (Hons), ACA,** qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Venture Management Limited in 2001.

**Emil Gigov, (36), BA (Hons), ACA,** qualified as a chartered accountant with KPMG in 1997 and subsequently worked in KPMG's corporate finance division working on the media, marketing and leisure sectors. He joined Close Venture Management Limited in 2000.

**Isabel Dolan, (41), ACA, MBA,** is Finance Director of Close Venture Management Limited having previously been Finance Director for a number of unquoted companies. From 1993-1997 she was Head of Recoveries at the Specialised Lending Services of The Royal Bank of Scotland plc and from 1997-2001 she was a Portfolio Director at 3i plc. She joined Close Venture Management Limited in July 2005.

**David Gudgin, (33), BSc (Hons), ACMA,** after working for ICL from 1993 to 1999 where he qualified as an accountant, he joined 3i Plc as an investment manager based in London and Amsterdam. In 2002 he joined Foursome Investments, the venture capital arm of the Englehorn family, responsible for investing an evergreen fund of US\$80 million, before joining Close Venture Management Limited in 2005.

**Robert Whitby-Smith, (31), BA (Hons), MSI, ACA,** qualified as a chartered accountant with KPMG in their corporate finance division. From 2000 to early 2005 he worked in the UK corporate finance departments of Credit Suisse First Boston and subsequently ING Barings, where he was a vice president. He joined Close Venture Management Limited in 2005.

**Ed Lascelles, (30), BA (Hons),** joined the corporate broking department of Charterhouse Securities in 1998 focusing on primary and secondary equity fundraisings. He then moved to the corporate finance department of ING Barings in 2000, retaining his focus on smaller UK companies. He joined Close Venture Management Limited in 2004.

**Dr Andrew Elder (35), MA, FRCS.** After qualifying as a surgeon he practiced for six years, specialising in neurosurgery before joining the Boston Consulting Group as a consultant in 2001 specialising in healthcare strategy. He joined Close Venture Management Limited in 2005.

**Mark Toomey, (29), BA (Hons),** after graduating from The London School of Economics with a degree in Geography and Economics, he joined Lee & Allen Consulting focusing on forensic accounting. He joined Close Venture Management Limited in 2001.



## THE PORTFOLIO OF INVESTMENTS

The following is a summary of qualifying investments as at 31 March 2006, comprising amounts invested, and after including the revaluations referred to in the Chairman's statement:

Sector and investment	Equity owned %	At 31 March 2006			At 1 April 2005 <sup>(ii)</sup>		
		Investment at cost £'000	Cumulative movement in carrying/ fair value(i) £'000	Total carrying/ fair value £'000	Investment at cost £'000	Cumulative movement in carrying/ fair value(i) £'000	Total carrying fair value(iii) £'000
<b>Hotels</b>							
Kew Green VCT (Stansted) Limited	26.6	4,000	1,549	5,549	3,000	1,127	4,127
Premier VCT (Mailbox) Limited	43.0	4,643	2,332	6,975	4,600	2,186	6,786
The Bear Hungerford Limited	26.1	1,700	(491)	1,209	1,000	–	1,000
The Crown Hotel Harrogate Limited	8.9	1,000	(233)	767	–	–	–
The Place Sandwich VCT Limited	25.0	1,000	(83)	917	1,000	5	1,005
The Rutland Pub Company (Hotels) Limited	15.8	410	17	427	–	–	–
<b>Total investment in the hotel sector</b>		<b>12,753</b>	<b>3,091</b>	<b>15,844</b>	<b>9,600</b>	<b>3,318</b>	<b>12,918</b>
<b>Care Homes</b>							
Applecroft Care Home Limited	22.9	1,925	450	2,375	1,925	69	1,994
Barleycroft Care Home Limited	23.2	2,275	624	2,899	2,000	2	2,002
<b>Total investment in the care home sector</b>		<b>4,200</b>	<b>1,074</b>	<b>5,274</b>	<b>3,925</b>	<b>71</b>	<b>3,996</b>
<b>Leisure</b>							
Churchill Taverns VCT Limited	10.7	260	24	284	180	1	181
City Screen (Cambridge) Limited	50.0	1,210	281	1,491	1,210	292	1,502
City Screen (Liverpool) Limited	18.1	200	25	225	200	(22)	178
CS (Brixton) Limited	6.4	250	17	267	–	–	–
CS (Exeter) Limited	6.6	100	1	101	–	–	–
CS (Greenwich) Limited	18.0	900	(79)	821	900	21	921
GB Pub Company Limited	17.8	240	1	241	–	–	–
The Bold Pub Company Limited	11.1	1,390	230	1,620	1,260	33	1,293
The Dunedin Pub Company VCT Limited	5.0	115	–	115	–	–	–
The Independent Beer Company Limited	6.5	150	(11)	139	–	–	–
The Independent Pub Company (VCT) Limited	12.1	290	(68)	222	290	2	292
The Rutland Pub Company Limited	6.3	100	3	103	–	–	–
The Weybridge Club Limited	9.7	1,000	6	1,006	–	–	–
Tower Bridge Health Club Limited	6.0	320	1	321	–	–	–
<b>Total investment in the leisure sector</b>		<b>6,525</b>	<b>431</b>	<b>6,956</b>	<b>4,040</b>	<b>327</b>	<b>4,367</b>
<b>Residential property development</b>							
Chase Midland VCT Limited	38.1	1,600	(2)	1,598	1,600	(2)	1,598
Country & Metropolitan VCT Limited	42.8	3,000	(4)	2,996	3,000	–	3,000
Prime VCT Limited	50	2,200	(46)	2,154	2,200	(104)	2,096
Youngs VCT Limited	25.4	1,200	–	1,200	1,200	–	1,200
<b>Total investment in the residential property development sector</b>		<b>8,000</b>	<b>(52)</b>	<b>7,948</b>	<b>8,000</b>	<b>(106)</b>	<b>7,894</b>
<b>Total qualifying investments</b>		<b>31,478</b>	<b>4,544</b>	<b>36,022</b>	<b>25,565</b>	<b>3,610</b>	<b>29,175</b>

<sup>(i)</sup> Included in this movement is capital appreciation of equity instruments amounting to £4,449,000 (2005: £3,510,000 appreciation) and movement in carrying value of loans and receivables of £95,000 (2005: £100,000).

<sup>(ii)</sup> Adjusted values at 1 April 2005 are shown in order to adjust the valuations to a common basis under FRS 26.

<sup>(iii)</sup> Included in this total is the accrued loan stock interest as at 1 April 2005 of £100,000, adjusted as required by the adoption of FRS 26.



**THE PORTFOLIO OF INVESTMENTS  
(continued)**

Unquoted loan stock held by the following investments are classified as loans and receivables in accordance with FRS 26 and carried at amortised cost using the effective interest rate. The top ten investments by value are as follows:

**1. Premier VCT (Mailbox) Limited**

This company was formed to build and operate a 90 bedroom hotel operating under the “Days Inn” brand at the Mailbox development in the centre of Birmingham. It opened in April 2001 and has recently been rebranded as a “Ramada” hotel.

<b>Date of initial investment:</b>	December 1999
<b>Operating partner:</b>	Hospitality Management International Ltd
<b>Amount invested at 31 March 2006:</b>	£4.64 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	43%

<b>Latest audited financial information</b>	<b>30 June 2005</b>
	<b>£'000</b>
Turnover for the year	1,771
Profit before taxation for the year	2
Accumulated retained losses	(217)
Net assets	781

In the year to 30 June 2005 the company made an operating profit before management fees, depreciation and interest of £841,000.

Healthcare & Leisure Property Fund PLC, which is advised by Close Venture Management Limited, has invested £757,000 as at 31 March 2006 in the company.

**2. Kew Green VCT (Stansted) Limited**

Kew Green VCT (Stansted) was established to develop and operate a limited service hotel under the “Express by Holiday Inn” brand at Stansted Airport. The 183 bedroom hotel opened in January 2005 and trading has been very encouraging.

<b>Date of initial investment:</b>	March 2003
<b>Operating partner:</b>	Kew Green Hotels Limited
<b>Amount invested at 31 March 2006:</b>	£4.00 million
<b>Further amount reserved for investment:</b>	£1.00 million
<b>Proportion of share capital and voting rights held:</b>	27%

<b>Latest audited financial information</b>	<b>31 August 2005</b>
	<b>£'000</b>
Turnover for the year	2,055
Loss before taxation for the year	(242)
Accumulated retained losses	(460)
Net assets	2,259

In the year to 31 August 2005, covering the initial 8 months’ trading of the hotel, the company made an operating profit before management fees, depreciation and interest of £451,000.

Close Brothers Protected VCT PLC and Healthcare & Leisure Property Fund PLC, which are also managed or advised by Close Venture Management Limited have invested £3 million and £0.5 million respectively in the company as at 31 March 2006. Subsequently Close Brothers Venture Capital Trust PLC has invested a further £0.5 million of the £1 million reserved for



## THE PORTFOLIO OF INVESTMENTS (continued)

investment.

The investment is valued based upon the company's net asset value as adjusted for the revaluation of the hotel as provided by an independent valuer at the year end. This has led to an uplift in the valuation of £1.5 million over original cost.

The investment is valued based upon the company's net asset value as adjusted for the revaluation of the hotel as provided by an independent valuer at the year end. On this basis the valuation of the Company's investment has increased by £2.3 million over its original cost.

### 3. Country & Metropolitan VCT Limited

The company is close to completing final sale of its eleventh development, of 23 apartments in Shipley, and it has recently completed the construction of 12 apartments in Nottingham. The company is about to acquire a site for 12 apartments in Leeds in conjunction with G&K Smart Developments Limited.

<b>Date of initial investment:</b>	November 1996
<b>Developer partner:</b>	Country & Metropolitan Limited (owned by Gladedale Holdings plc)
<b>Amount invested at 31 March 2006:</b>	£3.00 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	43%

<b>Latest audited financial information</b>	<b>30 June 2004</b>
	<b>£'000</b>
Turnover for the year	2,632
Profit before taxation for the year	192
Accumulated retained profits	10
Net assets	1,580

Healthcare & Leisure Property Fund PLC, which is advised by Close Venture Management Limited, has invested £500,000 in the company as at 31 March 2006.

The investment is valued at cost in view of the fact that Country & Metropolitan VCT is a residential property development company and distributes all its profits by way of dividend.

### 4. Barleycroft Care Home Limited

Barleycroft Care Home was formed to develop an 80 bed nursing home in Romford which opened in January 2005. The Company's investment was sold in May 2006 realising a profit of £624,000 on cost, in addition to the repayment of the loan stock.

<b>Date of initial investment:</b>	October 2003
<b>Operating partner:</b>	Festival Care Homes Limited
<b>Amount invested at 31 March 2006:</b>	£2.28million
<b>Further amount reserved for investment:</b>	nil
<b>Proportion of share capital and voting rights held:</b>	23%

<b>Latest audited financial information</b>	<b>31 December 2004</b>
	<b>£'000</b>
Turnover for the year	Not disclosed
Loss before taxation for the year	(459)
Accumulated retained losses	(372)
Net assets	848



**THE PORTFOLIO OF INVESTMENTS**  
(continued)

Close Brothers Protected VCT PLC and Healthcare & Leisure Property Fund PLC, which are also managed or advised by Close Venture Management limited have invested £2.28 million and £0.35 million respectively in the company as at 31 March 2006.

The investment is valued on the basis of the sale proceeds subsequently received.

**5. Applecroft Care Home Limited**

Applecroft Care Home was formed to acquire an existing 75 bed nursing home in Dover. The acquisition took place in January 2004 and the Company's investment was sold in May 2006 realising a profit of £450,000 on cost, in addition to the repayment of the loan stock.

<b>Date of initial investment:</b>	August 2003
<b>Operating partner:</b>	Festival Care Homes Limited
<b>Amount invested at 31 March 2006:</b>	£1.93 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	23%

<b>Latest audited financial information</b>	<b>31 December 2004</b>
	<b>£'000</b>
Turnover for the year	Not disclosed
Loss before taxation for the year	(328)
Accumulated retained losses	(258)
Net assets	930

In the 17 month period to 31 December 2004 the company made an operating profit before management fees, depreciation and interest of approximately £158,000.

Close Brothers Protected VCT PLC and Healthcare & Leisure Property Fund PLC, which are also managed or advised by Close Venture Management Limited have invested £1.925 million and £0.35 million respectively in the company as at 31 March 2006.

The investment is valued on the basis of the sale proceeds subsequently received.

**6. Prime VCT Limited**

The company is currently developing a site for 10 apartments beside the River Avon in Bristol.

<b>Date of initial investment:</b>	September 1996
<b>Developer partner:</b>	Prime Residential Limited
<b>Amount invested at 31 March 2006:</b>	£2.20 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	50%

<b>Latest audited financial information</b>	<b>30 September 2005</b>
	<b>£'000</b>
Turnover for the year	1,611
Loss before taxation for the year	(82)
Accumulated retained losses	(289)
Net assets	710

In light of additional unforeseen construction costs, delays and slower than anticipated sales at Prime VCT's previous development, leading to higher interest payments to your Company, a provision of £46,000 has been made against the cost of the investment (represented by £100,000 provision against the equity cost, netted off by a £54,000 increase in the loan stock amortised cost value.)





## THE PORTFOLIO OF INVESTMENTS (continued)

### 7. The Bold Pub Company Limited

The company was formed to acquire a group of 10 freehold and long leasehold pubs in the North West of England. It has subsequently acquired a further 18 public houses in the region, taking the total in the portfolio to 28.

<b>Date of initial investment:</b>	February 2004
<b>Operating partner:</b>	The Pub Support Company Limited
<b>Amount invested at 31 March 2006:</b>	£1.39 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	12%

Latest audited financial information	31 March 2005
	£'000
Turnover for the year	4,402
Profit before taxation for the year	114
Accumulated retained profits	8
Net assets	5,427

Close Brothers Protected VCT PLC, Close Brothers Development VCT PLC, Close Technology & General VCT PLC, Close Income & Growth VCT PLC, Healthcare & Leisure Property Fund PLC and Crown Place VCT PLC which are all managed or advised by Close Venture Management Limited, have invested at £990,000, £1840,000, £580,000, £690,000, £665,000 and £200,000 respectively as at 31 March 2006.

The initial investments were revalued upon the basis of independent valuations at the time of the most recent investment resulting in an increase in valuation of approximately £230,000.

### 8. Chase Midland VCT Limited

The company is currently undertaking its eighth development, comprising seven apartments overlooking the Trent in Nottingham. A further site has been identified.

<b>Date of initial investment:</b>	March 1997
<b>Developer partner:</b>	Chase Midland Plc
<b>Amount invested at 31 March 2006:</b>	£1.60 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	38%

Latest audited financial information	30 June 2005
	£'000
Turnover for the year	nil
Loss before taxation for the year	(129)
Accumulated retained losses	(28)
Net assets	692

Close Brothers Protected VCT PLC and Healthcare & Leisure Property Fund PLC, which are also managed or advised by Close Venture Management Limited have invested £0.2 million and £0.3million respectively in the company as at 31 March 2006.

The investment is valued at cost in view of the fact that Chase Midland VCT is a residential property development company and distributes all its profits by way of dividend.





**THE PORTFOLIO OF INVESTMENTS  
(continued)**

**9. City Screen (Cambridge) Limited**

The company was formed to develop and operate a three screen “art-house” cinema in the centre of Cambridge. The cinema opened in August 1999. Close Brothers Venture Capital Trust has charged management fees of £265,000 to date in addition to its running return of approximately 10% from loan stock.

<b>Date of initial investment:</b>	July 1999
<b>Operating partner:</b>	City Screen Limited
<b>Amount invested at 31 March 2006:</b>	£1.21 million
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of share capital and voting rights held:</b>	50%

<b>Latest audited financial information</b>	<b>31 December 2005</b>
	<b>£'000</b>
Turnover for the year	1,354
Loss before taxation for the year	(81)
Accumulated retained losses	(450)
Net assets/(liabilities)	(87)

In the year to 31 December 2005 the company made an operating profit before management fees, depreciation and interest of approximately £257,000.

The investment is valued based upon the company’s net asset value as adjusted for the revaluation of the cinema as provided by an independent valuer at the year end. On this basis the valuation of the Company’s investment has increased by approximately £0.3 million over its original cost.

**10. The Bear Hungerford Limited**

This company was formed to acquire the historic 41 room Bear Hotel in Hungerford. The hotel was acquired in March 2005 and a refurbishment programme has commenced. This has proved more protracted than envisaged, but revenues have grown significantly since a re-launch of the hotel in November 2005.

<b>Date of initial investment:</b>	March 2005
<b>Operating partner:</b>	The Considered Hotel Company Limited
<b>Amount invested at 31 March 2006:</b>	£2.0 million
<b>Further amount reserved for investment:</b>	£nil
<b>Proportion of share capital and voting rights held:</b>	20%

This amount includes £260,000 non qualifying loan stock. The Bear Hungerford Limited has not yet filed audited accounts.

Close Brothers Protected VCT PLC and Healthcare & Leisure Property Fund PLC, which are also managed or advised by Close Venture Management Limited have invested at 31 March 2006 £1,095,000 and £695,000 respectively in the company.

The investment is based upon the company’s net asset value as adjusted for the revaluation of the hotel as provided by an independent valuer at the year end. On this basis the valuation of the Company’s investment shows a decrease of £0.5 million on cost.



## REPORT OF THE DIRECTORS

The Directors submit their Annual Report and Financial Statements on the affairs of the Company for the year ended 31 March 2006.

### Principal activity and status

The principal activity of the Company is that of a venture capital trust. It has been approved by the HM Revenue & Customs as a venture capital trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 and in the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 March 2006 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 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 on page 5.

The Company is no longer an investment company as defined in Section 266 of the Companies Act 1985. The Company revoked its investment company status on 15 May 2000 to enable the Company to pay dividends from realised capital profits.

	<b>£'000</b>
Revenue return for the year ended 31 March 2006 available for distribution	2,137
Final dividend paid for the year ended 31 March 2005, recognised in the current year in accordance with FRS 21, of 2.95 pence per share paid 14 July 2005	(1,058)
First interim revenue dividend of 3.0 pence per share paid on 20 January 2006	(1,076)
Second interim revenue dividend of 1.5 pence per share paid on 31 March 2006	(539)
	<hr/>
<b>Revenue transferred to reserves</b>	<b>(536)</b>
	<hr/>
Capital return for the year ended 31 March 2006	562
Final dividend paid for the year ended 31 March 2005, recognised in the current year in accordance with FRS 21, of 1.8 pence per share paid 14 July 2005	(646)
First interim capital dividend of 1.5 pence per share paid on 20 January 2006	(538)
Second interim capital dividend of 1 penny per share paid on 31 March 2006	(359)
	<hr/>
<b>Capital transferred to reserves</b>	<b>(981)</b>
	<hr/>
<b>Total transferred to reserves</b>	<b>(1,517)</b>
	<hr/>

In addition to the above dividends, the Board has declared a first dividend of 5 pence (2.5 pence revenue and 2.5 pence paid out of realised capital reserves, which will be paid on 4 August 2006 to shareholders registered on 14 July 2006). In accordance with FRS 21, this dividend has not been accrued as a liability in these financial statements.

### Future prospects

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

### 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) were:

	<b>31 March 2006</b>	<b>31 March 2005</b>
	<b>Shares held</b>	<b>Shares held</b>
D J Watkins	10,000	10,000
R M Davidson	9,000*	5,000
J M B L Kerr	13,109	13,109
J G T Thornton	41,218	36,218

\*At the year end, 4,000 shares of Mr Davidson's 9,000 shares holding were held as a non-beneficial trustee.

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

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

Directors' retirement and re-election is subject to the Articles of Association and the Combined Code of Corporate Governance.



## REPORT OF THE DIRECTORS (continued)

### Management agreement

The Company and Close Venture Management Limited (“the Manager”) entered into a management agreement for an initial fixed period to 3 April 2000 which may now be terminated by either party on 12 months’ notice. Under this agreement, the Manager also provides secretarial and administrative services to the Company. The management agreement is subject to earlier termination in the event of certain breaches or on the insolvency of either party. The following fees are payable to the Manager by the Company under the terms of the agreement:

- **Non-Qualifying Investments:**  
A fee equal to 0.50 per cent. of funds invested in non-qualifying investments.
- **Qualifying Investments:**  
A fee equal to 1.8 per cent. of funds invested in qualifying investments.
- **Secretarial and administrative services:**  
A fee of £34,509 per annum, plus VAT, rising annually in line with the Retail Prices Index.

The Manager is also entitled to an arrangement fee, payable by each company in which the Company invests, in the region of two per cent. on each investment made.

### Management performance incentive

In order to provide the Manager with an incentive to maximise the return to investors, the Company has entered into a management performance fee agreement with the Manager. The incentive arrangement is an 8 per cent. share of the excess return above the hurdle rate, paid out annually in cash as an addition to the management fee. The hurdle rate is set at an annual return of 5 per cent. per annum, representing dividends paid and growth in share value, on the preceding year’s share value. Share value is calculated as the average of:

- (i) the net asset value per Share at the end of the relevant financial year, and
- (ii) the average mid-market price of a Share, between the date of the preliminary announcement of the results for the relevant financial year and the AGM at which the accounts are presented to Shareholders.

The amounts payable under the performance incentive will be limited to the extent that, over any two year period, the aggregate total amount payable under the new incentive and the ongoing management fees may not exceed 5 per cent. of the Company’s gross asset value at the relevant period end. Incentive fees will be paid out on an annual basis, following the Annual General Meeting. Both the total return and the hurdle rate will be cumulative from the inception of the new scheme, with any shortfall resulting in payments not being made until performance catches up.

### Auditors

A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

### Substantial interests

As at the year end and the date of this report, the Company was aware that J M Finn Limited had a beneficial interest exceeding 3 per cent. of the issued share capital (4.38 per cent. at 31 March 2006 and at the date of this report).

### Statement of Directors’ responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (“UK GAAP”). Company law requires the Directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. 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 and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each of the persons who are Directors of the Company at the date of approval of this report:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company’s auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company’s auditors are aware of that information.



## REPORT OF THE DIRECTORS (continued)

### Annual General Meeting

The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT at 11.30 a.m. on 1 August 2006. The notice of the Annual General Meeting is at the end of this document. Resolutions will be proposed as special business at the Annual General Meeting for the following purposes:

### Power to allot shares

Ordinary resolution number 8 in the notice of meeting will request the authority to allot up to 5 per cent. of the share capital of the Company.

### Disapplication of pre-emption rights

Special resolution number 9 will request the authority to disapply pre-emption rights in circumstances of a rights issues or the allotment of up to 5 per cent. of the share capital as described in ordinary resolution number 8.

### Purchase of own shares

Special resolution number 10 will request the authority to purchase an aggregate 10 per cent. of the Ordinary shares in issue provided that:

- The maximum aggregate number of shares authorised to be purchased is 3,587,822 of the Company's issued shares (equivalent to 10 per cent. of the issued share capital);
- The minimum price which may be paid for a Share is 50p;
- the maximum price that may be paid on the exercise of this authority will not exceed the higher of (a) 105 per cent. of the average of the middle market quotations for the shares over the five business days preceding the date of purchase; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;
- this authority expires at the conclusion of the next annual general meeting of the Company, or fifteen months, whichever is earlier; and
- 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.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

This resolution would renew the 2005 authority, which was in similar terms. During the financial year under review the Company did not purchase any of its shares for cancellation.

### Treasury Shares

Under the previous regulations, any shares purchased by the Company would be cancelled and the number of the shares in issue would be reduced accordingly. The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003. These Regulations allow shares purchased by the Company out of distributable profits to be held as Treasury Shares, which may then be cancelled or sold for cash. The authority sought by special resolution number 10 is intended to apply equally to shares to be held by the Company as Treasury Shares in accordance with the Regulations.

At the Annual General Meeting, resolutions as described above will be proposed that the Directors be authorised to allot relevant securities in accordance with section 80 of the Companies Act 1985 (the "Act") and to empower to allot equity securities for cash in accordance with section 95 of the Act. Again, these replace existing authorities and powers and will allow the Directors to sell Treasury Shares at a price at not less than that at which they were purchased.

### Supplier 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 overdue trade creditors at 31 March 2006 (2005: £nil).

### Financial Instruments and Management of Risk

By its nature, as a venture capital trust, the Company is exposed to price risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's policies for managing these risks are outlined in full in note 22 to the financial statements.

By Order of the Board

### Close Venture Management Limited

Company Secretary  
10 Crown Place  
London EC2A 4FT

5 July 2006



## 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 issued by the Financial Reporting Council ("FRC") in July 2003 ("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. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer. Mr Watkins is the Chairman and senior independent Director. Messrs Davidson, Kerr and Thornton are also independent Directors. The Directors have a range of business and financial skills which are extremely relevant to the Company; these are described in the Board of Directors section of this Report, on page 7. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Manager. The Board has direct access to secretarial advice and compliance services provided by the Manager, who is responsible for ensuring that Board procedures are followed and applicable regulations complied with. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the Combined Code, the Company has in place Directors' & Officers' Liability Insurance.

The Board met five times during the year ended 31 March 2006. All of the Directors attended each meeting. The Chairman ensures that all Directors receive in a timely manner all relevant management, regulatory and financial information. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and its Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought.

The Manager has authority over management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services.

The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company including monitoring of the discount of the net asset value and the share price;
- monitoring shareholder profile and considering shareholder communications.

### Directors' Performance Evaluation

Performance of the Board and the Directors is assessed on the following:

- attendance at Board and Committee meetings
- the contribution made by individual Directors at Board and Committee meetings.

Performance evaluation is conducted by the Board as a peer group and is monitored on a continuous ongoing basis. In light of this ongoing performance evaluation, the performance of the Directors subject to re-election is considered to be effective and reflects their strong commitment to the role.

### Remuneration Committee

Since the Company has no executive directors, the detailed 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.2, B1.1 to B1.6, and B2.1 to B2.4 are not relevant.

### Audit Committee

The Audit Committee consists of all Directors, with Mr Kerr as Chairman. In accordance with the Code, the members of the Audit Committee have recent and relevant financial experience. The Committee met twice during the year ended 31 March 2006; all members attended.

Written terms of reference have been constituted for the Audit Committee, these are:



## STATEMENT OF CORPORATE GOVERNANCE (continued)

- providing an overview of the Company's accounting policies and financial reporting;
- considering the effectiveness of the Company's internal controls and risk management systems;
- to monitor the integrity of the financial statements of the Company;
- meeting the Company's external auditors twice yearly, approving their appointment, reappointment and providing an ongoing review of auditor independence and objectivity;
- meeting with the Head of Internal Audit of Close Brothers Group plc when appropriate;
- ensuring that all Directors of the Company, and staff of the Manager feel able to raise issues of serious concern with the Chairman of the Audit Committee; and
- the Audit Committee also undertakes the duties of the Engagement Committee, and therefore also reviews all matters arising under the management agreement.

During the year under review, the Company discharged the responsibilities described above. Its activities included:

- formally reviewing the draft Interim Accounts and the draft final Report and Financial Statements;
- reviewing the effectiveness of internal control systems by examining the Internal Controls Report produced by the Manager;
- meeting with the Head of Internal Audit of Close Brothers Group plc; and
- meeting with the external auditors and reviewing their findings.

### **Nomination Committee**

A Nomination Committee has not been formed as the size of the Board does not warrant its formulation.

### **Internal control**

In accordance with the principle C.2 of the combined code, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance"). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. The Board receives each year from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which comes to management's and the Board's attention.

The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the year. The audit committee assists the Board in discharging its review responsibilities.

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

### **Going concern**

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

### **Relationships with shareholders**

The Company's Annual General Meeting on 1 August 2006 will be used as an opportunity to communicate with private investors. The Board and the Chairman of the Audit Committee will be available to answer questions at the Annual General Meeting. At the Annual General Meeting the level of proxies lodged on each resolution, the balance for and against the resolution, and the number of votes withheld, are announced after the resolution has been voted on by a show of hands.

### **Statement of compliance**

With the exception of the requirement to have a Remuneration Committee and a Nomination Committee, the Directors consider that the Company has complied throughout the year ended 31 March 2006 with all the relevant provisions set out in Section 1 of the Code on Corporate Governance issued by the Financial Services Authority. The Company continues to comply with the Code at the date of this report.



**DIRECTORS' REMUNERATION REPORT**

**Introduction**

This report is submitted in accordance with Schedule 7a to the Companies Act 1985. The report also meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

**Remuneration committee**

Since the Company consists solely of non-executive Directors, a remuneration committee is not considered necessary.

**Directors' remuneration policy**

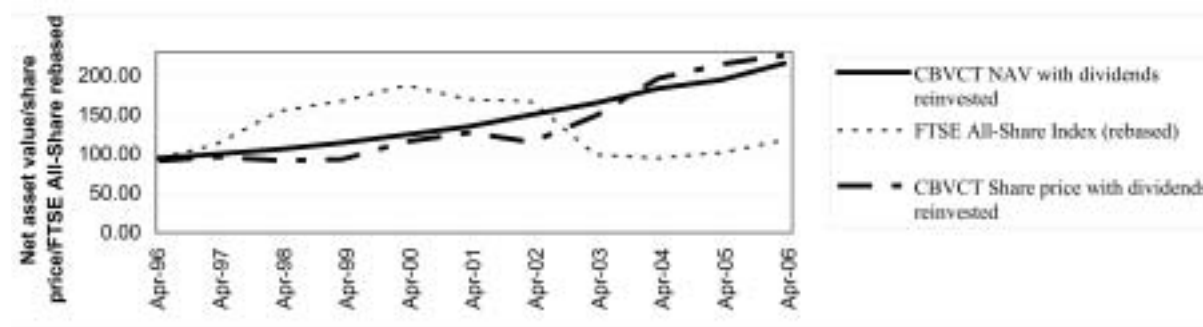
The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration market equivalents are considered in comparison to the overall activities and size of the Company.

The maximum level of non-executive Directors' remuneration is fixed by the Company's Articles of Association not to exceed £70,000 per annum, amendment to this is by way of a special resolution subject to ratification by shareholders.

**Performance graph**

The graph below shows the performance of Close Brothers Venture Capital Trust PLC's share price and net asset value against the FTSE All Share Index, in all three instances with dividends reinvested, over the last eight years. The directors consider this to be the most appropriate benchmark.

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



**Service contracts**

None of the Directors have a service contract with the Company.

**Directors' remuneration**

The following items have been audited:

The following table shows a breakdown of the remuneration of individual Directors, exclusive of National Insurance or V.A.T.:

	Year ended 31 March 2006			Year ended 31 March 2005		
	£'000			£'000		
	Fees £'000	Expenses £'000	Total £'000	Fees £'000	Expenses £'000	Total £'000
David Watkins	17,500	–	17,500	17,500	–	17,500
Roderick Davidson	17,500	–	17,500	17,500	–	17,500
John Kerr	17,500	–	17,500	17,500	–	17,500
Jonathan Thornton	17,500	–	17,500	17,500	–	17,500
	<u>70,000</u>	<u>–</u>	<u>70,000</u>	<u>70,000</u>	<u>–</u>	<u>70,000</u>

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

David Watkins, Roderick Davidson and John Kerr are remunerated personally.

Jonathan Thornton's services are provided by Jonathan Thornton Limited.





**DIRECTORS' REMUNERATION REPORT  
(continued)**

In addition to Directors' remuneration, the Company pays annual premiums in respect of Directors' & Officers' Liability Insurance.

By Order of the Board

**Close Venture Management Limited**

Company Secretary  
10 Crown Place  
London EC2A 4FT

5 July 2006



**INDEPENDENT AUDITORS' REPORT**  
**to the members of Close Brothers Venture Capital Trust PLC**

We have audited the financial statements of Close Brothers Venture Capital Trust PLC for the year ended 31 March 2006 which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in 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**

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework 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 report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. We also report to you 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 also report to you whether, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report 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 International Standards on Auditing (UK and Ireland) 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 Company's circumstances, 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.



**INDEPENDENT AUDITORS' REPORT**  
**to the members of Close Brothers Venture Capital Trust PLC (continued)**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its total return for the year then ended; and
- 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.
- the information given in the Directors' report is consistent with the financial statements.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London

5 July 2006

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



**STATEMENT OF TOTAL RETURN**  
**(incorporating the revenue account)**

	Note	Year ended 31 March 2006			Year ended 31 March 2005 (Restated) <sup>(1)</sup>		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	4	–	939	939	–	2,684	2,684
Investment income	5	3,044	–	3,044	3,384	–	3,384
Investment management fees	6	(180)	(539)	(719)	(263)	(788)	(1,051)
Other expenses	7	(183)	–	(183)	(232)	–	(232)
<b>Return on ordinary activities before interest and tax</b>		<u>2,681</u>	<u>400</u>	<u>3,081</u>	<u>2,889</u>	<u>1,896</u>	<u>4,785</u>
Finance charge		–	–	–	(5)	(16)	(21)
<b>Return on ordinary activities before tax</b>		<u>2,681</u>	<u>400</u>	<u>3,081</u>	<u>2,884</u>	<u>1,880</u>	<u>4,764</u>
Tax on ordinary activities	9	(544)	162	(382)	(778)	241	(537)
<b>Return attributable to shareholders</b>		<u>2,137</u>	<u>562</u>	<u>2,699</u>	<u>2,106</u>	<u>2,121</u>	<u>4,227</u>
Dividends	10	(2,673)	(1,543)	(4,216)	(1,633)	(1,864)	(3,497)
<b>Transfer (from)/to reserves</b>		<u>(536)</u>	<u>(981)</u>	<u>(1,517)</u>	<u>473</u>	<u>257</u>	<u>730</u>
<b>Basic and diluted return per share (pence)</b>	11	<u>5.96</u>	<u>1.56</u>	<u>7.52</u>	<u>5.87</u>	<u>5.91</u>	<u>11.78</u>

1. Comparative figures have been restated in accordance with FRS 21 in respect of dividends as disclosed in notes 2 and 3 to the financial statements.
2. The accompanying notes on pages 27 to 38 form an integral part of these financial statements.
3. The total column of this Statement of Total Return represents the profit and loss account of the Company. The supplementary revenue and capital return columns have been prepared in accordance with the Association of Investment Trust Companies' Statement of Recommended Practice.
4. All of the Company's activities derive from continuing operations.
5. There are no recognised gains and losses other than the results for either year disclosed above. Accordingly a statement of total recognised gains and losses is not required.



## BALANCE SHEET

	Note	31 March 2006 £'000	31 March 2005 (Restated)* £'000
<b>Fixed asset investments</b>			
Qualifying investments		36,022	29,075
Non-qualifying investments		262	2
<b>Total fixed asset investments</b>	12	36,284	29,077
<b>Current assets</b>			
Debtors	14	18	267
Cash at bank	20	5,842	14,737
		5,860	15,004
<b>Creditors: amounts falling due within one year</b>	15	(349)	(796)
<b>Net current assets</b>		5,511	14,208
<b>Total assets less current liabilities</b>		<b>41,795</b>	<b>43,285</b>
<b>Capital and reserves</b>			
Called up share capital	16	17,939	17,939
Special reserve	17	14,110	14,110
Capital redemption reserve	17	1,914	1,914
Realised capital reserve	17	2,204	4,124
Unrealised capital reserve	17	4,449	3,510
Revenue reserve	17	1,179	1,688
<b>Total equity shareholders' funds</b>	18	<b>41,795</b>	<b>43,285</b>
<b>Net asset value per share (pence)</b>	18	<b>116.5</b>	<b>120.6</b>

\* Comparative figures have been restated in accordance with FRS 21 in respect of dividends as disclosed in notes 2 and 3 to the financial statements.

The financial statements on pages 24 to 38 were approved by the Board of Directors on Signed on behalf of the Board of Directors on 5 July 2006.

**John Kerr**  
Director



## CASH FLOW STATEMENT

	Note	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
<b>Operating activities</b>			
Investment income		2,706	2,693
Dividend income		21	197
Deposit interest		427	433
Other income		2	13
Investment management fees paid		(1,006)	(1,284)
Administrative expenses paid		(216)	(218)
<b>Net cash inflow from operating activities</b>	21	1,934	1,834
<b>Servicing of finance</b>			
Finance interest		–	(31)
<b>Taxation</b>			
UK corporation tax paid		(517)	(743)
VAT repaid/(paid)		22	(53)
<b>Capital expenditure and financial investment</b>			
Purchase of investments		(6,173)	(7,683)
Disposal of investments		55	20,125
<b>Net cash (outflow)/inflow from investing activities</b>		(6,118)	12,442
<b>Equity dividends paid</b>			
Dividends paid on ordinary shares	10	(4,216)	(3,497)
<b>Net cash (outflow)/inflow before financing</b>		(8,895)	9,952
<b>Financing</b>			
Repayment of loan facilities		–	(950)
<b>Net cash outflow from financing</b>		–	(950)
<b>(Decrease)/increase in cash</b>	20	<b>(8,895)</b>	<b>9,002</b>



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006

### 1. Accounting convention

The financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of investments, 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 by the Association of Investment Trust Companies (“AITC”) and revised in January 2003.

#### True and fair override

The Company is no longer an investment company within the meaning of s266, of the 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 absence of Section 266 status does not preclude the Company from presenting its accounts in accordance with the AITC’s SORP and furthermore the Directors consider it appropriate to continue to present the accounts in accordance with the SORP. Under the SORP, the financial performance of the Company is presented in a Statement of Total Return in which the total column is the profit and loss account of the Company.

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 UK accounting standards are necessary to give a true and fair view. The departures have no effect on the total return or balance sheet.

### 2. Accounting policies

#### Change in accounting policies

With effect from 1 April 2005, the Company adopted the new Financial Reporting Standards (“FRS”) 21-26, that have been issued by the Accounting Standards Board as part of the convergence process between United Kingdom Generally Accepted Accounting Practice and International Financial Reporting Standards (“IFRS”). In the case of FRS 25 and 26, the Company applied the exemption from restating 2004 comparative figures on transition at 1 April 2005. The effects of the relevant accounting policies are disclosed in the respective notes below, restatement and adjustment of the comparative figures are detailed in note 3.

#### Investments

In accordance with FRS 26 “Financial Instruments Measurement”, equity investments are designated as fair value through profit or loss (“FVTPL”). The total column of the Statement of Total Return represents the Company’s profit and loss account. Unquoted investments’ fair value is determined by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Fair value movements on equity investments and gains and losses arising on the disposal of investments are reflected in the capital column of the Statement of Total Return in accordance with the AITC SORP.

Unquoted loan stock is classified as loans and receivables in accordance with FRS 26 and carried at amortised cost using the Effective Interest Rate method (“EIR”). Movements in the amortised cost relating to interest income are reflected in the revenue column of the Statement of Total Return and movements in respect of capital provisions are reflected in the capital column of the Statement of Total Return. Loan stock accrued interest is recognised in the Balance Sheet as part of the carrying value of the loans and receivables at the end of each reporting period.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of an investment.

It is not the Company’s policy to exercise control or significant influence over investee companies. Therefore in accordance with the exemptions under FRS 9, those undertakings in which the Company holds more than 20 per cent. of the equity are not regarded as associated undertakings.





**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**

**Investment income**

Dividends receivable on equity investments are taken to revenue on an ex-dividend basis. Fixed returns on debt securities are recognised on a time apportionment basis using an effective interest rate over the life of the financial instrument.

**Investment management fees and other expenses**

All expenses have been accounted for on an accruals basis. Expenses are charged through the revenue account except the following which are charged through the realised capital reserve:

- 75 per cent. of Management fees and performance fees, net of corporation tax is allocated to the capital account, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent. of the Company's investment returns will be in the form of capital gains; and
- expenses which are incidental to the purchase or disposal of an investment are charged through the realised capital reserve.

**Debtors and creditors**

- Debtors do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The Directors consider that the carrying amount of debtors approximates their fair value.
- Creditors are non-interest bearing and are stated at their nominal value. The Directors consider that the carrying amount of creditors approximates their fair value.

**Issue costs**

Issue costs associated with the allotment of share capital have been deducted from the share premium account in accordance with FRS 25.

**Taxation**

Taxation is applied on a current basis in accordance with FRS 16. Taxation associated with capital expenses is applied in accordance with the SORP. In accordance with FRS 19, deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less 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 recognised to the extent that it is regarded as more likely than not that they will be recovered. The specific nature of taxation of venture capital trusts mean that it is unlikely that any deferred tax will arise. The Directors have considered the requirements of FRS19 and do not believe that any provision should be made.

**Reserves**

Realised capital reserves:

The following are disclosed in this reserve:

- (i) gains and losses on the realisation of investments; and
- (ii) expenses, together with the related taxation effect, charged in accordance with the above policies;

Unrealised capital reserves:

The following are disclosed in this reserve:

- (i) Increases and decreases in the valuation of investments held at the period end;

Special reserve

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

**Dividends**

In accordance with FRS 21, "Events after the balance sheet date", interim dividends are not accounted for until paid, and final dividends are accounted for when approved by shareholders at an Annual General Meeting. Comparative figures have been restated as detailed in note 3.



**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**

**3. Restatement and adjustment to revenue and unrealised capital reserves as at 1 April 2005**

Under the terms of the transitional provisions contained within FRS 26 the opening balances for revenue reserves at 1 April 2005, in relation to the carrying value of loans and receivables have been adjusted to reflect the impact of the adoption of FRS 26.

The adoption of FRS 26 has resulted in an increase in the revenue reserve as at 1 April 2005 as a result of the adjustment to the treatments of loan stock investments now held at amortised cost as determined by the Effective Interest Rate method.

In accordance with FRS 21, comparatives for revenue and capital reserves at 31 March 2005 have been restated in recognition of a change in accounting policy. The adoption of FRS 21 has resulted in a decrease in the distribution liability as a result of the de-recognition of proposed dividends thereon and an increase in the revenue reserves as at 31 March 2005.

A reconciliation of reserves incorporating the adjustments and restatements required by the adoption of the FRS 21 and FRS 26 is shown below:

**Reconciliation of revenue reserves**

	<b>£'000</b>
Revenue reserves previously reported at 31 March 2005	630
Restatement as required by adoption of FRS 21	
– change in accounting for dividends	1,058
Restated revenue reserves at 31 March 2005	1,688
Adjustment as required by adoption of FRS 26	
– change in valuation of loan stock investments to amortised cost using the EIR method	27
<b>Revenue reserves as at 1 April 2005 as adjusted</b>	<b>1,715</b>

**Reconciliation of realised capital reserves**

	<b>£'000</b>
Realised capital reserves previously reported at 31 March 2005	3,478
Restatement as required by adoption of FRS 21	
– change in accounting for dividends	646
<b>Realised capital reserves as at 1 April 2005 as adjusted</b>	<b>4,124</b>

**4. Gains on investments**

	<b>Year ended 31 March 2006 £'000</b>	<b>Year ended 31 March 2005 £'000</b>
Realised gains	–	369
Unrealised gains	939	2,315
<b>Total</b>	<b>939</b>	<b>2,684</b>



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

5. Investment income

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
<b>Income from qualifying shares and securities</b>		
UK dividend income	20	170
Return on investments	2,577	2,558
Other income	29	172
	<u>2,626</u>	<u>2,900</u>
<b>Non-qualifying income</b>		
Bank deposit interest	416	442
Other income	2	42
	<u>418</u>	<u>484</u>
<b>Total income</b>	<u><b>3,044</b></u>	<u><b>3,384</b></u>

6. Investment management fees

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	189	564	753	185	555	741
Performance incentive fee provision/(prior year overaccrual)	(9)	(25)	(34)	78	233	310
	<u>180</u>	<u>539</u>	<u>719</u>	<u>263</u>	<u>788</u>	<u>1,051</u>

Total management fees for the year ended 31 March 2006 include VAT of approximately £126,000 (2004: £184,000). Further details of the Management Agreement under which the investment management fee is paid are given in the Report of the Directors on page 16.

7. Other expenses

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Directors' fees	76	70
Auditors' remuneration – audit fees	26	21
Amortisation of loan facility fees	–	20
Other expenses	81	121
	<u>183</u>	<u>232</u>
<b>Total expenses</b>	<u><b>183</b></u>	<u><b>232</b></u>

8. Directors' fees

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Directors' fees	70	70
National insurance and VAT	6	–
	<u>76</u>	<u>70</u>
<b>Total</b>	<u><b>76</b></u>	<u><b>70</b></u>

Further information regarding Directors' remuneration can be found on the Directors' Remuneration Report on page 20.



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

9. Tax on ordinary activities

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return before taxation	2,681	400	3,081	2,884	1,880	4,764
UK corporation tax at 30 per cent.	797	120	917	865	564	1,429
<i>Factors affecting the tax charge:</i>						
Non-taxable gain/loss on investments	–	(282)	(282)	–	(805)	(805)
Tax attributable to capitalised expenses	162	(162)	–	241	(241)	–
Expenses charged to capital	(162)	162	–	(236)	241	5
Non-taxable income	(7)	–	(7)	(50)	–	(50)
Consortium relief	(246)	–	(246)	–	–	–
Tax refund in respect of prior years	–	–	–	(42)	–	(42)
<b>Tax charge for the year</b>	<b>544</b>	<b>(162)</b>	<b>382</b>	<b>778</b>	<b>(241)</b>	<b>537</b>

The tax charge for the period is lower than the standard rate of corporation tax of 30 per cent. The differences are explained above.

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 expenses by reference to the applicable corporation tax rate of 30 per cent. and allocating the relief between revenue and capital in accordance with the SORP.
- (iii) No deferred tax asset or liability has arisen in the year.

10. Dividends

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Second Interim Dividend – year ended 31 March 2004 of 3.75p per share (capital)					1,344	1,344
Final Dividend – year ended 31 March 2004 of 1.75p per share (revenue)				628		628
Interim Dividend – year ended 31 March 2005 of 4.25p per share (revenue: 2.8p and capital: 1.45p)				1,005	520	1,525
Final Dividend – year ended 31 March 2005 of 4.75p per share (revenue: 2.95p and capital: 1.8p)	1,058	646	1,704			
First Interim Dividend – year ended 31 March 2006 of 4.5p per share (revenue: 3p and capital: 1.5p)	1,076	538	1,614			
Second Interim Dividend – year ended 31 March 2006 of 2.5p per share (revenue: 1.5p and capital: 1p)	539	359	898			
	<b>2,673</b>	<b>1,543</b>	<b>4,216</b>	<b>1,633</b>	<b>1,864</b>	<b>3,497</b>



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

The Board has declared a dividend of 5 pence per share (2.5 pence per share revenue and 2.5 pence per share paid out of realised capital gains), which will be paid on 4 August 2006 to shareholders registered on 14 July 2006.

In accordance with FRS 21 this dividend has not been accrued as a liability in these financial statements.

11. Basic and diluted return per share

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Return attributable to equity shares	2,137	562	2,699	2,106	2,121	4,227
Weighted average shares in issue	35,878,228	35,878,228	35,878,228	35,878,228	35,878,228	35,878,228
Return attributable per equity share (pence)	5.96	1.56	7.52	5.87	5.91	11.78

There are no convertible instruments, derivatives or contingent share agreements in issue on Close Brothers Venture Capital Trust PLC and hence no dilution affecting the return per share. The basic return per share is therefore the same as the diluted return per share.

12. Fixed assets investments

	Year ended	Year ended
	31 March	31 March
	2006	2005
	£'000	£'000
Qualifying equity investments	14,219	11,418
Qualifying loan stock investments	21,803	17,657
Non-qualifying equity investments	2	2
Non-qualifying loan stock investments	260	–
	<u>36,284</u>	<u>29,077</u>
Adjustments as required by adoption of FRS 26		
– change in valuation of unlisted loan stock investment to amortised cost using the EIR method (see note 3)		27
– reclassification of loan stock interest debtors to fixed asset investments		73
	<u>36,284</u>	<u>29,177</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**

	Qualifying £'000	Non- Qualifying £'000	Total £'000
Opening book cost	25,565	2	25,567
Opening accrued amortised loan stock interest (as adjusted)	100	–	100
Opening adjusted unrealised gain	3,510	–	3,510
<b>Adjusted opening valuation</b>	<b>29,175</b>	<b>2</b>	<b>29,177</b>
Net purchases at cost	5,913	260	6,173
Sales proceeds	–	–	–
Gross realised gain for the year	–	–	–
Movement in loan stock carrying value	(5)	–	(5)
Unrealised gain for the year	939	–	939
<b>Closing valuation</b>	<b>36,022</b>	<b>262</b>	<b>36,284</b>
Closing book cost	31,478	262	31,740
Accrued amortised loan stock interest	95	–	95
Closing unrealised gain	4,449	–	4,449
<b>Closing valuation</b>	<b>36,022</b>	<b>262</b>	<b>36,284</b>
<b>Gains/(losses) on investments</b>			
Net movement in realised gain in the year	–	–	–
Net movement in unrealised gain in the year	939	–	939
<b>Gains on investments in the year</b>	<b>939</b>	<b>–</b>	<b>939</b>

### 13. Significant interests

The Company has interests of greater than 20 per cent. in the nominal value of the allotted shares of any class of shares in the investee companies as at 31 March 2006 as described below:

Company	Country of incorporation	Principal activity	% class and share type voting rights	% total
Prime VCT Limited	Great Britain	Residential property development	50% Ordinary shares	50.0%
City Screen (Cambridge) Limited	Great Britain	Art House Cinema	50% Ordinary shares	50.0%
Premier VCT (Mailbox) Limited	Great Britain	Ownership and operation of the Ramada Hotel, Birmingham, Mailbox	43% Ordinary shares	43.0%
Country & Metropolitan VCT Limited	Great Britain	Residential property development	42.8% Ordinary shares	42.8%
Chase Midland VCT Limited	Great Britain	Residential property development	38.1% Ordinary shares	38.1%
Kew Green VCT (Stansted) Limited	Great Britain	Ownership and operation of the Express by Holiday Inn, Stansted Airport	26.6% Ordinary shares	26.6%
The Bear Hungerford Limited	Great Britain	Ownership and operation of The Bear Hotel, Hungerford	26.1% Ordinary shares	26.1%
The Place Sandwich VCT Limited	Great Britain	Ownership and operation of The Bell Hotel, Sandwich	25% Ordinary shares	25.0%
Youngs VCT Limited	Great Britain	Residential property development	25.4% Ordinary shares	25.4%
Barleycroft Care Home Limited	Great Britain	Care Home operation	23.2% Ordinary shares	23.2%
Applecroft Care Home Limited	Great Britain	Care Home operation	22.9% Ordinary shares	22.9%

As permitted by FRS 9, the investments listed above are held as part of an investment portfolio and their value to the Company is through their marketable value as part of a portfolio of investments. Therefore these investments are not considered to be associated undertakings.



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

14. Debtors

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Prepayment and accrued income	11	202
Other debtors	7	65
<b>Total</b>	<b>18</b>	<b>267</b>

15. Creditors: amounts falling due within one year

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 (Restated) £'000
UK corporation tax payable	49	183
VAT	6	27
Other creditors	294	586
<b>Total</b>	<b>349</b>	<b>796</b>

16. Called up share capital

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
<b>Authorised</b> 68,000,000 shares of 50p each (2005: 68,000,000)	<b>34,000</b>	<b>34,000</b>
<b>Allotted, called up and fully paid</b> 35,878,228 shares of 50p each (2005: 35,878,228)	<b>17,939</b>	<b>17,939</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**

**17. Reserves**

	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000
<b>At 31 March 2005</b>	14,110	1,914	3,478	3,510	630
FRS 21 prior year adjustment (note 3)	–	–	646	–	1,058
<b>Restated opening reserves as at 31 March 2005</b>	14,110	1,914	4,124	3,510	1,688
Adjustment at 1 April 2005 for FRS 26 (note 3)	–	–	–	–	27
Adjusted opening reserves at 1 April 2005	14,110	1,914	4,124	3,510	1,715
Cancellation of shares	–	–	–	–	–
Capitalised fees and expenses	–	–	(539)	–	–
Tax effect of capitalised fees and expenses	–	–	162	–	–
Realised gains on investments	–	–	–	–	–
Increase in unrealised appreciation	–	–	–	939	–
Distributions	–	–	(1,543)	–	–
Retained net revenue	–	–	–	–	(536)
<b>At 31 March 2006</b>	<b>14,110</b>	<b>1,914</b>	<b>2,204</b>	<b>4,449</b>	<b>1,179</b>

**18. Net asset value per share**

	31 March 2006	31 March 2005 (Restated)
Net assets attributable to shareholders (£'000)	41,795	43,285
Ordinary shares of 50p in issue	35,878,228	35,878,228
<b>Net asset value per share (pence)</b>	<b>116.49</b>	<b>120.64</b>

Net asset value per share is based upon the net assets of the Company and shares in issue at the year end.

**19. Reconciliation of movement in shareholders' funds**

	31 March 2006 £'000	31 March 2005 £'000
Opening shareholders' funds (restated)	43,285	40,581
Adjustment to opening reserves for FRS 21 (see note 3):		
– recognition of final revenue year ended 31 March 2005 dividend	–	1,346
– recognition of final capital year ended 31 March 2005 dividend	–	628
Restated opening shareholders' funds	43,285	42,555
Adjustment to opening reserves for FRS 26 (see note 3)	27	–
Total return to shareholders before dividends	2,699	4,227
Dividends	(4,216)	(3,497)
<b>Closing shareholders' funds</b>	<b>41,795</b>	<b>43,285</b>





NOTES TO THE FINANCIAL STATEMENTS  
(continued)

20. Analysis of changes in cash during the year

	31 March 2006 £'000	31 March 2005 £'000
Opening cash balances	14,737	5,735
Net cash (outflow)/inflow	(8,895)	9,002
Closing cash balances	5,842	14,737

21. Reconciliation of net revenue before finance costs and taxation net cash flow from operating activities

	31 March 2006 £'000	31 March 2005 £'000
Net revenue before finance costs and taxation	2,681	2,889
Investment management fees charged to capital	(564)	(555)
Performance incentive fees charged to capital	25	(233)
Decrease/(Increase) in operating debtors	83	(13)
Increase in operating creditors	(291)	(274)
Amortisation of finance fees	–	20
<b>Net cash inflow from operating activities</b>	<b>1,934</b>	<b>1,834</b>

22. Financial instruments and risk management

The Company's financial assets comprise equity and loan stock investments in predominantly unquoted companies, loan investments listed on recognised exchanges, cash balances and short term debtors which arise from its operations. The main purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The Company has no financial liabilities other than short term creditors. The Company does not use any derivatives.

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

- market and investment price risk (which includes fair value interest rate risk and credit risk);
- liquidity risk; and
- cash flow interest rate risk.

The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below.

**Market price risk**

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio in unquoted investments, details of which are shown on pages 9 to 14 The Manager monitors this risk on an ongoing basis, and the Board reviews these risks on a formal basis when investments are made and at Board meetings.

**Fair value interest rate risk**

The majority of the Company's assets comprise equity and loan stock investments and bank balances. The equity shares neither pay interest nor carry a maturity date. Returns from loan stock are fixed at the time of purchase as are final redemption proceeds. This means that if a loan stock is held until its redemption date, the total return achieved is unaltered from its purchase date.

**Credit risk**

The Manager evaluates credit risk on loan stock instruments prior to investment, and as part of its ongoing monitoring of investments. Typically all loan stock instruments have a first charge over the assets of the investee company.

**Investment price risk**

As a venture capital trust, it is the Company's specific business to price, evaluate and control the investment risk



## NOTES TO THE FINANCIAL STATEMENTS (continued)

in its portfolio of unquoted companies, the results of which are detailed in the Chairman's statement on page 5. To mitigate investment risk, the investment strategy of the Company is to invest in a broad spread of industries, with approximately two thirds of the investment comprising debt securities, which, owing to the structure of their yield, have a lower level of price volatility than equity.

### Liquidity risk

The Company had no committed borrowing facilities as at 31 March 2006 (2005: nil) and had cash balances of £5,842,491. The main cash outflows are for investments, which are within the control of the Company.

In view of this, the Company is subject to low liquidity risk.

### Cash flow interest rate risk

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 14 per cent. (2005: 13.6 per cent.). The weighted average period to maturity for the fixed rate assets is approximately 2 years (2005: 4 years).

### Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 31 March 2006 are stated at fair value as determined by the Directors, with the exception of loans and receivables, which are carried at amortised cost, in accordance with FRS 26. See note 2 of the financial statements for the relevant accounting policies.

The Company's financial assets and liabilities at 31 March 2006, all denominated in pounds sterling, consist of the following:

	31 March 2006				31 March 2005 (Restated)			
	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000	Total £'000
Equity	–	–	14,221	14,221	–	–	11,420	11,420
Loan stock	21,803	–	–	21,803	17,657	–	–	17,657
Non qualifying loan	260	–	–	260	–	–	–	–
Debtors	–	–	18	18	–	–	267	267
Liabilities	–	–	(349)	(349)	–	–	(796)	(796)
Cash	–	5,842	–	5,842	–	14,737	–	14,737
	<b>22,063</b>	<b>5,842</b>	<b>13,890</b>	<b>41,795</b>	<b>17,657</b>	<b>14,737</b>	<b>10,891</b>	<b>43,285</b>

It is the Directors' opinion that the fair value of the financial liabilities approximates the book value and are all payable within one year.

The maturity profile of loan stock investments held at amortised cost is as follows:

	£'000
Less than one year	7,864
1-2 years	1,138
2-3 years	3,605
3-5 years	9,196
Total	<u>21,803</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**(continued)**

**23. Post balance sheet events**

Since 31 March 2006 the Company has completed the following transactions:

- Disposed of the two care home investments: Applecroft Care Home Limited and Barleycroft Care Home Limited for a total consideration of £5.26 million.
- Invested a further £1,000,000 in The Crown Hotel Harrogate Limited.
- Invested a further £24,000 in Tower Bridge Health Club Limited.
- Invested a further £500,000 in Kew Green VCT (Stansted) Limited.
- Invested a further £65,000 in Churchill Taverns VCT Limited.
- Invested a further £787,500 in The Rutland Pub Company Limited.
- Invested a further £250,000 in The Place Sandwich VCT Limited

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

As at 31 March 2006, the Company had a £500,000 guarantee to National Westminster Bank plc relating to the loan facility advanced by the bank to The Crown Hotel Harrogate. There is a third party charge of deposit dated 13 April 2006 granted to the bank for that amount.

**25. Related party transaction**

The Manager, Close Venture Management Limited, is considered to be a related party by virtue of the fact that it is party to a management contract with the Company (details disclosed on page 16 of this report). During the year, services of a total value of £719,000 were purchased by the Company from Close Venture Management Limited. At the financial year end, the amount due to Close Venture Management Limited disclosed as other creditors was £200,000.



## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Close Brothers Venture Capital Trust PLC will be held at 11.30 a.m. on 1 August 2006 at 10 Crown Place, London EC2A 4FT for the purpose of dealing with the following business, of which items 8 to 10 are special business.

### Ordinary Business

- 1 To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 31 March 2006.
- 2 To approve the Directors' remuneration report.
- 3 To re-appoint Deloitte & Touche LLP as auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- 4 To re-appoint David Watkins who retires and offers himself for re-election.
- 5 To re-appoint John Kerr who retires and offers himself for re-election.
- 6 To re-appoint Roderick Davidson who retires and offers himself for re-election
- 7 To re-appoint Jonathan Thornton who retires and offers himself for re-election.

### Special Business

- 8 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount of £896,956 which comprises 5 per cent. Share capital (equal to £896,956 such authority to expire on 1 November 2007, but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired.

- 9 To consider and, if thought fit, pass the following resolution as a special resolution:

That subject to and conditional on the passing of resolution number 8, the directors be empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 (2) to section 94 (3A) of the Act) for cash pursuant to the authority conferred by resolution number 8 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights issue; and
- (b) otherwise than pursuant to sub-paragraph above up to an aggregate nominal amount of £896,956 equal to 5% of the share capital (equal to £896,956);

and shall expire on 1 November 2007, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of the resolution the words "pursuant to the authority conferred by resolution number 4" were omitted.



**NOTICE OF MEETING**  
**(continued)**

- 10 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 3,587,822 Shares of 50p each in the capital of the Company provided that:

- (a) the maximum aggregate number of shares authorised to be purchased is 3,587,822 Shares and (representing 10 per cent of the current issued share capital);
- (b) the minimum price which may be paid for a share is 50p;
- (c) the maximum price that may be paid on the exercise of this authority will not exceed the higher of (a) 105 per cent of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;
- (d) this authority expires at the conclusion of the next Annual General Meeting of the Company or fifteen months from the date of the passing of this resolution, whichever is earlier; and
- (e) the Company may make a contract or contracts to purchase shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

**Close Venture Management Limited**

Company Secretary

Registered Office

10 Crown Place, London EC2A 4FT

Date: 5 July 2006

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. The register of interests of directors kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.
4. No director has a service contract or contract for services with the Company.
5. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered in the register of members of the Company as at 11.30 a.m. on 30 July 2006 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at this meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 11.30 a.m. on 30 July 2006 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Company's existing Articles of Association are available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until close of business on 30 July 2006 and will also be available for inspection at the place of the meeting for at least 15 minutes before, and during the meeting until the close of, the meeting.





**Close Brothers Venture Capital Trust PLC**