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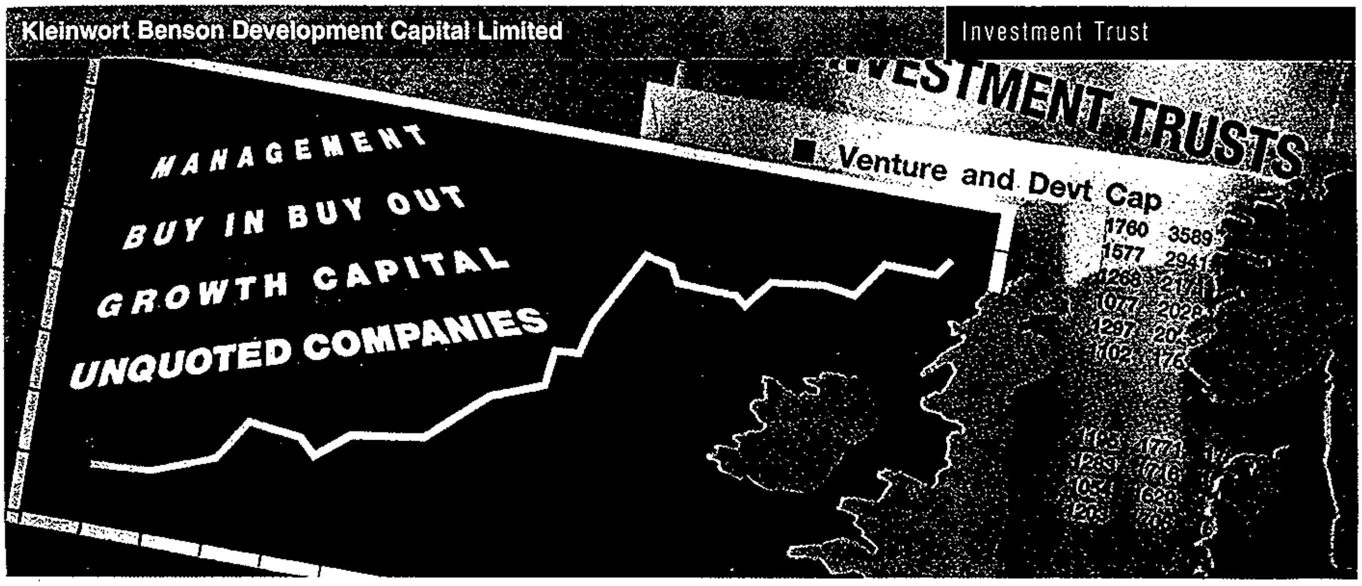
Report and Accounts 1998



Kleinwort Development Fund PLC

A40 *APRXWC50* 735
COMPANIES HOUSE 15/12/98

Dresdner Kleinwort Benson

Contents

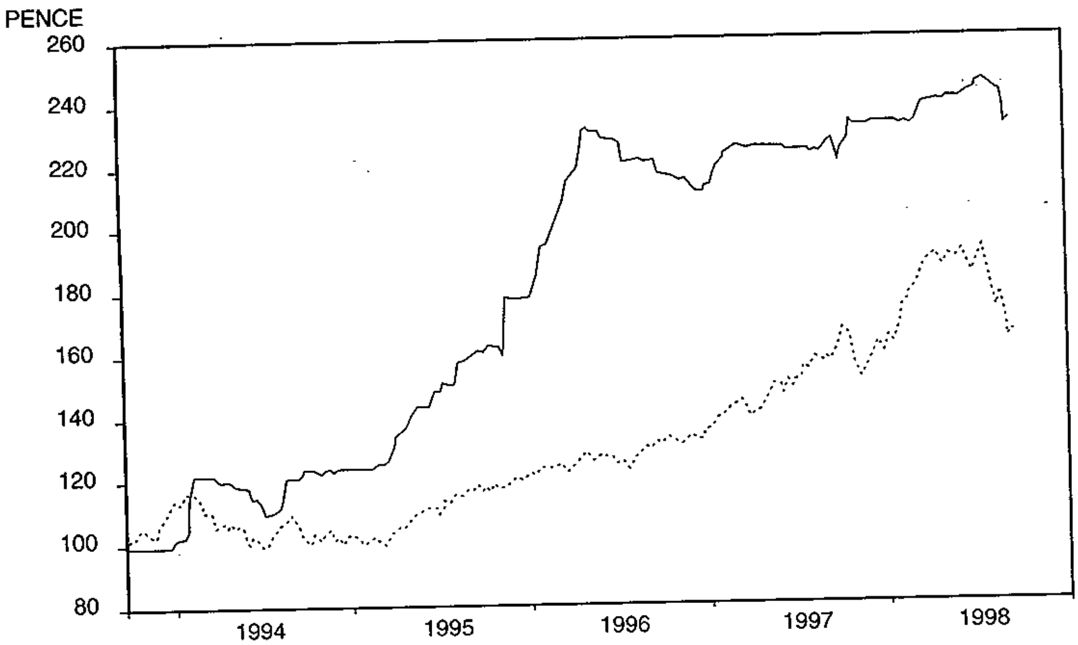
A member of The Association of Investment Trust Companies

Investment Objective

Kleinwort Development Fund PLC's objective is to invest in unquoted companies with a view to realising substantial capital gains. The Company's policy is to invest mainly in the United Kingdom, but investment may also be made in European markets where the Manager has specific expertise.

Performance

Share Price – Relative Performance over the last five years



.... FTSE ALL SHARE – PRICE INDEX
_____ KLEINWORT DEVELOPMENT FUND

Source: DATASTREAM

The Company's share price at 31st July 1993 of £2.43 has been rebased to 100 pence

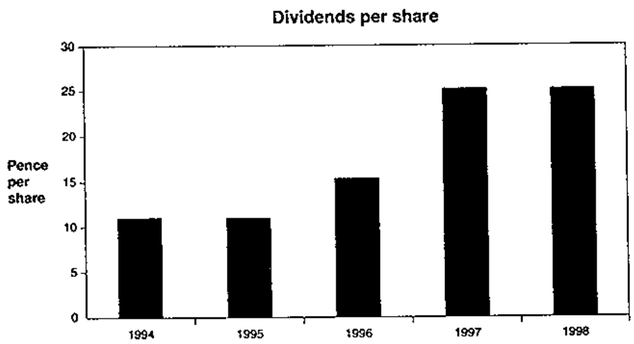
Chairman's Statement

I have pleasure in presenting the Report & Accounts for Kleinwort Development Fund PLC for the year ended 31st July 1998.

In view of the fact that last year's earnings were boosted by exceptional income the directors of your Company are particularly pleased to be able to recommend a maintained dividend.

Your Company's performance in the year under review has been one of steady progress, achieved against an economic background dominated by the high value of sterling. Adjusting for exceptional income of £597,000 received in the prior year on the sale of your Company's holding in Page Group, earnings before taxation in the year under review grew by 3.1%.

The directors recommend a final dividend of 20.0p. This, together with the interim dividend of 5.0p already paid, maintains the dividend paid in the previous year and is covered by the earnings in the current year.



The net asset value of your Company grew by 6.0% to 812.5p per share during the year under review. This modest increase is a consequence of the relative immaturity of the significant investments as detailed more fully in the Portfolio Review on pages 8 to 14, and your Company's conservative valuation policy. In summary, the ten largest unquoted investments, which account for almost 45% of the net asset value, are three years old or less. Of these investments, seven are held at cost. The Board continues to apply a prudent valuation policy in valuing investments above cost (less attributable expenses) only when the improvement in earnings is believed to be maintainable.

The rate of new unquoted investment was at a similar level to that in the prior year. In four of these transactions, the existing management was strengthened at the time of your Company's investment by the injection of senior executives from your Manager's management buy-in forum. Furthermore, in two cases your Company was investing alongside a management team with whom your Company has previously made successful investments.

During the year under review, six full realisations were achieved, and in each case the proceeds received were at or above the valuation as at 31st July 1997. The combined proceeds from the disposals were 59% ahead of the combined valuations as at the end of the previous year.

Your Board has been considering methods by which shareholder value can be further enhanced and has decided to recommend to shareholders that the Company adopt a share buy-back facility. Therefore, at the forthcoming Annual General Meeting on 7th December 1998, your Board is seeking shareholder approval for authority for the Company to make market purchases of its own shares, if appropriate and in the interest of all shareholders. Repurchase and cancellation by the Company of its own shares, at a cost below net asset value, will increase the net asset value of the remaining shares. In addition, share buy-backs should have the effect of increasing the liquidity of the shares in the market and so should help to reduce the discount at which the shares trade.

The next financial year for your Company has started with sterling continuing to be highly valued. Stock markets around the world are exhibiting a high degree of volatility. Your Manager anticipates that in terms of activity, realisations are more likely in the first half of the year, with conditions for new investment improving in the second half. Since the end of the year, your Company's holdings in London & Henley and A & M Furniture have been realised. Gross proceeds were in line with the valuations as at 31st July 1998, which had been uplifted by 74% compared to the previous year end in anticipation of the sales.

In conclusion, the economic climate in which your Company operates currently appears less favourable compared to the recent past. The portfolio, however, with one or two exceptions where the Manager is taking action, is generally making steady progress. Your Board will maintain its selective investment policy from the good flow of propositions generated by the Manager.

Finally, Ronald East is to retire from the Board at the forthcoming AGM. On behalf of the Board, I wish to thank Mr East for his invaluable contribution over many years and we wish him well for the future.

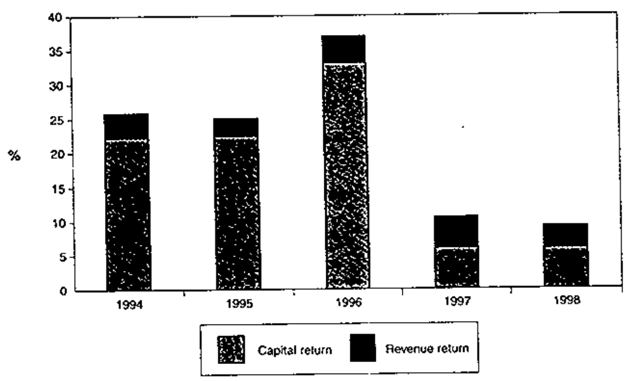
R A Brooks

Chairman

27th October 1998

Five year performance

Total Return as % of the Net Asset Value at the beginning of the year



Investment Manager's Review

Highlights

- **Net asset value per share during the year increased to 812.5p from 766.8p**
- **£10.4 million invested in seven new unquoted investments led or co-led by the Manager**
- **Six disposals completed, generating combined proceeds 59% ahead of the combined valuations as at 31st July 1997**
- **Total return for 1998 was 9.2%, calculated as a percentage of the net asset value at the beginning of the relevant year**

Summary of the Year's Activity

The year under review has been one of modest progress for the Company with new investment activity at a similar rate to the previous year but realisations in advance of expectations.

The unquoted portfolio has continued to generate satisfactory income levels. In addition, six portfolio companies have returned £1.3 million of capital in partial realisations, mainly through the redemption of instruments held by KDF.

During the year, KDF made a commitment of £10 million to Kleinwort Benson Equity Partners ('KBEP'), a £110 million private equity fund managed by the Manager. KBEP's investment strategy is focused on medium sized growth companies valued between £10 million and £75 million. KBEP is likely to be invested in about twenty companies over a three to five year period. As with the predecessor fund to KBEP, KDF will also invest directly alongside KBEP in each investment. KDF's commitment to KBEP enables it to take an increased exposure to those investments where typically the Manager represents a substantial equity holding and exerts significant influence on the development and ultimate realisation of the investment. As the Manager receives management fees from KBEP, KDF does not pay a fee on its investment in KBEP. As at 31st July 1998, 25% of the commitment to KBEP had been invested.

New Investments

The Manager continues to lead transactions in which your Company, together with other funds managed or advised by the Manager, takes a significant equity interest.

The new investments were as follows:

	Cost £'000
TBP Group	2,047
Tractiv	2,047
Lancaster Glass Fibre	1,429
Opticost	1,324
Oxford Lasers	778
Nettec	154
	7,779

TBP Group

In November 1997, the Manager led the £17 million management buy-in of Timothy Benn Publishing. TBP is a leading business-to-business publisher in the insurance and photography industries. It is best known for its 157-year-old flagship weekly insurance journal, the Post Magazine.

Tractiv

Tractiv was formed in January 1998 to acquire the tractor parts distribution businesses of Wilshaw plc. KDF supported a management buy-in team with whom KDF has invested successfully before. After completing the integration of the existing businesses, the management plans to expand their business geographically, particularly in Continental Europe.

Lancaster Glass Fibre ('LGF')

LGF is a manufacturer and distributor of specialist thermal and acoustic insulation products primarily for the automotive sector. The management buy-out/management buy-in of this profitable family-owned business was completed in June 1998.

Opticost

KDF provided part of the financing for a £14.5 million acquisition of a family owned chain of 49 opticians in Spain. The plan is to rollout its successful retail concept on a nation-wide basis.

Oxford Lasers

In July 1998, KDF invested in the management buy-out/management buy-in of Oxford Lasers. As with Tractiv, KDF supported an incoming manager who has formerly led a successful investee company for KDF.

Nettec

Nettec provides corporate clients with Internet and Intranet services. The company was formed in July 1995 by an entrepreneur with a successful track record of growing businesses in this sector. KDF provided development capital in January 1998.

Further Investment

London & Henley

During the year to 31st July 1998, KDF invested a further £229,000 in London & Henley, to support the continued growth of the group. As at 31st July 1998 KDF's total investment in London & Henley was £1.28 million. London & Henley's operations are the acquisition, refurbishment and letting of residential property in Central London.

Realisations

KDF received £5.2 million of proceeds from realisation of unquoted investments including £142,000 of additional proceeds from prior year realisations.

Vacu-blast

Vacu-blast designs, assembles and distributes shot blasting and composite materials manufacturing

Investment Manager's Review

equipment. The Manager led the management buy-out of Vacu-blast in October 1996. The company was sold to US Filters Inc resulting in an overall rate of return of 95% per annum compound over the twelve months life of the investment.

College of Railway Technology ('CRT')

CRT provides engineering training, particularly for railway personnel such as signalmen. In December 1997, the company was sold to a financial purchaser. The sale proceeds together with earlier amounts received from this investment generated an overall rate of return of 97% per annum compound.

Pharmasol

KDF invested in Pharmasol in February 1993. The company is a specialist filler and packer of aerosol sprays and tubes for the pharmaceutical and toiletry markets. On the sale of the company to Bioglan plc in August 1997, KDF realised its entire holding which resulted in an overall rate of return of 15% per annum compound.

United Texon

United Texon is a leading manufacturer of shoe making machinery and materials utilised in shoe manufacturing. In a financial restructuring of the company in November 1997, KDF realised its investment receiving proceeds of 1.2 times its original investment made in April 1987.

Park Communications and Pelermast

Park Communications is a commercial printer and Pelermast is a manufacturer of agricultural machinery primarily utilised on arable farms. In both cases, the Manager took action and achieved significant turnarounds when the initial performances were disappointing. Park Communications and Pelermast were sold to their respective management teams and in each case KDF recovered around 75% of its initial cost of investment, although the proceeds were at a premium to book value.

Listed Portfolio

During the year under review, the Manager has continued to seek attractive opportunities for investment in smaller quoted companies. Two investments have been made.

KDF invested £102,000 in a vendor placing of British Thornton shares to fund the acquisition of the Planit Group, a leading provider of point of sales retail design systems to the home improvement and furniture industry. As at 31st July 1998, KDF retained 60% of its initial investment having sold 40% of its original holding for £88,000. The remaining 60% was valued at the year end at £117,000. British Thornton was KDF's only listed equity holding at the end of the year.

KDF also invested £100,000 in ECsoft Group, a European IT services consultancy which specialises in application development, systems integration and management of information systems. KDF's entire holding was sold later in the year under review, generating a profit of 31%.

Further opportunities will be taken as and when market prospects are attractive.

Outlook

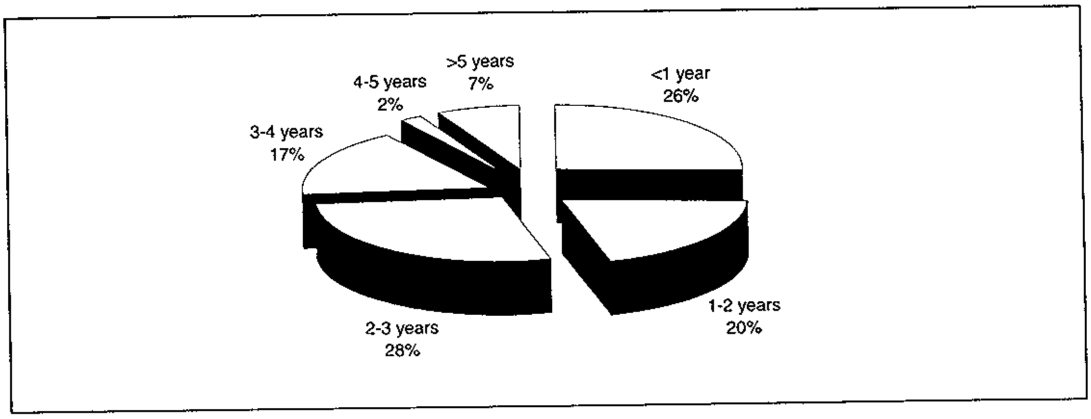
Economic conditions in the UK are more challenging than they have been for some time. These difficult conditions look set to continue for most of KDF's financial year to 31st July 1999.

Overall, the unquoted portfolio has exhibited a resilient performance in these conditions. The Manager is, however, working closely with two investee companies, one of which is Kangol, which has been particularly affected. Since the year end, regrettably, Steve Dudman Plant has been put into voluntary administration. Prospects for recovery are negligible. Appropriate provisions have been made in all cases.

In summary, your Manager anticipates a lower level of investment activity in the next financial year. The timing of realisations can also be affected by market conditions. In general, however, the unquoted portfolio is performing satisfactorily.

Maturity Profile of Unquoted Investments

at 31st July 1998 based on date of initial investment



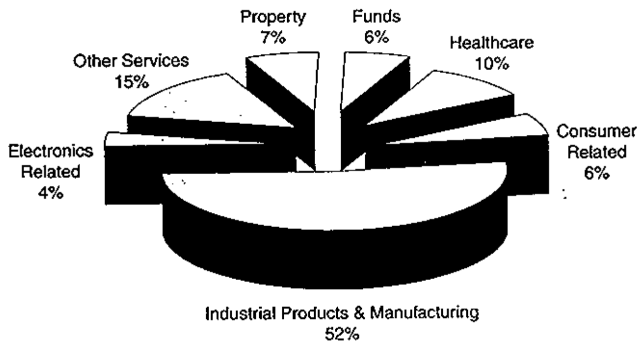
Portfolio Review

Ten largest unquoted investments

Investment	% of KDF's Net Assets	Cost £	31.7.98 Valuation £
Cintex Group	7.3%	2,210,760	3,570,869
London & Henley	5.3%	1,279,380	2,632,722
Craftline	5.1%	2,558,750	2,500,000
Kleinwort Benson Equity Partners	4.3%	2,640,946	2,121,759
Darron Holdings	4.1%	2,047,000	2,000,000
TBP Group	4.1%	2,047,002	2,000,000
Tractiv Holdings	4.1%	2,047,000	2,000,000
Envopak Holdings	3.7%	1,023,501	1,844,686
Kee Industrial Group	3.6%	1,838,206	1,796,000
Kartoncraft	3.1%	1,650,282	1,503,587
	44.7%	19,342,827	21,969,623
Other unquoted investments	33.1%	20,623,183	16,258,210
Total unquoted investments	77.8%	39,966,010	38,227,833

Unquoted Investments by Sector

at 31st July 1998



Cintex Group Limited

Date of initial investment	**June 1996**
% of KDF's net assets	**7.3%**
% of equity	**21.0%**
Cost of investment	**£2,210,760**
Valuation at 31.7.98	**£3,570,869**
Valuation at 31.7.97	**£2,743,889**

Cintex manufactures end of line detection systems for the food processing, pharmaceutical and textile industries. KDF initially invested £1.4 million out of a total commitment of £2.16 million as part of a £14 million buy-in. In March 1998 a follow on investment of £0.8 million was made. The company has performed well against its budgets supported by rapid growth from new products.

The valuation is on an earnings basis applying a 46% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

12 months ended 31st July 1997	**£'000**
Sales	£10,063
Profit before tax and interest	£2,262
Profit before tax	£1,590
Net assets	(£6,944)*
Dividend cover	1.7

*After goodwill write-off

London & Henley Limited

Date of initial investment	**July 1995**
% of KDF's net assets	**5.3%**
% of equity	**7.5%**
Cost of investment	**£1,279,380**
Valuation at 31.7.98	**£2,632,722**
Valuation at 31.7.97	**£1,212,690**

London & Henley specialises in the investment in and development of residential properties in Central London. In the year to 31st July 1998 KDF invested a further £229,000 as part of the £44 million initial financing commitment. In August 1998 the company was sold to an American real estate investment trust realising a gain on KDF's cost of £1.4 million.

The valuation is based on the agreed sale price of KDF's interest in the company.

Audited Accounts

12 months ended 31st July 1997	**£'000**
Sales	£11,510
Profit before tax and interest	£2,135
Profit before tax	£509
Net assets	£7,866
Dividend cover	–

Portfolio Review

Craftline Limited

Date of initial investment	November 1996
% of KDF's net assets	5.1%
% of equity	17.8%
Cost of investment	£2,558,750
Valuation at 31.7.98	£2,500,000
Valuation at 31.7.97	£2,500,000

Craftline is an optical products retailer trading under the name of The Eye Clinic. KDF invested £2.5 million as part of the £23 million management buy-in of the business. Trading is benefiting from a successful marketing campaign and the company continues to seek new quality sites for expansion.

The valuation is on an earnings basis with a 52% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

7 months ended 30th April 1997	£'000
Sales	£4,000
Profit before tax and interest	£219
Loss before tax	(£193)
Net assets	(£10,264)*
Dividend cover	–

*After goodwill write-off

Kleinwort Benson Equity Partners

Date of initial investment	February 1998
% of KDF's net assets	4.3%
% of equity	9.1%
Cost of investment	£2,640,946
Valuation at 31.7.98	£2,121,759
Valuation at 31.7.97	–

KBEP is a limited partnership formed to make mid-market private equity investments in the UK and Western Europe. To date, KDF has invested £2.5 million out of a total commitment of £10 million and KBEP has made six investments. Of these six, TBP Group, Tractiv Holdings and Kartoncraft are discussed within this portfolio review.

The valuation is based on the value of the fund investments.

The partnership does not file audited accounts.

Darron Holdings Limited

Date of initial investment	**December 1996**
% of KDF's net assets	**4.1%**
% of equity	**27.0%**
Cost of investment	**£2,047,000**
Valuation at 31.7.98	**£2,000,000**
Valuation at 31.7.97	**£2,000,000**

Darron manufactures downhole drilling equipment for the oil and gas industries, operating from its main manufacturing plant in Rotherham, with offices in Scotland, Dubai and Singapore. Enhancement of production capacity should enable the group to show growth, despite the depressed price of oil.

KDF's valuation is on an earnings basis using a 36% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

13 months ended 31st December 1997	**£'000**
Sales	£19,165
Profit before tax and interest	£1,794
Profit before tax	£1,321
Net assets	£5,814
Dividend cover	4.3

TBP Group Limited

Date of initial investment	**November 1997**
% of KDF's net assets	**4.1%**
% of equity	**21.1%**
Cost of investment	**£2,047,002**
Valuation at 31.7.98	**£2,000,000**
Valuation at 31.7.97	**–**

TBP is a business to business publisher specialising in the insurance and photography sectors. Its titles include the market leading insurance title "Post Magazine" and the "British Journal of Photography". KDF invested £2.0 million as part of the £16.6 million management buy-in to the privately owned business.

As this is a new investment it is valued at cost less associated expenses.

No audited accounts have been produced to date.

Portfolio Review

Tractiv Holdings Limited

Date of initial investment	**January 1998**
% of KDF's net assets	**4.1%**
% of equity	**12.4%**
Cost of investment	**£2,047,000**
Valuation at 31.7.98	**£2,000,000**
Valuation at 31.7.97	**–**

Tractiv is the holding company formed to buy the tractor parts distribution division of Wilshaw plc. The company sources and supplies replacement parts for tractors world-wide. KDF provided £2.0 million of equity and loan stock in the £25.0 million management buy-in.

As this is a recent investment it is valued at cost less associated expenses.

No audited accounts have been produced to date.

Envopak Holdings Limited

Date of initial investment	**June 1995**
% of KDF's net assets	**3.7%**
% of equity	**22.2%**
Cost of investment	**£1,023,501**
Valuation at 31.7.98	**£1,844,686**
Valuation at 31.7.97	**£1,288,965**

Envopak manufactures security mailrooms and mailroom products, including security seals, seating and furniture. KDF's investment was part of the financing for a management buy-in backing a management team KDF had successfully invested with before. Recent reorganisations should improve performance and adjusting for the one-off costs associated with these changes the company shows above budget performance.

The valuation is on an earnings basis applying a 36% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

12 months ended 31st December 1997	**£'000**
Sales	£13,063
Profit before tax and interest	£1,103
Profit before tax	£918
Net assets	£3,191
Dividend cover	4.2

Kee Industrial Group Limited

Date of initial investment	**July 1996**
% of KDF's net assets	**3.6%**
% of equity	**31.0%**
Cost of investment	**£1,838,206**
Valuation at 31.7.98	**£1,796,000**
Valuation at 31.7.97	**£1,796,000**

Kee Industrial Group design, market and distribute malleable iron fittings, used to join steel tubes, under the brand name Kee Klamps. The company has reorganised its sales and marketing function to counter the effect of the strong pound on its significant export business.

KDF's valuation is on an earnings basis applying a 45% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

12 months ended 31st December 1997	**£'000**
Sales	£11,018
Profit before tax and interest	£1,549
Profit before tax	£1,101
Net assets	(£1,641)*
Dividend cover	2.7

*After goodwill write-off

Kartoncraft Limited

Date of initial investment	**June 1997**
% of KDF's net assets	**3.1%**
% of equity	**24.5%**
Cost of investment	**£1,650,282**
Valuation at 31.7.98	**£1,503,587**
Valuation at 31.7.97	**£1,546,635**

Kartoncraft, based in Dublin, manufactures high quality printed cartons for the pharmaceutical, information technology and food industries. Trading in the current year is ahead of last year with the management team adding a number of new accounts.

The valuation is on an earnings basis using a 24% discount to the PE ratio for the relevant quoted sector.

Audited Accounts

12 months ended 31st December 1997 (Trading subsidiary acquired June 1997)	**IR£'000**
Profit before tax and interest	£539
Profit before tax	£243
Net assets	£3,023
Dividend cover	–

Portfolio Review

Listed Fixed Interest Investments	31.7.98
Name of Borrower	**Valuation £**
Treasury 8% Stock 2003	2,146,874
Woolwich FRN 3.99	1,501,425
Bradford & Bingley FRN 1.2.99	1,501,050
Scottish National Trust Zero Dividend Pref	1,138,375
Alliance & Leicester FRN 23.9.98	1,100,495
Conversion 9% Stock 2000	1,028,750
Alliance & Leicester FRN 25.11.00	902,160
Yeoman Investment Trust Zero Dividend Pref	354,688
Total Listed Fixed Interest Holdings	9,673,817

Fixed Asset Investments by Market Status	31.7.98 Valuation £	% of KDF's Net Assets	31.7.97 Valuation £	% of KDF's Net Assets
Unquoted Investments				
Equities	13,402,101	27.3%	11,727,248	25.3%
Fixed Interest	24,825,732	50.5%	19,088,289	41.2%
	38,227,833	77.8%	30,815,537	66.5%
Listed & AIM Holdings				
Equities	117,000	0.2%	–	0.0%
Fixed Interest	9,673,817	19.7%	13,558,039	29.2%
	9,790,817	19.9%	13,558,039	29.2%
Fixed Asset Investments	48,018,650	97.7%	44,373,576	95.7%
Net Current Assets	1,124,220	2.3%	2,000,931	4.3%
Net Asset Value	49,142,870	100.0%	46,374,507	100.0%

Directors and Management

Directors – All non-executive

R. A. Brooks F.C.A. (Chairman)

(Born April 1931) joined the Board in March 1983. He is Chairman of CU Environmental Trust PLC, and a Director of Syndicate Capital Trust PLC. He was a Director of Kleinwort Benson Group plc, Kleinwort Benson Limited and of M & G Group PLC.

R. J. East*

(Born December 1931) joined the Board in July 1986. He was Chairman of Wettern Brothers PLC, Hale Hamilton Holdings Ltd and Hale Hamilton (Valves) Ltd, and was a Director of Amstrad PLC and Charter European Trust PLC.

G. R. C. Shepard*

(Born April 1937) joined the Board in July 1990. He is a Director of Wiltons (St James's) Ltd, Chairman of Searcy Tansley & Co. Ltd and Managing Director of The Ritz Hotel (London) Ltd. He was formerly a Director of Guinness Mahon & Co. Ltd.

B. C. R. Siddons F.C.A.

(Born May 1945) joined the Board in July 1993. He is a Director of Dresdner RCM Global Investors (UK) Ltd, The Brunner Investment Trust PLC, and Dresdner RCM Smaller Companies Investment Trust plc.

M. J. B. Todhunter*

(Born March 1935) joined the Board in December 1989. Formerly Chief Executive of Alexanders Discount Co. Ltd; he is Chairman of Clyde Shipping Co. Ltd and a Director of James Finlay PLC and Newbury Racecourse PLC.

*Independent of the Managers.

Alternate Director

B. M. Dean F.C.A.

(Born November 1949) is Alternate Director to R. A. Brooks. He is Managing Director of Kleinwort Benson Development Capital Ltd.

Manager

Kleinwort Benson Development Capital Ltd (KBDC) currently manages investments in over 45 unquoted companies. In addition to managing KDF, it recommends investments in unquoted companies to other funds managed within the Kleinwort Benson Group and by Dresdner RCM Global Investors (UK) Ltd ('DRCM'). KBDC is regulated by IMRO and is a member of the British Venture Capital Association.

KBDC is a wholly-owned subsidiary of Kleinwort Benson Investment Management Ltd and has an executive staff with industrial and commercial experience who specialise in making venture and development capital investments. The ultimate parent company of KBDC is Dresdner Bank AG.

Dresdner Bank is one of Germany's largest banks and has a leading position in European commercial and investment banking.

Directors and Management

Secretary

Kleinwort Benson Limited, PO Box 560, 20 Fenchurch Street, London EC3P 3DB.

Registered Office

Riverbank House, 2 Swan Lane, London EC4R 3TN, Telephone: 0171 623 8000, Registered Number 159836.

Auditors

Arthur Andersen, Chartered Accountants, 20 Old Bailey, London EC4M 7AN.

Registrars and Transfer Office

IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Bankers

Barclays Bank PLC

Kleinwort Benson Ltd

Kleinwort Benson Investment Management Ltd

Lloyds Bank Plc

Savings Plan

The Dresdner RCM Investment Trust Savings Plan provides a convenient and economical way for shareholders to invest in the Trust. Investments can be in the form of a regular payment or an individual lump sum and there is an arrangement for the reinvestment of dividends. Full details of the Plan are available from the Investment Fund's Helpline on 0171 475 5832.

Statement of Total Return

for the year ended 31st July 1998

	Note	1998 £ Revenue	1998 £ Capital	1998 £ Total	1997 £ Revenue	1997 £ Capital	1997 £ Total
Net gains on investments	8	–	2,765,046	2,765,046	–	2,610,432	2,610,432
Income	1	2,759,811	–	2,759,811	3,277,989	–	3,277,989
Investment management fee	2	(665,188)	–	(665,188)	(676,276)	–	(676,276)
Expenses of administration	3	(102,737)	–	(102,737)	(73,234)	–	(73,234)
Net return before finance costs and taxation		1,991,886	2,765,046	4,756,932	2,528,479	2,610,432	5,138,911
Finance costs of borrowings	4	(736)	–	(736)	(396)	–	(396)
Return on ordinary activities before taxation		1,991,150	2,765,046	4,756,196	2,528,083	2,610,432	5,138,515
Taxation	5	(475,833)	–	(475,833)	(563,121)	–	(563,121)
Return on ordinary activities after taxation for the financial year		1,515,317	2,765,046	4,280,363	1,964,962	2,610,432	4,575,394
Dividends on Ordinary Shares	6	(1,512,000)	–	(1,512,000)	(1,512,000)	–	(1,512,000)
Transfer to reserves		3,317	2,765,046	2,768,363	452,962	2,610,432	3,063,394
Return per Ordinary Share	7	25.05p	45.72p	70.77p	32.49p	43.16p	75.65p

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

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The Notes on pages 21 to 32 form part of these Accounts.

Balance Sheet

at 31st July 1998

	Note	1998 £	1998 £	1997 £
Fixed assets				
Investments	8		48,018,650	44,373,576
Current assets				
Debtors	10	508,026		278,114
Cash at bank	10	2,143,982		3,006,602
		2,652,008		3,284,716
Creditors				
Amounts falling due within one year	11	(1,527,788)		(1,283,785)
Net current assets			1,124,220	2,000,931
Total net assets			49,142,870	46,374,507
Capital and reserves				
Called up share capital	12		1,512,000	1,512,000
Share premium account			5,145,492	5,145,492
Capital reserves:				
Realised	13	42,236,272		40,247,299
Unrealised	13	(1,408,623)		(2,184,696)
			40,827,649	38,062,603
Revenue reserve	15		1,657,729	1,654,412
Shareholders' funds (all equity)	16		49,142,870	46,374,507

Approved by the Board of Directors on 27th October 1998 and signed on its behalf by:

R A Brooks
M J B Todhunter

} Directors

The Notes on pages 21 to 32 form part of these Accounts.

Cash Flow Statement

for the year ended 31st July 1998

	Note	1998 £	1998 £	1997 £
Net cash inflow from operating activities	17		1,543,968	736,514
Taxation				
Corporation tax paid		–		(32,469)
			–	(32,469)
Financial investment				
Payments to acquire fixed asset investments		(14,185,691)		(14,732,313)
Proceeds on disposal of fixed asset investments		13,291,103		15,925,097
			(894,588)	1,192,784
Equity dividends paid			(1,512,000)	(1,064,448)
(Decrease) increase in cash	18		(862,620)	832,381

The Notes on pages 21 to 32 form part of these Accounts.

Statement of Accounting Policies

for the year ended 31st July 1998

(i) The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards.

The trust is not an investment company within the meaning of s266, Companies Act 1985. However, it conducts its affairs as an investment trust for taxation purposes under s842 of the Income and Corporation Taxes Act 1988, and the Articles of the company prohibit capital profits from being distributed by way of dividend. As such, the Directors consider it appropriate to present the accounts in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the SORP). Under the SORP, the financial performance of the trust is presented in a statement of total return in which the revenue column is the profit and loss account of the company. The revenue column excludes certain capital items which, since the trust is not an investment company, the Companies Act and/or FRS3 would ordinarily require to be included in the profit and loss account: profits and losses on disposal of investments, calculated by reference to their previous carrying amount, of £2,258,839 (1997 £1,211,220). In the opinion of the Directors the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the trust, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The Directors therefore consider that these departures from the specific provisions of Schedule IV of the Companies Act relating to the format of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

(ii) Dividends from quoted investments are accounted for on an ex-dividend basis. Dividends from unquoted investments are accounted for on a due date basis. Interest on quoted fixed interest investments is accounted for on an accruals basis. Interest on unquoted fixed interest investments is accounted for on a due date basis. Deposit interest receivable is accounted for on an accruals basis.

(iii) The investment management fee is calculated on the basis set out in Note 2 and charged in full to the Revenue Account.

(iv) Investments are included in the Balance Sheet at valuation and a Capital Reserve established to reflect differences between value and cost. Listed investments are valued at middle market prices. Unlisted investments are valued by the directors based upon latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information, in accordance with the principles set out by the British Venture Capital Association. The values of foreign investments have been translated into sterling at the rates of exchange ruling on the balance sheet date.

Unrealised differences between the value and book cost of investments at the year end are taken to the Unrealised Capital Reserve.

Net gains or losses arising on realisations of investments are taken directly to the Realised Capital Reserve.

(v) Deferred taxation is provided for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

(vi) Advance corporation tax attributable to dividends proposed at the balance sheet date less tax credits arising from franked investment income receivable up to the date of payment of the tax, is included in the Balance Sheet as a creditor. Advance corporation tax regarded as recoverable in the foreseeable future is treated as a debtor.

Notes to the Accounts

for the year ended 31st July 1998

1. Income

	1998 £	1998 £	1997 £
Income from Fixed Asset Investments			
Franked income:			
Dividends from:			
listed UK investments	–		37,086
unlisted UK investments	1,377,758		2,021,982
		1,377,758	2,059,068
Unfranked income:			
Listed bank and building society floating rate notes	476,347		453,116
Unlisted UK loan stock investments	217,029		172,880
Dividends from unlisted overseas equities	95,220		15,544
Listed UK treasury gilts	360,351		364,724
Foreign income dividends from listed UK equity investments	–		997
		1,148,947	1,007,261
		2,526,705	3,066,329
Other income			
Deposit interest	217,600		190,985
Underwriting commission	15,506		20,675
		233,106	211,660
Total Income		2,759,811	3,277,989

Income from Fixed Asset Investments		
Listed	836,698	855,923
Unlisted	1,690,007	2,210,406
	2,526,705	3,066,329

Notes to the Accounts

for the year ended 31st July 1998

2. Investment Management Fee

	1998	1997
	£	£
Investment management fee	665,188	676,276

The Company's investment manager is Kleinwort Benson Development Capital Limited (KBDC). The management contract, terminable at three years' notice, provides for a management fee of 1.25% per annum of the net asset value of the Company and an arrangement fee of 2.0% flat of any amount invested, excluding investments in listed, AIM or over-the-counter market companies. The Company does not pay a fee on its investment in KBEP. The management fee is charged in full to the Revenue Account. The arrangement fee is added to the cost of the investment. The Manager has delegated the management of the cash and the listed portfolio to DRCM which also provides administration and custody services for the Company's listed assets.

3. Expenses of Administration

	1998	1997
	£	£
Directors' fees	40,000	29,500
Auditors' remuneration for audit services	10,793	8,248
Other expenses	51,944	35,486
	102,737	73,234

The above expenses include value added tax where applicable.

Directors' emoluments (including pension contributions) amounted to £99,134 (1997 – £80,148) which represents fees of £40,000 (1997 – £29,500) paid by the Company and an amount of £59,134 (1997 – £50,648) paid to an alternate director which are the emoluments he receives from KBDC which relate to the management of the Company. Company law requires these emoluments to be disclosed even though the Company does not pay them and is not directly involved in their determination. The Company is only obliged to pay the management fee as set out in Note 2 above.

4. Finance costs of borrowing

The finance costs of borrowings relate to overdraft interest incurred during the year.

5. Taxation

	1998	1997
	£	£
Corporation tax at 31% (1997 – 32.33%)	200,329	151,310
Less: Double taxation relief	(14,283)	(2,332)
	186,046	148,978
Over provision of tax for previous year	(624)	–
Overseas taxation	14,283	2,332
Tax credits on franked investment income	276,128	411,811
	475,833	563,121

6. Dividends on Ordinary Shares

	1998	1997
	£	£
Dividends on Ordinary Shares of 25p –		
First interim 5.00p paid 17 April 1998 (1997 – 5.00p)	302,400	302,400
Final proposed 20.00p (1997 – 20.00p)	1,209,600	1,209,600
	1,512,000	1,512,000

Ordinary dividends payable by the Company carry a tax credit at a rate of 20%. Non taxpayers may be able to reclaim this credit.

7. Return per Ordinary Share

	1998	1998	1998	1997	1997	1997
	£	£	£	£	£	£
	Revenue	Capital	Total	Revenue	Capital	Total
Attributable to Ordinary Shareholders	1,515,317	2,765,046	4,280,363	1,964,962	2,610,432	4,575,394
Return per Ordinary Share	25.05p	45.72p	70.77p	32.49p	43.16p	75.65p

The return per Ordinary Share is based on 6,048,000 Ordinary Shares of 25p in issue (1997 – 6,048,000).

Notes to the Accounts

for the year ended 31st July 1998

8. Fixed asset investments

	1998	1997
	£	£
Listed at market valuation on the London Stock Exchange	9,790,817	13,558,039
Unlisted at directors' valuation–		
Great Britain	34,094,850	27,946,955
Overseas	4,132,983	2,868,582
	38,227,833	30,815,537
Total fixed asset investments	48,018,650	44,373,576
Market value of investments brought forward	44,373,576	42,511,383
Unrealised losses brought forward	2,184,696	3,046,005
Cost of investments held brought forward	46,558,272	45,557,388
Additions at cost	14,185,691	14,732,313
Disposals at cost	(11,316,690)	(13,731,429)
Cost of investments held at 31st July	49,427,273	46,558,272
Unrealised losses at 31st July	(1,408,623)	(2,184,696)
Market value of investments held at 31st July	48,018,650	44,373,576

Net gains on investments

	1998	1997
Net realised gains based on historical costs	1,988,973	1,749,123
Amounts recognised as unrealised in the previous year	269,866	(537,903)
Net realised gains based on carrying value at previous balance sheet date	2,258,839	1,211,220
Net unrealised gains arising in the year	506,207	1,399,212
Net gains on investments	2,765,046	2,610,432

Significant holdings in investments

The Companies Act 1985, Schedule 5 paragraphs 8 and 9, requires that certain particulars are given in respect of significant holdings in investments (other than subsidiary undertakings). The information set out on pages 25 to 28 relates to investments where the company held more than 10% of any class of share capital at 31st July 1998. Additional information is provided in respect of investments where the Company owned more than 20% of the total nominal value of all classes of share capital at 31st July 1998.

All the companies listed below are incorporated in Great Britain and registered in England and Wales with the following exceptions:

Redberry SA – incorporated and registered in Luxembourg

IFI SA, Tecnofoc and Opticost – incorporated and registered in Spain

Kartoncraft – incorporated and registered in Ireland

(a) The following represent those undertakings of which the Company held 20% or more of the equity voting rights at 31st July 1998, and the details of which are shown below.

	Description of shares	% of class held	% held of total nominal value	% of voting rights	Year ended	Share of Net assets £'000	Share of Pre-tax profit (loss) £'000	Share of Tax £'000
A & M Furniture Hire								
Hire of props for TV and film production	Preferred Ordinary	63.9%	51.1%	47.9%	28/02/97	634	161	(7)
Apex Retail Distribution								
Manufacture and distribution of video	CRP	40.0%						
and mobile telephone accessories	'A' Ordinary	40.0%	39.8%	20.8%	31/03/97	212	31	(9)
Baldwin & Francis								
Manufacture of mining and	CRP	96.8%						
industrial switchgear	'A' Ordinary	96.8%	96.7%	39.7%	30/04/97	417	92	(17)
FG Chambers & Co.								
Distribution of timber	'A' Prefs	49.0%						
	'A' Ordinary	49.0%	26.5%	26.9%	31/03/97	519	95	(29)
Cintex Group								
Manufacture of in-line detection	CRP	30.0%						
equipment for the food industry	Ordinary Shares	30.0%	29.2%	21.0%	31/07/97	(1,458)	334	(120)
Craftline								
Opticians and contact lens and	CRP	22.5%						
spectacles retailer	'A' Ordinary	22.5%	22.5%	17.8%	30/04/98	(1,894)	(34)	13
Darron Holdings								
Manufacture of downhole drilling	'A' preference	43.5%						
tools	Preferred Ordinary	43.5%						
	Deferred Shares	56.7%	38.6%	27.0%	31/12/97	1,569	356	(121)
ELS Group								
Placement service for further education lecturers	'A' Ordinary	95.0%	21.3%	25.2%	30/06/97	437	134	(10)

Notes to the Accounts

for the year ended 31st July 1998

	Description of shares	% of class held	% held of total nominal value	% of voting rights	Year ended	Share of: Net assets £'000	Share of: Pre-tax profit (loss) £'000	Share of: Tax £'000
Envopak Holdings								
Manufacture of mailroom products	'A' Prefs	44.4%						
	'B' Prefs	44.0%						
	Ordinary	22.2%	38.5%	22.2%	31/12/97	709	204	(64)
Kartoncraft								
Manufacture of high quality	Preference Shares	50.0%				IR£	IR£	IR£
printed cartons	'A' Ordinary	50.0%	44.1%	24.5%	31/12/97	740	60	(18)
Kee Industrial Group								
Marketing and distribution of	Preference Shares	50.0%						
malleable iron fittings	'A' Ordinary	50.0%	47.0%	31.0%	31/12/97	(509)	341	(110)
Lancaster Glass Fibre								
Manufacture of automotive components	Preferred Ordinary	37.7%	28.4%	28.4%	–[1]	–[1]	–[1]	–[1]
Opticost								
Opticians and optical products	Preference Shares	19.5%						
retailer	Ordinary	19.5%	19.5%	19.5%	–[1]	–[1]	–[1]	–[1]
Oxford Lasers								
Development and manufacture of high power lasers for industry	'A' Ordinary	69.1%	38.0%	38.0%	30/11/97	97	48	(2)
Primat (holding company for Moseley Bros (Tools))								
Manufacture of tools	'A' Ordinary	96.0%						
	Deferred Shares	96.0%	47.0%	43.1%	31/10/97	470	267	(77)
Quality & Safety Services								
Railway safety consultancy	Preference Shares	95.0%						
	'A' Ordinary	95.0%	82.9%	38.5%	31/3/97	120	(45)	18
Starburst								
Leisure facilities operation	'A' Prefs	45.0%						
	'B' Prefs	97.0%						
	Preferred Ordinary	97.0%						
	Preferred Ordinary 50p	47.4%	53.4%	39.6%	30/06/96	474	19	–
Stephens-Itex Safety								
Manufacture of personal safety	Preference Shares	97.0%						
equipment	'A' Ordinary	97.0%	85.6%	38.8%	31/12/97	444	121	(21)
Steve Dudman Plant								
Quarrying	Preference Shares	96.0%						
	'A' Ordinary	96.0%	90.6%	25.9%	31/12/96	624	69	–

	Description of shares	% of class held	% held of total nominal value	% of voting rights	Year ended	Share of Net assets £'000	Share of Pre-tax profit (loss) £'000	Share of Tax £'000
TBP Group								
Business to business publisher	'A' Ordinary	28.1%	21.1%	21.1%	–[1]	–[1]	–[1]	–[1]
Tecnofoc						Pts Mil	Pts Mil	Pts Mil
Designer and manufacturer of ceramic tiles	Ordinary Shares	48.6%	48.6%	48.6%	31/12/97	129	32	(11)
Weyrad Electronics								
Manufacture of wound electronic components	Preference Shares	48.8%						
	'A' Ordinary	37.0%	44.9%	21.4%	31/1/97	253	(153)	–

(b) As at 31st July 1998, the Company held 20% or more of the nominal share capital of the following companies, in addition to those declared above.

	Description of shares	% of class held	% held of total nominal value	Year ended	Net assets £'000	Pre-tax profit (loss) £'000	Tax £'000
Knightlow							
Manufacture of home furnishing products	Preference Shares	26.5%					
	Preferred Ordinary	26.5%	25.7%	31/12/96	1,043	1,726	(675)
TMD Holdings							
Specialist microwave equipment manufacture	Deferred Shares	95.0%					
	'A' Ordinary Shares	95.0%	24.8%	31/3/97	2,377	(3,000)	313

(c) As at 31st July 1998, the Company held 10% or more of the nominal value of any class of shares in the following companies in addition to those declared above:

	Description of shares	% of class held	% held of total nominal value	Year ended	Net assets £'000	Pre-tax profit (loss) £'000	Tax £'000
Aynsley Group							
Fine china manufacture	CRP	13.4%					
	Preference Shares	13.4%					
	Preferred Ordinary	13.4%	12.7%	–[2]	–[2]	–[2]	–[2]
Be Modern							
Manufacture of household fittings	CRP	12.9%	4.0%	10/05/97	5,449	1,240	(326)
Hale Hamilton (Valves)							
Design, manufacture and sale of high pressure valves	'B' Ordinary Shares	28.0%	3.7%	30/09/97	7,080	3,817	(1,226)

Notes to the Accounts

for the year ended 31st July 1998

	Description of shares	% of class held	% held of total nominal value	Year ended	Net assets £'000	Pre-tax profit (loss) £'000	Tax £'000
ID Data Holdings							
Credit and loyalty card printing services	'A' Ordinary	96.0%	19.2%	31/12/96	1,093	303	–
IFI SA					Pts Mil	Pts Mil	Pts Mil
Manufacture of aluminium products	Ordinary Shares	11.7%	11.7%	31/12/97	443	145	(26)
Kangol Holdings							
Branded hat manufacture and	Preference Shares	19.0%					
accessories licensor	'A' Ordinary	19.0%	18.7%	–(1)	–(1)	–(1)	–(1)
Kennedys Garden Centres							
Operation of chain of garden centres	CRP	12.3%					
	Preferred Ordinary	12.3%	12.2%	31/12/97	3,291	1,034	(358)
Marler Haley							
Manufacturing of exhibition and modular	CRP	18.2%					
display equipment	Conv Red Pref	18.2%					
	Preferred Ordinary	18.2%	17.3%	30/06/96	1,595	(173)	12
Nisaba Group							
Telecommunication, consulting	'A' Ordinary	1.8%					
and software development	'B' Ordinary	50.0%	11.4%	31/03/97	379	80	(28)
Redberry SA[3]					BF'000	BF'000	BF'000
Production of TV serials and commercials	Ordinary Shares	16.7%	16.7%	31/12/95	8,902	44	(2)
Tractiv							
Distribution of tractor parts	'A' Ordinary	12.4%	12.4%	(1)	(1)	(1)	(1)

(1) No information available - new company.

(2) All trading subsidiaries have been sold to Billeck Pottery Group with proceeds being used to repay bank debt. The top company is in the process of being struck off.

(3) Sole asset is 25% of Ovideo.

CRP	Cumulative Redeemable Preference Shares
Prefs	Preference Shares
Conv Red Pref	Convertible Redeemable Preference Shares
Pts Mil	Spanish Pesetas million
BF	Belgian Francs
IR£	Irish Punts

9. Commitments

At 31st July 1998 there were commitments of £8,681,176 (1997 – £1,056,120) to provide additional funding in respect of three (1997 – two) existing investments.

10. Current assets

	1998	1997
	£	£
Debtors–		
Sales for future settlement	46,667	32,107
Other debtors	255,872	200,406
Taxation recoverable	82,846	45,601
Advance corporation tax recoverable	122,641	–
	508,026	278,114
Cash at bank–		
Sterling bank balances–		
Short term deposits	2,113,613	1,786,577
Current account	30,369	1,220,025
	2,143,982	3,006,602

11. Creditors

	1998	1997
	£	£
Creditors–		
Amounts falling due within one year–		
Other creditors and deferred income	195,547	74,185
Dividend payable on ordinary shares	1,209,600	1,209,600
Advance corporation tax payable on proposed dividend	122,641	–
	1,527,788	1,283,785

12. Share capital

	1998	1997
	£	£
Authorised		
8,000,000 ordinary shares of 25p	2,000,000	2,000,000
Allotted and fully paid		
6,048,000 ordinary shares of 25p	1,512,000	1,512,000

Notes to the Accounts

for the year ended 31st July 1998

13. Capital reserves

	1998 £	1998 £	1997 £
Realised			
Balance at 1st August		40,247,299	38,498,176
Net gain on realisation of investments			
Listed investments–			
Transfer from unrealised capital reserve on disposal of investments	(39,237)		704,684
Net gain on realisation of investments in the year	55,684		141,699
		16,447	846,383
Unlisted investments–			
Transfer from unrealised capital reserve on disposal of investments	(230,629)		(166,781)
Net gain on realisation of investments in the year	2,203,155		1,069,521
		1,972,526	902,740
Balance at 31st July		42,236,272	40,247,299
Unrealised			
Balance at 1st August		(2,184,696)	(3,046,005)
Net unrealised gain for the year–			
Listed investments–			
Transfer to realised capital reserve on disposal of investments	39,237		(704,684)
Increase in unrealised appreciation	212,900		75,689
		252,137	(628,995)
Unlisted investments–			
Transfer to realised capital reserve on disposal of investments	230,629		166,781
Increase in unrealised appreciation	293,307		1,323,523
		523,936	1,490,304
Balance at 31st July		(1,408,623)	(2,184,696)
Analysed as follows–			
Listed at valuation	9,790,817		13,558,039
At book value (cost less amounts written off)	(9,461,262)		(13,480,621)
		329,555	77,418
Unlisted at valuation	38,227,832		30,815,537
At book value (cost less amounts written off)	(39,966,010)		(33,077,651)
		(1,738,178)	(2,262,114)
Balance at 31st July		(1,408,623)	(2,184,696)

14. Net Asset Value per Share

The Net Asset Value per share (which equals the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association) were as follows:

Net Asset Value per Share attributable

	1998	**1997**
Ordinary Shares of 25p	812.5p	766.8p

Net Asset Value attributable

	1998	**1997**
	£	**£**
Ordinary Shares of 25p	49,142,870	46,374,507

The movements during the year of the assets attributable to each ordinary share were as follows:

Total net assets attributable at 1st August 1997	46,374,507
Total return on ordinary activities after tax for the year	4,280,363
Dividends appropriated in the year	(1,512,000)
Total net assets attributable at 31st July 1998	49,142,870

The Net Asset Value per Ordinary Share is based on 6,048,000 Ordinary Shares in issue at the year end.

15. Revenue reserve

	1998	**1997**
	£	**£**
Balance at 1st August	1,654,412	1,201,450
Undistributed revenue	3,317	452,962
Balance at 31st July	1,657,729	1,654,412

Notes to the Accounts

for the year ended 31st July 1998

16. Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Distributable profits		
Revenue profit available for distribution	1,515,317	1,964,962
Dividends appropriated in the year	(1,512,000)	(1,512,000)
Transfer to distributable reserves	3,317	452,962
Non-distributable profits		
Recognised net capital profits transferred to non-distributable reserves	2,765,046	2,610,432
Net increase in shareholders' funds	2,768,363	3,063,394
Opening shareholders' funds	46,374,507	43,311,113
Closing shareholders' funds	49,142,870	46,374,507

17. Reconciliation of revenue before taxation to net cash inflow from operating activities

	1998 £	1997 £
Revenue before taxation	1,991,150	2,528,083
Less: Tax credits on franked investment income	(276,128)	(411,811)
Less: Overseas tax suffered	(14,283)	(2,332)
Less: UK income tax suffered on investment income	(222,667)	(194,579)
	1,478,072	1,919,361
(Increase) in debtors	(55,466)	(74,456)
Increase (decrease) in creditors	121,362	(1,108,391)
Net cash inflow from operating activities	1,543,968	736,514

18. Analysis of changes in cash

	1998 £	1997 £
Net cash (outflow) inflow	(862,620)	832,381
Net funds at 1st August	3,006,602	2,174,221
Net funds at 31st July	2,143,982	3,006,602
Represented by:		
Cash at bank and short term deposits	2,143,982	3,006,602

Auditors' Report

To the Shareholders of Kleinwort Development Fund PLC

We have audited the financial statements on pages 17 to 32 which have been prepared under the historical cost convention as modified by the revaluations of certain fixed assets and the accounting policies set out on page 20.

Respective Responsibilities of Directors and Auditors

As described on page 34 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31st July 1998 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

27th October 1998

Arthur Andersen
Chartered Accountants and
Registered Auditors

20 Old Bailey
London EC4M 7AN

Statement of Directors' Responsibilities

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

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and estimates that are reasonable and prudent;
- ▶ state whether applicable accounting standards have been followed;
- ▶ 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 to 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.

Corporate Governance

The Board has considered the Report on the Financial Aspects of Corporate Governance and fully supports the recommendations in the Code of Best Practice and the Association of Investment Trust Companies' Guidelines. The Company complies with all the provisions of the Code of Best Practice.

The directors' statements on going concern and internal financial control are in the Directors' Report on page 36. The Company's auditors, Arthur Andersen, have reviewed the Company's compliance with the specific matters in the Code which the London Stock Exchange requires that the auditors should review. Their report is set out on page 35.

The Board is composed of five non-executive directors, the majority of whom are independent of the Manager, Kleinwort Benson Development Capital Limited (KBDC). They meet regularly and are responsible for policy and strategic matters. They have been appointed for a specified term and reappointment will not be automatic.

An Audit Committee has been formally appointed and the three independent directors who serve on it are Mr M J B Todhunter (Chairman), Mr R J East, and Mr G R C Shepard. It reviews the financial accounts, accounting policies and practices and compliance with regulatory and financial reporting requirements. It gives particular attention to the valuation of the unquoted investments.

The Audit Committee also reviews the terms of the Management Agreement between the Company and KBDC and the management fee and considers the effectiveness of the internal controls.

Report by the Auditors on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 34 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on going concern and internal financial control on page 36, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statements on page 34 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

Arthur Andersen
Chartered Accountants and
Registered Auditors

27th October 1998

20 Old Bailey
London EC4M 7AN

Directors' Report

for the year ended 31st July 1998

Status of the Company

The Company operates as an approved Investment Trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988, confirmation of which has been received from the Inland Revenue for the year ended 31st July 1997. Such approval is expected to be granted for the accounting year now under review. The Company is not a close company.

Going Concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal financial control

The directors have overall responsibility for the Company's system of internal financial control. Whilst acknowledging their responsibility for the system of internal control, the directors are aware that such a system can provide only reasonable but not absolute assurance against material misstatement or loss.

The key elements of the procedures that the directors have established and which are designed to provide effective internal financial control are as follows:

▶ Appointment of Kleinwort Benson Development Capital Limited (KBDC) as the Manager to provide investment management, accounting and administration services to the Company. These responsibilities are included in the Management Agreement between the Company and KBDC (see page 38). KBDC's system of internal financial control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management and monitored by Dresdner Bank's internal audit department. The Manager has delegated certain accounting, administration and custodial services to DRCM. KBDC and DRCM are regulated by Investment Management Regulatory Organisation Limited (IMRO) and the compliance departments of these companies regularly monitor compliance with IMRO's rules.

▶ Appointment of Kleinwort Benson Investment Management Limited as custodian for unquoted securities and DRCM as custodian for quoted securities.

▶ Regular review and control by the Board of asset allocation and any risk implications. Regular and comprehensive review by the Board of management accounting information including revenue and expenditure projections, actual revenue against projections, and performance comparisons.

▶ Authorisation and exposure limits are set and maintained by the Board.

▶ An Audit Committee which reviews the terms of the agreement with the Manager and Custodians and reviews the Manager's and Custodians' systems of controls. The Audit Committee also receives reports from the Manager's and Custodians' internal auditors, compliance department and independent auditors.

The Company's auditors' report on corporate governance matters is set out on page 35.

The directors confirm that the Audit Committee has reviewed the effectiveness of the system of internal financial control.

Year 2000 and EMU issues

KBDC, which provides investment management, custodial, accounting, administrative and company secretarial services to the Trust, has instigated a programme to establish the scope of the risks posed to the Trust by the consequences of the Year 2000 date change and to address those risks. The KBDC objective is to ensure business continuity through the Year 2000 date change and for all KBDC systems to be compliant. KBDC will also require both its suppliers and the suppliers to the Trust to ensure that their computer systems achieve the same or equivalent standard.

Share capital

There has been no change in the share capital of the Company during the year.

Investment revenue

	£	£
Revenue for the year after deducting all management and general expenses amounted to		1,991,150
Taxation absorbed		(475,833)
and there remained a balance of		1,515,317
Dividends		
Provision has been made in the Accounts for dividends on 6,048,000 ordinary shares of 25p as follows:		
Interim 5.00p per share paid 17th April 1998	(302,400)	
Final 20.00p per share proposed	(1,209,600)	
		(1,512,000)
thus leaving to be credited to revenue reserve		3,317

Subject to the final dividend being approved, payment will be made on 8th December 1998 to shareholders on the Register of Members at the close of business on 2nd October 1998 at the rate of 20.00p per share carrying a tax credit of 5.00p per share which, together with the interim dividend, makes a total gross distribution for the year of 31.25p (1997 – 31.25p)

Invested funds

Invested funds at 31st July 1998 had a value of £48,018,650 compared with £44,373,576 at 31st July 1997. After adding net current assets of £1,124,220 (1997 – £2,000,931) total net assets at the year end were £49,142,870 which is equivalent to 812.5p per share (1997 – £46,374,507 – 766.8p).

Review of the business

A review of the Company's activities is given in the Chairman's Statement on pages 2 and 3 and in the Investment Manager's Review on pages 4 to 7 inclusive.

Substantial shareholdings

The Company has been advised of the following holdings representing 3% or more of its share capital:

British Empire Securities & General Trust PLC – 860,000 shares (14.22%) Pearl Assurance PLC – 965,840 shares (15.97%); Prudential Corporation plc – 680,000 shares (11.24%); Kleinwort Benson Limited – 607,984 shares (10.05%); Lancashire County Council Superannuation Fund – 510,000 shares (8.43%); Halifax plc – 400,000 shares (6.61%).

The discretionary interests of Dresdner Bank AG and its subsidiary companies amount to 28.68% of the issued ordinary capital.

No further notification concerning substantial shareholdings has been received up to 23rd October 1998.

Payment policy

It is the Company's payment policy for the forthcoming financial year to get the best terms for all business and therefore there is no consistent policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. Creditors' days at the year end were 82 days. This is calculated by dividing relevant other creditors at the year end by total relevant expenses and multiplying by 365 days.

Directors' Report

for the year ended 31st July 1998

Directors and management

The directors retiring by rotation are Mr Brooks and Mr Shepard who, being eligible, offer themselves for re-election.

The directors of the Company who have held office during the year under review are as follows:

R A Brooks – Chairman

R J East

G R C Shepard

B C R Siddons

M J B Todhunter

The office of director does not require a share qualification. At 31st July 1998 Mr R J East had a beneficial interest in 15,000 shares (1997 – 15,000) and Mr B C R Siddons had a beneficial interest in 1,000 shares (1997 – 1,000). No other director holds or has held during the year any part of the Company's share capital. No changes to the above holdings had been reported to 23rd October 1998. No contracts of significance in which the directors are deemed to have been interested have subsisted during the period under review.

Mr Dean, an alternate director, is a director of KBDC, the Manager of the Company which provides investment, management and administrative services. Mr Siddons is a director of DRCM. Details of the management contract are included in Note 2 on page 22. The Manager has delegated the management of the cash and the listed portfolio to DRCM which also provides administration services and custody services for the Company's listed assets. Kleinwort Benson Investment Management Limited, the parent Company of the Manager, provides custody services for the Company's unlisted investments.

Auditors

Resolutions to reappoint Arthur Andersen as the Auditors of the Company and to authorise the directors to determine the Auditors' remuneration will also be proposed at the Annual General Meeting.

Special Business – AGM

The notice of Annual General Meeting on page 40 includes the following item of special business:

Purchase of own shares

The Board is proposing that the Company should be given the authority to purchase in the market and cancel up to 907,190 Ordinary Shares, representing approximately 14.99% of its Ordinary Shares in issue at the date of this document. The Board considers that it would be in the best interest of Shareholders for the Company to be able to make, from time to time, market purchases of its shares when the Board considers that the timing is best, and to that end the Board does not propose to set a timetable for making such purchases.

The Board believes that the purchase by the Company of its own shares in the market at appropriate times is a proactive method of enhancing Shareholder value. The particular benefits are that purchases in the market at prices below the prevailing net asset value will enhance net asset value for the remaining Shareholders. In addition, such purchases will create additional demand for the Ordinary Shares which should assist Shareholders wishing to reduce or divest themselves of their shareholdings and so should help to reduce the discount to net asset value at which the Ordinary Shares trade.

Purchases of Shares will be made at the discretion of the Board and within guidelines set by the Board from time to time in the light of prevailing market conditions. Purchases will only be made through the market at below the prevailing net asset value. In making such purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company has no present intention of purchasing any Ordinary Shares prior to 6th April 1999, since prior to this date such purchases may cause the Company to incur irrecoverable Advance Corporation Tax (ACT).

Under the rules of the London Stock Exchange, the maximum number of its own shares which a listed Company may purchase through the market pursuant to a general authority from its shareholders is 14.99% of its issued share capital. For this reason, the Company is seeking authority to purchase up to 907,190 Ordinary Shares, representing approximately 14.99% of its issued share capital. The authority will last until the Annual General Meeting of the Company to be held in 1999 or the expiry of 18 months from the date of the passing of this Resolution, whichever is the earlier. The Company may seek renewal of the authority by Shareholders at the Annual General Meeting of the Company to be held in 1999. Ordinary Shares will not be purchased in the period of two months immediately preceding the preliminary announcement of the Company's interim and final results or, if shorter, the period from the end of the relevant financial period up to and including the time of the announcement.

The rules of the London Stock Exchange also limit the price which may be paid by the Company on any such purchase to 105% of the average middle-market quotations for the Company's Ordinary Shares for the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per Ordinary Share (being the nominal value).

By Order of the Board
Kleinwort Benson Limited
Secretaries

27th October 1998

Notice of Meeting

Notice is hereby given that the eightieth Annual General Meeting of Kleinwort Development Fund PLC will be held at 10 Fenchurch Street, London, EC3M 3LB, on Monday, 7th December 1998 at 12.45 pm to transact the following business, resolutions 1-6 being proposed as Ordinary resolutions and resolution 7 as a Special resolution.

Ordinary Business

1 To receive and adopt the report of the directors and the accounts for the year ended 31st July 1998 with the auditors' report thereon.

2 To declare a final dividend of 20.00p per share.

3 To re-elect Mr R A Brooks as a director.

4 To re-elect Mr G R C Shepard as a director.

5 To re-appoint Arthur Andersen as the auditors of the Company.

6 To authorise the directors to determine the auditors' remuneration.

Special Business

7 To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution.

THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 25p each of the Company ("ordinary shares") provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 907,190, approximately 14.99% of the issued ordinary share capital;

(ii) the minimum price which may be paid for any such share is 25p;

(iii) the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle-market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased or such other amount as may be specified by the London Stock Exchange from time to time;

(iv) the authority hereby conferred will last until the Annual General Meeting of the Company to be held in 1999 or the expiry of eighteen months from the date of the passing of this resolution, whichever is the earlier; and

(v) the Company may make a contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase ordinary shares pursuant to any such contract.

By Order of the Board
Kleinwort Benson Limited
Secretaries

Riverbank House,
2 Swan Lane
London
EC4R 3TN

6th November 1998

Notes: A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote in his or her stead. The proxy need not be a member of the Company. Proxies must reach the office of the Company's registrars at least forty-eight hours before the meeting.

A form of proxy is provided with the annual report. Completion of the form of proxy will not prevent a member from attending the meeting and voting in person.

To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members by no later than 5.00 p.m. on Saturday, 5th December 1998. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Contracts of service are not entered into with the directors, who hold office in accordance with the articles of association.