

MATRIX INCOME & GROWTH VCT PLC **2**

A VENTURE CAPITAL TRUST

REPORT & ACCOUNTS



Annual Report and Accounts
for the year ended 30 April 2006



Matrix Income & Growth 2 VCT plc

("Matrix Income & Growth 2 VCT") is a Venture Capital Trust (VCT) managed by Matrix Private Equity Partners Limited (MPEP) investing primarily in established, profitable, unquoted companies.

Investment Objective

The Company's objective is to provide investors with a regular and growing income stream, arising both from the income generated by the companies selected for the portfolio and from realising any growth in capital.

Venture Capital Trust Status

Matrix Income & Growth 2 VCT has satisfied the requirements as a Venture Capital Trust under section 842AA of the Income and Corporation Taxes Act 1988, and the Directors intend to conduct the business of the Company so as to continue to comply with that section.

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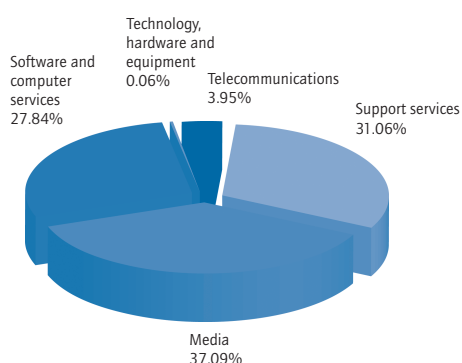
Financial Highlights

Ordinary Shares (listed on 11 July 2000)

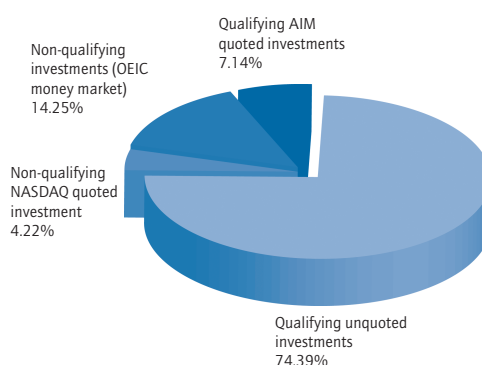
Initial net asset value per Ordinary Share	94.00 pence
Initial net assets	£12,388,236

	30 April 2006	30 April 2005 (re-stated)
Net assets	£10,938,976	£11,780,212
Net asset value per Ordinary Share	87.05 pence	91.88 pence
Total dividends per Ordinary Share paid to date	14.79 pence	2.79 pence
Total return to shareholders since launch per share*	101.84 pence	94.67 pence
Share price (mid market price)	69.50 pence	72.50 pence
Earnings/(loss) per Ordinary Share for the year	6.91 pence	(2.39) pence
Total dividends per Ordinary Share paid during the year	12.00 pence	-

Investments by market sector



Investments by asset class

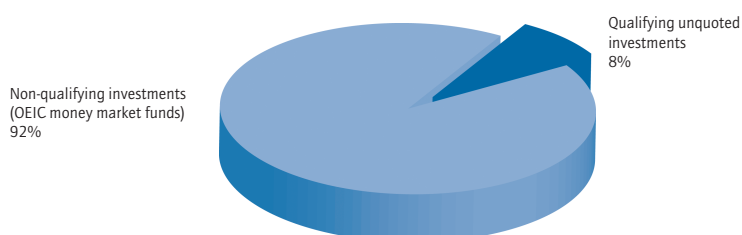


C Shares (listed on 21 December 2005)

Initial net asset value per C Share	94.50 pence
Initial net assets	£8,648,486

	30 April 2006
Net assets	£8,626,295
Net asset value per C Share	94.32 pence
Total dividends per C Share paid to date	-
Total return to shareholders since launch per share*	94.32 pence
Share price (mid market price)	100.00 pence
Earnings/(loss) per C Share for the year	(0.56) pence

Investments by asset class



* Net asset value per share plus cumulative dividends per share. This compares to an original investment cost of 80 pence per share for the Ordinary Share Fund and 60 pence per share for the C Share Fund after allowing for income tax relief of 20 pence and 40 pence per share respectively.

Chairman's Statement

I am pleased to present the sixth Annual Report and Financial Statements of Matrix Income & Growth 2 VCT.

Results for the year ended 30 April 2006

The results for the year ended 30 April 2006 are set out in the following pages. The return (after tax) attributable to the Ordinary Shareholders was £875,976 (2005: loss of £310,234 (as restated)) and the Net Asset Value (NAV) per Ordinary Share at 30 April 2006 was 87.05 pence. This was after payment of a total of 12 pence per share received by Ordinary Shareholders as capital dividends during the year following a number of successful realisations. The NAV as at 30 April 2005 was 91.88 pence (as re-stated). The after tax revenue loss before net capital gains was 0.49 pence per Ordinary Share for the year to 30 April 2006 (2005: 0.76 pence).

The loss (after tax) attributable to the C Shareholders was £22,191 and the NAV per C Share at 30 April 2006 was 94.32 pence. The after tax revenue return before net capital losses was 0.05 pence per C Share for the year to 30 April 2006.

Overview

At an Extraordinary General Meeting held on 7 September 2005, Shareholders approved a resolution to change the name of the Company from Matrix Venture Fund VCT plc to reflect its change in investment remit from primarily technology companies to a generalist investment strategy.

This has been a year of significant activity in a number of areas, principally capital raising, new investment activity and portfolio realisations. I am pleased to report several areas of good progress.

C Share Fund

In September the Company launched a new C Share Fund which raised net proceeds of £8.6 million, enabling a material increase in the Company's asset base, an improvement in share liquidity and a reduction in the percentage cost of running expenses. Since December the C Share Fund has been investing alongside the Ordinary Share Fund, subject to the maximum limit of £1 million which the Company may invest in each qualifying company per annum under the VCT tax rules.

New investments

Following approval by Shareholders of the change of name of the Company to reflect its new generalist investment strategy, significant progress has been made towards this aim.

During the year, the Ordinary Share Fund invested a total of

£3.1 million in six companies, with the C Share Fund investing £0.2 million in two companies. Since the year end a further £1.2 million and £0.4 million has been invested respectively by the Ordinary Share Fund and the C Share Fund in three companies.

Seven of these nine investments were Management Buy Outs ("MBOs") of profitable companies, which is the primary investment focus of the Investment Manager. The other two were profitable AIM quoted companies which were previously well-known to the Investment Manager.

Portfolio realisations

This has been an active and successful year for the Ordinary Share Fund portfolio overall. In addition to the profitable realisation of Sit-up Limited in May 2005, the opportunity was taken to dispose of the residual investment in ClearSpeed Technology plc, for £300,509, bringing total proceeds received to £515,645, over 2.5 times investment cost.

Later in December, the investment in FootFall was sold to Experian Limited, a subsidiary of GUS plc, generating proceeds of £2,316,838, a return of over 3 times the original investment cost of £750,000.

Most recently, in May of this year, after the year-end, the sale of Magicalia to Exponent Private Equity was completed realising total proceeds of £1.85 million for the Fund's investment, a 4.6 times multiple of investment cost of £400,000.

As at 30 April 2006 the Ordinary Share Fund held investments in 14 companies at a total cost of £7.3 million, fuller details of which are contained in the Investment Manager's Review on pages 4-9 of this Annual Report.

The investments held by the Company have been valued in accordance with the new International Private Equity Venture Capital Valuation ("IPEVCV") guidelines. The Board will, in any event, always follow a consistent valuation policy. The investments that are quoted on AIM and the money market securities are now carried at market value on a bid price basis.

Board of Directors

Fredrik Adams will not be standing for re-election at the Annual General Meeting of the Company to be held on 5 September 2006 and he will therefore leave the Board with effect from the close of the Separate Class Meetings. Fredrik has recently accepted a position with Siemens Venture Capital and will be based in Boston, USA. He has been on the Board since inception of the Company and I would like to take this opportunity, on

behalf of the Board, to thank him for the contribution he has made to the Company's success during his period of office.

I have also decided, having reached the age of 65, to retire from the Company and it gives me great pleasure to pass the Chairmanship to my fellow Director, Nigel Melville, with effect from the close of the Separate Class Meetings to be held on 5 September 2006. At the end of an auspicious year which has seen a number of realisations and strategic initiatives, including the successful launch of the C Share Fund, I am satisfied that the Company is well set for the future.

The Board is in the process of recruiting new directors who will be appointed in due course.

Conclusion

I would like to take this opportunity to welcome new Shareholders to the Company and to thank all Shareholders for their continuing support of the Company. I very much hope to have the pleasure of welcoming you to the Annual General Meeting on 5 September 2006.

Michael Cumming

Chairman

26 June 2006

Investment Manager's Review

The Company is pursuing a strategy of investing in established, profitable, unquoted companies. Typically these investee companies will be cash-generative and therefore capable of producing dividend income, as well as capital returns to Shareholders on their ultimate sale or flotation. The Company will focus principally on investments in MBOs. The Company continues to benefit from the strong flow of MBO opportunities we have been experiencing.

Significant progress has been made in effecting the generalist investment strategy, by realising value where appropriate from the predominantly technology-based Ordinary Share Fund portfolio, enabling distributions to be made to this Fund's Shareholders whilst also investing actively in MBOs.

During the year four investments were sold for total proceeds of £7.3 million, compared with cost of £2.0 million. This has allowed dividends of £1.5 million to be paid to Ordinary Shareholders whilst releasing capital to be re-invested in the

Ordinary Share Fund, which has increased during the year from 12 investments at a cost of £6.2 million to 14 investments at a cost of £7.3 million.

The new investments, set out in greater detail below, comprise five MBOs and one AIM quoted investment at a total cost of £3.1 million and £0.2 million to the Ordinary Share Fund and the C Share Fund respectively, comprising a range of industrial and commercial sectors including signmaking, publishing, manned guarding and ladder manufacture.

Since the year end the Ordinary and C Share Funds have made investments of £118,737 and £82,893 respectively into BBI Holdings, an AIM quoted manufacturer and developer of reagents and diagnostic tests for research and diagnostic use; £274,624 and £191,720 respectively into PastaKing Holdings, a supplier to the educational and food service market; and of £832,827 and £167,173 respectively into British International Holdings, a supplier of helicopter services.

Award International Holdings plc

	Ordinary Share Fund
Cost:	£250,000
Valuation:	£Nil
Basis of valuation:	Cost less impairment
Equity % held:	7.7%
Income receivable in year:	£Nil
Date of Initial investment:	March 2004
Business:	Promotional goods and services agency
Location:	Margate, Kent
History:	AIM flotation but since delisted
Other MPEP funds investing:	None



Audited financial information:

16 months ended	Turnover	Operating profit	Net assets
30 September 2004	£4,209,000	£45,000	£1,710,000

Blaze Signs Holdings Limited

	Ordinary Share Fund	C Share Fund
Cost:	£339,545	£58,953
Valuation:	£339,545	£58,953
Basis of valuation:	Cost	Cost
Equity % held:	9.6%	1.7%
Income receivable in year:	£128	£22
Date of initial investment:	April 2006	
Business:	Manufacturing and installation of signs	
Location:	Broadstairs, Kent	
History:	MBO from private ownership	
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT, Matrix Income & Growth 3 VCT	
Audited financial information:	First audited accounts will be for the period ending 31 March 2006	



Callserve Communications Limited

	Ordinary Share Fund
Cost:	£300,000
Valuation:	£Nil
Basis of valuation:	Cost less impairment
Equity % held:	0.8%
Business:	Internet telephony and Voice over Internet Protocol ("VoIP")
Location:	London
History:	Expansion capital to roll out VoIP service
Other MPEP funds investing:	None
Income receivable in year:	£Nil



Audited financial information:

Year ended	Turnover	Operating loss	Net liabilities
31 December 2005	£9,183,000	(£743,000)	(£5,976,000)

Campden Media Limited

	Ordinary Share Fund
Cost:	£975,000
Valuation:	£975,000
Basis of valuation:	Cost
Equity % held:	11.4%
Income receivable in year:	£18,786
Date of initial investment:	January 2006
Business:	Publishing and conferencing
Location:	London
History:	MBO from private ownership
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT
Audited financial information:	First audited accounts will be for the period ending 31 December 2006



Investment Manager's Review

Clarity Commerce Solutions plc

	Ordinary Share Fund
Cost:	£510,552
Valuation:	£446,830
Basis of valuation:	Bid price (AIM-quoted)
Equity % held:	4.32%
Income receivable in year:	£Nil
Date of initial investment:	July 2000
Business:	EPOS and CRM solutions provider
Location:	Salisbury, Wiltshire
History:	Expansion capital as part of flotation and placing on AIM
Other MPEP funds investing:	None



Audited financial information:

Year ended	Turnover	Operating profit	Net assets	Earnings per share
31 March 2005	£15,851,000	£898,000	£9,487,000	2.36 pence

Flightstore Group plc

	Ordinary Share Fund
Cost:	£254,586
Valuation:	£4,752
Basis of valuation:	Bid price (AIM quoted)
Equity % held:	3.38%
Income receivable in year:	£Nil
Date of initial investment:	March 2001
Business:	Interactive aircraft shopping service
Location:	Reigate, Surrey
History:	Expansion capital followed by flotation on AIM
Other MPEP funds investing:	None

Audited financial information:

Year ended	Turnover	Operating loss	Net assets	Loss per share
31 December 2004	£1,000	(£1,052,000)	£358,000	(1.02)p

Gyro International Limited

	Ordinary Share Fund
Cost:	£750,000
Valuation:	£779,930
Basis of valuation:	Discounted earnings
Equity % held:	6.8%
Income receivable in year:	£16,821
Date of initial investment:	February 2005
Business:	Brand communications agency
Location:	London
History:	Expansion/replacement capital
Other MPEP funds investing:	None



Audited financial information:

Year ended	Turnover	Operating profit	Net assets
31 October 2004	£9,021,000	£707,000	£21,000

Note: Figures from audited accounts for Gyrogroup Limited (the then holding company of the group) excluding US operations

Miva Inc.

	Ordinary Share Fund	
Cost:	£487,833	
Valuation:	£373,961	
Basis of valuation:	Mid-market price (NASDAQ-quoted)	
Equity % held:	0.5%	
Income receivable in year:	£Nil	
Date of initial investment:	December 2001	
Business:	Online performance-based marketing solutions provider	
Location:	Fort Myers, Florida	
History:	Expansion capital	
Other MPEP funds investing:	None	



Audited financial information:

Year ended	Turnover	Operating profit	Net assets
31 December 2005	\$194,616,000	\$207,000	\$146,513,000

Monactive Limited-in administration

	Ordinary Share Fund	
Cost:	£642,857	
Valuation:	£NIL	
Basis of valuation:	Cost less impairment	
Equity % held:	13.6%	
Income receivable in year:	£6,480	
Date of initial investment:	March 2001	
Business:	Software asset management	
Location:	Reading, Berkshire	
History:	Expansion capital	
Other MPEP funds investing:	None	



Audited financial information:

Year ended	Turnover	Operating loss	Net liabilities
31 July 2005	£1,071,000	(£32,000)	(£2,306,000)

Recite Limited

	Ordinary Share Fund	
Cost:	£1,000,000	
Valuation:	£750,000	
Basis of valuation:	Cost less impairment	
Equity % held:	25.2%	
Income receivable in year:	£26,250	
Date of initial investment:	September 2003	
Business:	Salesforce management solutions	
Location:	Maidenhead, Berkshire	
History:	Replacement capital	
Other MPEP funds investing:	None	



Audited financial information:

Year ended	Turnover	Operating profit	Net assets
30 April 2005	£3,045,000	£433,000	£214,000

Investment Manager's Review

SectorGuard plc

	Ordinary Share Fund
Cost:	£150,000
Valuation:	£182,143
Basis of valuation:	Bid price (AIM quoted)
Equity % held:	1.5%
Business:	Provision of manned guarding, mobile patrolling, and alarm response services
Income receivable in year:	£4,286
Date of initial investment:	August 2005
Location:	Waltham Cross, Essex
History:	Expansion finance as part of a £3 million capital raising
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT



Audited financial information:

Year ended	Turnover	Operating profit	Net assets	Earnings per share
30 September 2005	£16,375,000	£1,155,000	£8,169,000	0.35p

Vectair Holdings Limited

	Ordinary Share Fund
Cost:	£243,784
Valuation:	£243,784
Basis of valuation:	Cost
Equity % held:	5.2%
Income receivable in year:	£4,841
Date of initial investment:	January 2006
Business:	Design and sale of washroom products
Location:	Basingstoke, Hampshire
History:	MBO from private ownership
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT
Audited financial information:	First audited accounts will be for the period ending 31 July 2006



VSI Limited

	Ordinary Share Fund	C Share Fund
Cost:	£365,764	£122,897
Valuation:	£365,764	£122,897
Basis of valuation:	Cost	Cost
Equity % held:	9.4%	3.2%
Income receivable in year:	£3,594	£904
Date of initial investment:	March 2006	
Business:	Software for CAD and CAM vendors	
Location:	Sheffield	
History:	MBO from private ownership	
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT, Matrix Income & Growth 3 VCT	
Audited financial information:	First audited accounts will be for the period ending 31 December 2006	



Youngman Group Limited

	Ordinary Share Fund
Cost:	£1,000,000
Valuation:	£1,000,000
Basis of valuation:	Cost
Equity % held:	8.6%
Income receivable in year:	£40,507
Date of initial investment:	October 2005
Business:	Manufacture of ladders and access towers
Location:	Maldon, Essex
History:	Management buy-in/buy-out from SGB Group
Other MPEP funds investing:	TriVen VCT, TriVest VCT, Matrix Income & Growth VCT
Audited financial information:	First audited accounts will be for the period ending 31 December 2006



Further details of the investments in the MPEP portfolio may be found on MPEP's website: www.matrixgroup.co.uk

Board of Directors

Michael Cumming

Status: *Independent, Non-Executive Chairman*

Age: 65

Michael was Managing Director of Barclays Private Equity Limited between 1981 and 1995. He is currently Chairman of Edinburgh UK Smaller Companies Tracker Trust plc, Mercia Fund Management Limited and Private & Commercial Finance Group plc and a non-executive director of Graphite Enterprise Trust plc, Forelle Estates Holdings Limited (formerly Scottish Prudential Holdings Limited) and World Gaming plc.

Last re-elected to the Board: September 2005.

Committee memberships: Audit Committee.

Number of Board and Committee meetings attended 2005/06: 10/10

Remuneration 2005/06: £16,500.

Relevant relationships with the Investment Manager or other service providers: None.

Shareholding in the Company: 10,225 Ordinary Shares; 7,912 C Shares.

Performance warrants: 82,395*

Shareholding in investee companies: None.

Fredrik Adams

Status: *Independent, Non-Executive Director*

Age: 36

Fredrik is an advisor to Viventures, a Paris-based €277m venture capital fund. He serves on the board of Watsonwhen, LeT Systems (Ireland) and Terraplay Systems (Sweden). He was a Partner at €53m technology VC fund European Equity Partners from 1999 until 2004. He previously worked in corporate finance at Nomura in London. He holds a BA in economics from Lund University, Sweden and a MSc from the Royal Agricultural College.

Last re-elected to the Board: September 2003.

Committee memberships: None.

Number of Board and Committee meetings attended 2005/06: 6/7

Remuneration 2005/06: £11,000.

Relevant relationships with the Investment Manager or other service providers: None.

Shareholding in the Company: 2,556 Ordinary Shares.

Performance warrant : 82,395*

Shareholding in investee companies: None.

Nigel Melville

Status: *Senior Independent Director*

Age: 61

Nigel is Executive Chairman of Emtelle Holdings Limited, the UK's leading supplier of fibre-optic ducting systems, and a director of a number of other public and private companies. Between 1972 and 1995, he was an investment banker, latterly as a director of Barings responsible for international corporate finance. In 1995 he established Melville Partners to provide strategic consultancy to a range of international companies.

Last re-elected to the Board: September 2004.

Committee memberships: Audit Committee (Chairman), Remuneration Committee (Chairman), Nominations Committee (Chairman).

Number of Board and Committee meetings attended 2005/06: 9/12

Remuneration 2005/06: £12,500.

Relevant relationships with the Investment Manager or other service providers: None.

Shareholding in the Company: 20,450 Ordinary Shares; C Shares 21,100 (including holdings of connected persons).

Shareholding in investee companies: None

Kenneth Vere Nicoll

Status: *Non-Executive Director*

Age: 63

Ken has over 35 years' corporate finance experience and is Managing Director of Matrix Corporate Capital Limited (MCCL) and a Director of Matrix-Securities Limited. MCCL is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange. It provides corporate finance advice and stockbroking services to companies including flotation on AIM and has advised a number of these companies in the past three years. He is a non-executive director of Unicorn AIM VCT II plc.

Last re-elected to the Board: September 2005.

Committee memberships: Remuneration Committee, Nominations Committee.

Number of Board and Committee meetings attended 2005/06: 7/9

Remuneration 2005/06: £6,000 (Director's fees waived for the period to 31 October 2005)

Relevant relationships with the Investment Manager or other service providers: Director and shareholder of Matrix Group Limited and Director of Matrix-Securities Limited (for further details please see related party transactions in the Directors' Report on page 12).

Shareholding in the Company: 20,450 Ordinary Shares; 26,375 C Shares (including holdings of connected persons).

Shareholding in investee companies: None.

* Performance warrants relating to the Ordinary Share Fund were issued to Michael Cumming and Fredrik Adams as former members of the Investment Committee. The figures quoted may be subject to adjustment following the departure of individual directors or investment advisers. Please see Note 6 of the Notes to the Financial Statements on page 30 for further details of the performance warrants.

Directors' Report

The Directors present their sixth annual report together with the audited financial statements of the Company for the year ended 30 April 2006.

Principal activity and status

The principal activity of the Company is the making of investments in unlisted or AIM quoted companies in the UK. Matrix Income & Growth 2 VCT has satisfied the requirements as a Venture Capital Trust under Section 842AA of the Income and Corporation Taxes Act 1988 ("ICTA"). The Directors have managed, and it is their intention to continue to manage, the Company's affairs in such a manner as to comply with this section of the ICTA.

The Company revoked its status as an Investment Company as defined by Section 266 of the Companies Act 1985 on 7 July 2005. This change was undertaken to enable the Company to distribute capital profits to Shareholders.

The Ordinary Shares were first admitted to the Official List of the UK Listing Authority on 11 July 2000.

The C Shares were first admitted to the Official List of the UK Listing Authority on 21 December 2005.

A review of the Company's business during the period and consideration of its future development and prospects are contained in the Chairman's Statement on pages 2-3 of this Annual Report.

Results

	Ordinary Share Fund		C Share Fund	
	30 April 2006	30 April 2005 (as restated)	30 April 2006	30 April 2005
	£	£	£	£
Capital return transferred to/(from) reserves	938,388	(211,489)	(24,281)	-
Revenue return, before taxation	(62,412)	(98,745)	(2,090)	-
Taxation	-	-	-	-
Revenue return for the period	(62,412)	(98,745)	(2,090)	-

Dividends

Ordinary Shareholders have received total dividends of 12 pence per Ordinary Share paid from capital during the year. The Directors are not recommending a final dividend in respect of either the Ordinary Shares or C Shares for the year ended 30 April 2006.

Issue and buy-back of shares

The Company has issued 9,145,990 C Shares pursuant to an Offer for Subscription launched on 20 September 2005 resulting in issued C Share capital at 30 April 2006 of £91,460.

The Company has not issued any Ordinary Shares during the year under review.

The cancellation of the share premium account attributable to the Ordinary Share Fund was approved by an Order of Court dated 30 October 2002 and the Order was registered at Companies House on 2 November 2002. The cancellation of the Ordinary Fund share premium account has created a special reserve that can be used to, amongst other things, fund buy-backs of the Company's Ordinary Shares when the Directors consider that it is in the best interests of the Company to do so.

The Company has authority to apply to the Court to cancel the share premium account attributable to the C Share Fund obtained at the Extraordinary General Meeting held on 26 March 2004. It is the Directors' intention to proceed with the cancellation within the next six months.

A resolution to renew the authority to the Company to purchase its own shares will be proposed at the Annual General Meeting (see below).

During the year the Company purchased 254,751 (2005: 210,106) of its own Ordinary Shares (being 2.03% of the closing issued share capital) at a cost of £179,888 (2005: £152,327) (excluding expenses). The issued Ordinary Share capital of the Company as at 30 April 2006 was £125,661 (2005: £128,209). The number of Ordinary Shares in issue as at this date was 12,566,147 (2005: 12,820,898).

Directors

The Directors who held office throughout the year under review and their interests (including those of their connected persons) in the issued Ordinary Shares and C Shares of the Company were as follows:

	Ordinary Shares held on		C Shares held on	
	1 May 2005	30 April 2006	1 May 2005	30 April 2006
Michael Cumming	10,225	10,225	-	7,912
Fredrik Adams	2,556	2,556	-	-
Nigel Melville	20,450	20,450	-	21,100
Lawrence Sullivan (Resigned 7 September 2005)	25,563	25,563	-	-
Kenneth Vere Nicoll	20,450	20,450	-	26,375

There have been no changes to the Directors' share interests between the year-end and the date of this Annual Report.

Biographical notes on the Directors are given on page 10 of this Annual Report.

Fredrik Adams retires by rotation at the forthcoming Annual General Meeting of the Company and has decided not to stand for re-election. Michael Cumming will also retire from the Board with effect from the end of the Separate Class Meetings which will follow the Annual General Meeting on 5 September 2006 (for further information please see the Chairman's Statement).

Directors' Report

With the exception of Kenneth Vere Nicoll, all the Directors are considered to be independent.

As former members of the Investment Committee, Michael Cumming, Fredrik Adams and Lawrence Sullivan (resigned 7 September 2005) are entitled to be issued with performance warrants granting the right to subscribe for Ordinary Shares at par. Further details are given in Note 6 to the Financial Statements on page 30.

Management

Matrix Private Equity Partners Limited has been appointed as Investment Manager in respect of the venture capital investments and the principal terms of the Company's advisory agreement with them are set out in Note 6 to the Financial Statements.

Prior to the launch of the C Share Issue, the Board reviewed and amended the Investment Advisers' Agreement. This was novated from Matrix Private Equity Limited to Matrix Private Equity Partners Limited on 20 September 2005 and a Supplemental Agreement was entered into with regard to the C Share Offer. Shareholders approved the management and performance incentive arrangements for Matrix Private Equity Partners Limited in relation to the C Share Fund at an Extraordinary General Meeting of the Company held on 7 September 2005. It is the Directors' opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of Shareholders as a whole.

Matrix-Securities Limited acts as Company Secretary and Accountant to the Company pursuant to agreements dated 20 September 2005 which superseded previous agreements dated 10 December 2002 and 10 May 2000 respectively.

Auditors

MRI Moores Rowland LLP has expressed its willingness to continue in office and resolutions to re-appoint them as auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Auditors' right to information

So far as the Directors in office at 30 April 2006 are aware, there is no relevant audit information of which the auditors are unaware. They have individually taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

VCT status monitoring

PricewaterhouseCoopers LLP succeeded Martineau Johnson as

VCT Status Advisers with effect from 20 September 2005 and as such they advise on compliance with requirements of the venture capital trust tax legislation on the basis of information provided by Matrix Private Equity Partners Limited. Matrix Private Equity Partners Limited also seeks professional advice in relation to the application of the venture capital trust legislation to any company in which the Company is proposing to invest. The Directors monitor the continuing tests for the Company's VCT status at Board meetings.

Substantial shareholdings

As far as the Directors are aware there were no individual shareholdings representing 3% or more of the Company's issued share capital at the date of this Annual Report.

Related party transactions

Kenneth Vere Nicoll is a director and shareholder of Matrix Group Limited, which owns Matrix-Securities Limited and Matrix Private Equity Partners Limited, and is also a director of Matrix-Securities Limited. Matrix-Securities Limited acts as promoter to the Company and received fees of £497,504 (2005: £nil) during the year in respect of this appointment. It also provided accountancy and company secretarial services to the Company for which it received payment of £56,800 (2005: £49,350) including VAT during the year. Matrix Private Equity Partners Limited is the Company's Investment Manager in respect of venture capital investments and earned fees of £288,429 (2005: £246,185), including VAT for the year.

Policy of paying creditors

The Company does not subscribe to a particular code but follows a policy whereby suppliers are paid by the due date and investment purchases are settled in accordance with the stated terms. At 30 April 2006 the average credit period for trade creditors was 20 days (2005: 52 days).

Directors and officers liability insurance

The Company maintains a Directors' and Officers' liability insurance policy.

Annual General Meeting

A formal notice convening the Annual General Meeting of the Company on 5 September 2006 is on pages 42-43 of this Annual Report.

Special business

The following denotes the Special Business to be proposed at the meeting.

Resolution 5: Allotment of shares

This resolution will authorise the Directors to allot relevant securities generally, in accordance with Section 80 of the Companies Act 1985 (as amended) ("the Act"), up to a nominal amount of £76,250 representing approximately 25% of the issued Ordinary Share capital and/or the issued C Share capital of the Company as at the date of this Annual Report plus the maximum number of Ordinary Shares that may be allotted in connection with the performance warrant rights set out in the Carried Interest Agreement dated 10 May 2000. The authority will expire on the fifth anniversary of the passing of the resolution and is proposed as an ordinary resolution.

Resolution 6: Disapplication of pre-emption rights

Under Section 89 of the Act, if the Directors wish to allot any of the unissued share capital for cash they must first offer such shares to existing shareholders in proportion to their current holdings. Resolution 6 will enable the Directors to allot equity securities for cash without first offering the securities to existing Shareholders in connection with:

- (i) the performance warrant rights as set out in the Carried Interest Agreement dated 10 May 2000;
- (ii) any dividend reinvestment or similar scheme that may be operated by the Company up to but not exceeding an aggregate nominal value of 10 per cent of the issued Ordinary Share capital and/or the issued C Share capital of the Company;
- (iii) the allotment of equity securities up to an aggregate nominal value of up to but not exceeding 10% of the issued Ordinary Share capital and/or the issued C Share capital of the Company where the proceeds of the issue may in part be used to purchase the Company's Ordinary and C Shares in the market; and
- (iv) generally the allotment from time to time of up to but not exceeding 5% of the issued share capital of both classes.

This resolution is proposed as a special resolution and unless previously renewed or revoked, will expire on the earlier of the Annual General Meeting of the Company to be held in 2007 and the date which is eighteen months after the date on which this resolution is passed.

Resolution 7: Authority for the Company to purchase its own shares

It is proposed by Resolution 7 that the Directors be given authority to make market purchases of the Company's own shares. Under this authority, the Directors may purchase shares with an aggregate nominal amount up to but not exceeding 14.99% of the Company's issued Ordinary Share capital or C Share capital (as the case may be) at the date the resolution is passed. When buying shares, the Directors cannot pay a price per share which is more than 105% of the average of the middle market quotations for an Ordinary Share or a C Share (as the case may be) taken from the London Stock Exchange Daily Official List for the 5 business days immediately before the date on which shares are purchased or less than 1 penny (the nominal value of the shares).

This authority will expire on the earlier of the Annual General Meeting of the Company to be held in 2007 and the date which is eighteen months after the date on which this resolution is passed.

Separate Meetings of the Ordinary Shareholders and C Shareholders

The Annual General Meeting will be followed on 5 September 2006 by separate class meetings of the Ordinary Shareholders and C Shareholders and formal notices of these meetings are included on pages 44 and 45 of this Annual Report. The same extraordinary resolution will be proposed at both meetings to approve the passing of the ordinary and special resolutions numbered 5 to 7 to be proposed at the Annual General Meeting and will sanction any modification of the rights of the Ordinary Shareholders and C Shareholders resulting therefrom.

By order of the Board

Matrix-Securities Limited
Company Secretary
26 June 2006

Directors' Remuneration Report

The remuneration policy is set by the Board and is described below. The Remuneration Committee makes recommendations to the Board on the remuneration of individual Directors within the framework of this policy. The Committee comprises Nigel Melville (Chairman) and Kenneth Vere Nicoll. The Committee meets at least once a year and is responsible for considering the levels and composition of remuneration payable to the Directors, severance payments and the resolution of disputes involving any member of the Board, and any actual or potential conflicts of interest which may arise as a result of outside business activities of Board members. The Committee has access to independent advice where it considers it appropriate. However, no such advice was taken during the year under review.

Remuneration policy

The Directors' fees are reviewed annually by the Remuneration Committee. When considering the level of Directors' fees, the Committee takes account of remuneration levels elsewhere in the Venture Capital Trust industry and considers the time commitment involved and responsibilities of the roles and other relevant information. No portion of the fees paid to any of the Directors is related to performance. However, some of the Directors have been granted performance warrants as referred to under the heading 'Share options and long-term incentive schemes' below. Details of the Directors' remuneration are disclosed below and in the Notes to the Financial Statements. On the recommendation of the Remuneration Committee, the Directors' fees were increased with effect from 1 November 2005 to take account of the Directors' additional responsibilities in relation to the new C Share Fund. The current annualised fees are: Chairman: £18,000; Audit Committee Chairman: £15,000; Director: £12,000.

Terms of appointment

The Articles of Association provide that Directors may be appointed either by an ordinary resolution of the Company or by the Board provided that a person appointed by the Board shall be subject to re-election at the first Annual General Meeting following their appointment. Directors retiring by rotation are then eligible for re-election. Subject to the provisions of the Companies Act 1985 such number of the Directors shall retire from office by rotation at each Annual General Meeting of the Company as will ensure that each Director retires once every three years.

All of the Directors are non-executive and none of the Directors has a service contract with the Company. All Directors receive a formal letter of appointment setting out the terms of their appointment, the powers and duties of Directors and the fees pertaining to the appointment. Appointment letters for new

Directors will in future contain an assessment of the anticipated time commitment of the appointment. New Directors will be asked to undertake that they will have sufficient time to meet what is expected of them and to disclose their other significant time commitments to the Board before appointment. Copies of the letters appointing the Directors are made available for inspection at each General Meeting of the Company and on application to the Company Secretary. A Director's appointment may be terminated on three months' notice being given by the Company and in certain other circumstances. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office.

Pensions

All the Directors are non-executive and the Company does not provide pension benefits to any of the Directors.

Share options and long-term incentive schemes

Michael Cumming, Fredrik Adams and Lawrence Sullivan (resigned with effect from 7 September 2005), as former members of the Investment Committee, are entitled to be issued with conditional performance warrants granting the right to subscribe for 82,395 Ordinary Shares at par each. The rights holders between them (also including Matrix Private Equity Limited, Mark Burgess, Helen Sinclair and Ashley Broomberg) are entitled to be issued with performance warrants granting the right to subscribe in total for 16.67 per cent of the sum of (i) the number of Ordinary Shares allotted pursuant to the Company's prospectus dated 10 May 2000 ("the Offer") plus (ii) the number of Ordinary Shares allotted pursuant to the exercise of performance warrants. Former members of the Investment Committee are entitled to 15% of this total number of performance warrants that could be issued to rights holders.

The condition for the issue of performance warrants is that cumulative dividend payments are declared or paid amounting to the equivalent of not less than 80 pence for each Ordinary Share in issue ("the hurdle") at any time before the seventh anniversary of the launch of the Ordinary Share Fund Offer on 10 May 2000. If the hurdle is not reached until after the seventh anniversary of the launch of the Fund, the entitlement to subscribe for shares is reduced at a rate of 1.5 per cent per annum until the twelfth anniversary, after which, if the hurdle has not been reached, the performance warrants lapse. The Board has agreed that it will seek Shareholder approval on the introduction of long-term incentive schemes in the future in accordance with the provisions of the 2003 FRC Combined Code. It has no intention of introducing any such schemes at the current time.

Audited information

Details of individual emoluments and compensation

The emoluments in respect of qualifying services of each person who served as a Director during the year were as set out in the table below. There are no schemes in place to pay any of the Directors bonuses or benefits in addition to their Directors' fees. Expenses paid to the Directors during the year amounted to £nil in total (2005: £nil).

	Directors' fees	Total emoluments	
	30 April 2006 £	30 April 2006 £	30 April 2005 £
Michael Cumming	16,500	16,500	15,000
Fredrik Adams	11,000	11,000	10,000
Nigel Melville	12,500	12,500	10,000
Lawrence Sullivan (to 7 September 2005)	-	-	10,000
Kenneth Vere Nicoll	6,000	6,000	0

Aggregate emoluments in respect of qualifying services amounted to £46,000 (2005: £45,000) net of VAT. Kenneth Vere Nicoll waived his Director's fees in respect of the period

from incorporation until 31 October 2005 and Lawrence Sullivan waived his Director's fees in respect of the period from incorporation until 30 April 2004 and in respect of the year ended 30 April 2006. Lawrence Sullivan resigned from the Board with effect from 7 September 2005.

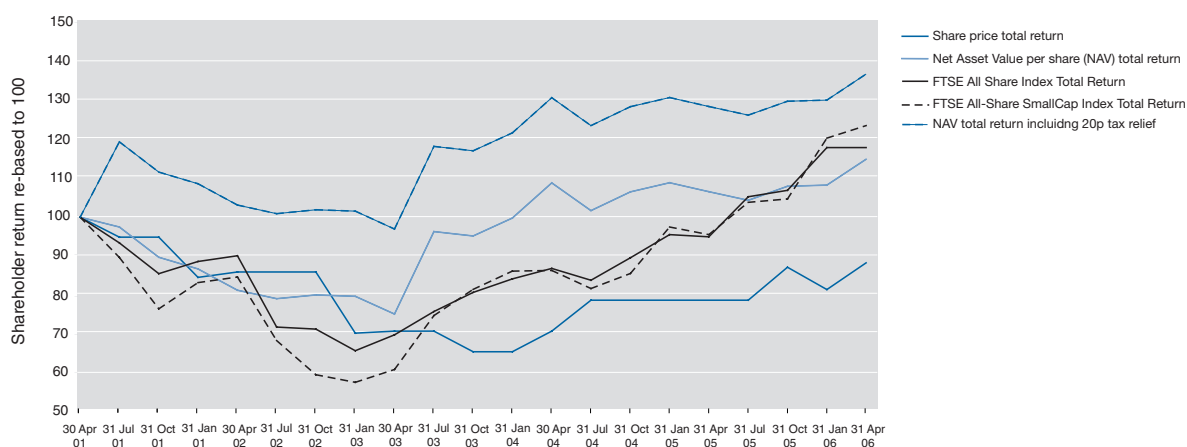
Sums paid to third parties in respect of a Director's services

The fees in respect of Nigel Melville, Lawrence Sullivan and Kenneth Vere Nicoll were paid to third parties.

Total shareholder return

The graph below shows the total cumulative shareholder return of the Ordinary Share Fund over the past five years (assuming all dividends have been re-invested) compared to the total shareholder return of both the FTSE All-Share and FTSE SmallCap indices. These indices represent broad equity market indices against which investors can measure the performance of the Fund and are appropriate indices against which to measure the Fund's performance over the medium to long term. The total shareholder return has been re-based to 100 as at 1 May 2001.

Total cumulative shareholder return of the Ordinary Share Fund over the last five years compared to the FTSE All-Share and FTSE SmallCap Indices



The NAV per share total return has been shown separately on the graph because the Directors believe it provides a more accurate reflection of the Company's performance than the share price. Also shown on the graph is the NAV total return including 20 pence tax relief which shows the effective total return after allowing for income tax relief of 20 pence per share that Shareholders received on investment.

The C Shares were first admitted to the Official List of the UK Listing Authority on 21 December 2005 and the shares have remained priced at 100 pence per share throughout the period from this date until 30 April 2006.

An explanation of the Company's performance is given in the Chairman's Statement and the Investment Manager's Review.

Signed on behalf of the Board by:

Michael Cumming

Chairman

26 June 2006

Corporate Governance Statement

The Directors of Matrix Income & Growth 2 VCT have adopted the 2003 FRC Combined Code ("the Code") in respect of the year ended 30 April 2006 and confirm that the Company has taken the appropriate steps to enable it to comply with the Code throughout the year. Except as noted below, the requirements of the Code were complied with throughout the year ended 30 April 2006 in so far as they appropriate to VCTs.

The Company's auditors, MRI Moores Rowland LLP, have reviewed this statement for whether it reflects the Company's compliance with the nine provisions of the Code specified for review by the Company's external auditors in the Listing Rules of the Financial Services Authority and their review report is set out on page 22 of this Annual Report

The Board

The Company has a Board of four non-executive Directors. The Directors reviewed the composition of the Board following the resignation of Lawrence Sullivan with effect from 7 September 2005 and it was agreed that a Board of four was the most appropriate for the Company given its current size and the nature of its business. It was further agreed that given the size of the Board an Investment Committee would no longer be required.

The Board has considered whether each Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. It has concluded that all the Directors, with the exception of Kenneth Vere Nicoll, are fully independent and meet the independence criteria set out in provision A.3.1 of the Code. Kenneth Vere Nicoll is not regarded as independent of the Investment Manager, the Promoter or the Company Secretary and Administrator. (For further information please see Related Party Transactions on page 12 of the Directors' Report).

Nigel Melville has been appointed as the Senior Independent Director. He is available to Shareholders if they have concerns which they have been unable to resolve through the normal channels of communication with the Chairman or Investment Manager or for which such contact is inappropriate. The Company does not have a Chief Executive Officer.

Details of the Chairman's other significant time commitments are disclosed on page 10 of this Report.

The Board is responsible to Shareholders for the proper management of the Company. It meets at least quarterly and is in regular contact with the Investment Manager between

meetings. It met on eight occasions during the year. The Board has concluded that four formal meetings per annum is normally sufficient for it to carry out the business of the Company. It has formally adopted a schedule of matters that are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. These include compliance with the requirements of the Companies Act, the UK Listing Authority and the London Stock Exchange; changes relating to the Company's capital structure or its status as a plc; Board and committee appointments as recommended by the Nominations Committee and terms of reference of committees; material contracts of the Company and contracts of the Company not in the ordinary course of business. With effect from 20 September 2005 the Board is also now responsible for those matters which previously fell within the remit of the Investment Committee. It considers investment proposals submitted by Matrix Private Equity Partners Limited and decides which of these should be accepted by the Company and is responsible for the ongoing monitoring of investee companies and the Company's investments therein. Kenneth Vere Nicoll does not participate in any decisions involving investment proposals submitted by Matrix Private Equity Partners Limited.

A procedure by which individual Directors can seek independent professional advice in the furtherance of their duties at the expense of the Company is in place. Where individual directors have concerns, which cannot be resolved, about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in the Board minutes. On resignation, a Director who has any such concerns should provide a written statement to the Chairman, for circulation to the Board.

All the Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

Board committees

The Board has adopted formal terms of reference for three standing committees which make recommendations to the Board in specific areas.

The Audit Committee comprises two Directors, Nigel Melville (Chairman) and Michael Cumming. The Audit Committee, which meets at least twice a year, is responsible for reviewing the half-year and annual financial statements before their submission to

the Board and for monitoring the effectiveness of the Company's internal control systems. The Board has satisfied itself that at least one member of the Committee has recent and relevant accounting experience. The Audit Committee has reviewed arrangements by which staff of the service providers may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and satisfied itself that the appropriate channels of communication are in place at the service providers to ensure proportionate and independent investigation of any matters raised. The Audit Committee met on two occasions during the year with full attendance.

The Remunerations Committee comprises two Directors, Nigel Melville (Chairman) and Kenneth Vere Nicoll. The Committee meets at least once a year and is responsible for considering the levels and composition of remuneration payable to the Directors. The Remuneration Committee met once during the year with full attendance.

The Nominations Committee comprises two Directors, Nigel Melville (Chairman) and Kenneth Vere Nicoll. The Committee meets at least once a year and is responsible for making recommendations to the Board concerning new appointments of Directors to the Board and Board committees. It carries out a periodic review of the composition of the Board and its committees and considers actual or potential conflicts of interest which may arise as a result of the outside business activities of Board members. It is intended that job descriptions will be prepared for new vacancies as they arise. Appointment letters will include an assessment of the expected time commitment for each Board position and new directors will be asked to give an indication of their other significant time commitments. It is anticipated that an induction process will be introduced in the year to 30 April 2007 for the new director(s) to be appointed to the Board. A formal training scheme has not been required during the year under review as all the Directors are experienced directors of listed companies. Copies of the letters of appointment for each Director are available for inspection on written request to the Company Secretary. The effectiveness of the Board and the Chairman is reviewed regularly as part of the internal control process led by the Board. The Board also carried out an informal performance evaluation of the Directors and the Chairman on 19 June 2006 in respect of the year under review and considered performance in relation to specific headings. It concluded that the composition and performance of the Board was effective. The Nominations Committee met once during the year with full attendance.

The duties of the Investment Committee were transferred to the full Board with effect from 20 September 2005.

All of the above Committees have written terms of reference, which detail their authority and duties. Shareholders may obtain copies of these by making a written request to the Company Secretary or via the Matrix Group website at www.matrixgroup.co.uk/.

The Board has satisfied itself that each of its Committees has sufficient resources to undertake their duties.

Relations with shareholders

The Company communicates with Shareholders through the circulation of two newsletters each year in addition to the Interim and Annual Reports, and solicits their views where it is appropriate to do so. Individual Shareholders are made welcome at the Annual General Meeting where they have the opportunity to ask questions of the Directors.

Internal financial controls

The Directors have overall responsibility for the Company's system of internal control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against misstatement or loss.

The Board's appointment of Matrix-Securities Limited as accountant and Company Secretary has enabled the financial administration to be delegated. Matrix-Securities Limited has an established system of financial controls, allowing proper accounting records to be maintained and ensuring that financial information for use within the business and for reporting to Shareholders is accurate and reliable and that the Company's assets are safeguarded. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures and applicable rules and regulations are complied with.

Matrix Private Equity Partners Limited as Investment Manager seeks professional advice in relation to the application of the VCT legislation to any company in which the Company is proposing to invest. PricewaterhouseCoopers LLP provides advice and assistance in relation to the maintenance of VCT tax status for the Company on the basis of information provided by Matrix Private Equity Partners Limited, and the operation of the agreements entered into with Matrix Private Equity Partners Limited.

Corporate Governance Statement

Pursuant to the terms of its appointment, Matrix Private Equity Partners Limited advises the Company on venture capital investments. Martineau Johnson, in its capacity as solicitor to the Company, provides custodial services in relation to documents of title relating to equity investments forwarded to them by the Company Secretary.

In the light of the responsibilities retained by the Board and its committees and of the responsibilities delegated to Matrix Private Equity Partners Limited, Matrix-Securities Limited and PricewaterhouseCoopers LLP, the Company has not appointed a chief executive officer. The provisions of the Combined Code which relate to the division of responsibilities between a chairman and a chief executive officer are, accordingly, not applicable to the Company.

Following publication of "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The Audit Committee has carried out a review of the effectiveness of the system of internal control, together with a review of the operational and compliance controls and risk management, as it operated during the year and reported its conclusions to the Board, which was satisfied with the outcome of the review.

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 19 of this report.

The report of the independent auditors is set out on page 22 of this Annual Report.

The Board regularly reviews and monitors the external auditor's independence and objectivity and as part of this it reviews the nature and extent of services supplied by the auditors to ensure that independence is maintained.

Internal audit

The Board reviews annually the need for an internal audit function and has decided in respect of the year ended 30 April 2006 that the systems and procedures employed by the Investment Manager and the Administrator provide sufficient assurance that a sound system of internal financial control, which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Going concern

After due consideration, the Directors believe that the Company has adequate resources for the foreseeable future and that it is appropriate to apply the going concern basis in preparing the financial statements.

Social, environmental and ethical matters

The Board understands the significance of social, environmental and ethical matters relevant to the business. They are considered on a regular basis and particularly as decisions are taken on whether to proceed with an investment.

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 for that year. In preparing such statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and deter fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report, Directors' Remuneration Report and other information included in the Annual Report is prepared in accordance with Company Law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Non-Statutory Analysis between the Ordinary Share and C Share Funds

Income Statement for the year ended 30 April 2006

	Notes	Ordinary Share Fund			C Share Fund		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised losses on investments held at fair value		-	(1,458,362)	(1,458,362)	-	-	-
Realised gains on investments held at fair value		-	2,588,791	2,588,791	-	-	-
Income		268,753	-	268,753	42,832	-	42,832
Investment management fees		(64,013)	(192,041)	(256,054)	(8,094)	(24,281)	(32,375)
Other expenses		(267,152)	-	(267,152)	(32,648)	-	(32,648)
Return on ordinary activities before taxation		(62,412)	938,388	875,976	2,090	(24,281)	(22,191)
Taxation on ordinary activities		-	-	-	-	-	-
Return attributable to equity shareholders		(62,412)	938,388	875,976	2,090	(24,281)	(22,191)
Return per share	10	(0.49)p	7.40 p	6.91 p	0.05 p	(0.61)p	(0.56)p
Average number of shares in issue				12,679,005			3,939,573

Balance Sheets as at 30 April 2006

	Ordinary Share Fund		C Share Fund		Adjustments (see note below)	Total of both funds (per statutory Balance Sheet)	
	£	£	£	£		£	£
Non-current assets							
Assets held at fair value through profit and loss - investments		5,461,709		181,850			5,643,559
Monies held pending investment		1,264,875		8,486,561			9,751,436
		6,726,584		8,668,411			15,394,995
Current assets							
Debtors and prepayments	1,941,858		16,694		(22,283)	1,936,269	
Cash at bank	2,456,625		5,870			2,462,495	
	4,398,483		22,564		(22,283)	4,398,764	
Creditors: amounts falling due within one year	(186,091)		(64,680)		22,283	(228,488)	
Net current assets		4,212,392		(42,116)			4,170,276
Net assets		10,938,976		8,626,295			19,565,271
Capital							
Called up share capital		125,661		91,460			217,121
Capital redemption reserve		6,145		-			6,145
Share premium account		-		8,557,026			8,557,026
Cancelled share premium account		8,034,754		-			8,034,754
Capital reserve - unrealised		(1,041,174)		-			(1,041,174)
Profit and loss account		3,813,590		(22,191)			3,791,399
Equity shareholders' funds		10,938,976		8,626,295			19,565,271
Number of shares in issue:		12,566,147		9,145,990			
Net asset value per 1p share:		87.05p		94.32p			

Note: The adjustment above nets off the inter-fund debtor and creditor balances, so that the "Total of both funds" balance sheet agrees to the Statutory Balance Sheet on page 24.

Independent Auditors' Report to the Members of Matrix Income & Growth 2 VCT plc

We have audited the financial statements of Matrix Income & Growth 2 VCT plc for the year ended 30 April 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments, in accordance with applicable accounting standards and the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies' 2003. 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 auditor's 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, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 to be audited in accordance with relevant 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 and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding Directors' remuneration and transactions between the Company and other members of the Group is not disclosed.

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 statements on internal control cover all risks and controls, or form an opinion on

the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in preparation of the financial statements, and of whether the accounting policies are appropriate in 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 part of the Directors' Remuneration Report to be 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 to be audited.

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 30 April 2006 and of its result for the year then ended;
- the information given in the Directors' Report is consistent with the financial statements; and
- including that part of the Directors' Remuneration Report to be audited, have been properly prepared in accordance with Companies Act 1985.

MRI Moores Rowland LLP
Chartered Accountants
Registered Auditor
26 June 2006

3 Sheldon Square
Paddington
London

Profit and Loss Account

for the year ended 30 April 2006

	Notes	Year ended 30 April 2006			Year ended 30 April 2005 (restated)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised (losses)/gains on investments held at fair value	11	-	(1,458,362)	(1,458,362)	-	2,019,254	2,019,254
Realised gains/(losses) on investments held at fair value	11	-	2,588,791	2,588,791	-	(2,046,104)	(2,046,104)
Income	5	311,585	-	311,585	187,898	-	187,898
Investment management fees	6	(72,107)	(216,322)	(288,429)	(61,546)	(184,639)	(246,185)
Other expenses	7	(299,800)	-	(299,800)	(225,097)	-	(225,097)
Profit/(loss) on ordinary activities before taxation		(60,322)	914,107	853,785	(98,745)	(211,489)	(310,234)
Taxation on ordinary activities	9	-	-	-	-	-	-
Profit/(loss) on ordinary activities after taxation		(60,322)	914,107	853,785	(98,745)	(211,489)	(310,234)
Earnings per share:							
Ordinary Shares	10	(0.49)p	7.40p	6.91p	(0.76)p	(1.63)p	(2.39)p
C Shares	10	0.05p	(0.61)p	(0.56)p			

All the items in the above statement derive from continuing operations. No operations were discontinued in the year.

There were no other gains or losses in the year.

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

Note of Historical Cost Profits and Losses

for the year ended 30 April 2006

	Year ended 30 April 2006 £	Year ended 30 April 2005 (restated) £
Profit/(loss) on ordinary activities before taxation	853,785	(310,234)
Less unrealised losses on investments	(1,458,362)	2,019,254
Add realisation of revaluation gains of previous years	480,868	1,752,705
Historical cost (loss)/profit on ordinary activities before taxation	(123,709)	3,461,725
Historical cost (loss)/profit for the period after taxation and dividends	(1,659,832)	3,461,725

The notes on pages 26 to 39 form part of these financial statements.

Balance Sheet

as at 30 April 2006

	Notes	30 April 2006 £	30 April 2005 (restated) £
Non-current assets			
Assets held at fair value through profit and loss - investments	11 a	5,643,559	8,531,073
Monies held pending investment	11 b,20	9,751,436	1,858,823
		15,394,995	10,389,896
Current assets			
Debtors and prepayments	12	1,936,269	61,491
Cash at bank	20	2,462,495	1,474,386
		4,398,764	1,535,877
Creditors: amounts falling due within one year	13	(228,488)	(145,561)
Net current assets		4,170,276	1,390,316
Net assets		19,565,271	11,780,212
Capital and reserves			
Called up share capital	15	217,121	128,209
Capital redemption reserve	16	6,145	3,597
Share premium account	16	8,557,026	-
Cancelled share premium account	16	8,034,754	12,009,435
Capital reserve - unrealised	16	(1,041,174)	898,056
Profit and loss account	16	3,791,399	(1,259,085)
Equity shareholders' funds		19,565,271	11,780,212
Net asset value per share			
Ordinary Shares	18	87.05p	91.88p
C Shares	18	94.32p	-

The financial statements were approved by the Directors on 26 June 2006 and are signed on their behalf by:

Michael Cumming
Director

Nigel Melville
Director

The notes on pages 26 - 39 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 April 2006

	Year ended 30 April 2006 £	Year ended 30 April 2005 (restated) £
Opening shareholders' funds	11,780,212	12,260,703
Restated for application of new accounting policies	-	(27,856)
	11,780,212	12,232,847
Net share capital subscribed/(bought back) in the year	8,467,397	(154,283)
Profit/(loss) for the year	853,785	(298,352)
Dividends paid in year	(1,536,123)	-
Closing shareholders' funds	19,565,271	11,780,212

Cash Flow Statement

for the year ended 30 April 2006

	Notes	Year ended 30 April 2006 £	Year ended 30 April 2005 £
Net cash outflow from operating activities	19	(227,203)	(230,608)
Taxation			
UK corporation tax paid		-	-
Net cash outflow		(227,203)	(230,608)
Capital expenditure and financial investment			
Purchase of investments - equities and loan stock		(3,286,309)	(952,574)
Disposals of equities and loan stock		5,462,960	675,341
Net cash inflow/(outflow) from investing activities		2,176,651	(277,233)
Dividends			
Equity dividends paid		(1,536,123)	-
Net cash inflow/(outflow) before financing and liquid resource management		413,325	(507,841)
Financing			
Purchase of own shares		(181,089)	(154,283)
Share capital raised		8,648,486	-
Net cash inflow/(outflow) from financing		8,467,397	(154,283)
Management of liquid resources			
Movement in money market investments		(7,892,613)	2,971
Net cash inflow/(outflow) as at 30 April 2006	20	988,109	(659,153)

Notes to the Financial Statements

For the year ended 30 April 2006

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with the Companies Act 1985, with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies'.

As a result of the Directors' decision to distribute capital profits by way of a dividend, the Company revoked its investment company status as defined under section 266 (3) of the Companies Act 1985, on 7 September 2005.

Consequently, these financial statements include a statutory profit and loss account in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 "Reporting Financial Performance" and the comparatives have been presented on a consistent basis. This has no effect on total returns or net assets per share. These statements, however, differ from the Statement of Total Return presented previously as follows:

- (i) profits/(losses) on realisation of investments are now included in the profit and loss account;
- (ii) all investment management fees are charged to the profit and loss account.

b) Changes in accounting policies

With effect from 1 May 2005, the Company has adopted the following Financial Reporting Standards (FRS):

FRS 21 (Events after the Balance Sheet Date) - Dividends paid by the Company are accounted for in the period in which the Company is liable to pay them. Previously, the Company accrued dividends in the period in which the net revenue, to which those dividends related, was accounted for.

FRS 25 (Financial Instruments: Disclosure and Presentation) and FRS 26 (Financial Instruments: Measurement) - The Company has designated its investment assets as being measured at "fair value through profit and loss".

Comparative figures have been re-stated in accordance with these policies, as shown in Notes 2-4.

c) Investments

Sales and purchases of investments are recognised on a trade date basis.

Investments are stated at "fair value through profit and loss", in accordance with the International Private Equity and Venture Capital Valuation (IPEVCV) guidelines published in 2005, which are similar to the BVCA (British Venture Capital Association) guidelines followed in previous years.

The fair value of quoted investments is the bid value of those investments at the close of business on 30 April 2006. Unquoted investments are stated at fair value by the Directors in accordance with the following rules, which are consistent with the IPEVCV guidelines:

- (i) Recent investments which have been made in the last 12 months are at fair value, which unless another methodology gives a better indication of fair value, will be cost;
- (ii) Investments in companies at an early stage of their development are also valued at fair value, which unless another methodology gives a better indication of fair value, will be cost;
- (iii) Where investments have gone beyond the stage in their development in (ii) above, the shares may be valued, in the absence of overriding factors, by applying a suitable price-earnings ratio to that company's historic, current or forecast earnings (the ratio used being based on a comparable listed company or sector but the resulting value being discounted to reflect lack of marketability). Where overriding factors apply, alternative methods of valuation will be used. These will include the application of a material arm's length transaction by an independent third party, cost, cost less provision for impairment, discounted cash flow, or a net asset basis;
- (iv) Where a value is indicated by a material arm's-length transaction by a third party in the shares of a company, this value will be used;
- (v) Where a company's underperformance against plan indicates a permanent diminution in the value of the investment, provision against cost is made and charged to the realised reserve.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve – realised and unrealised respectively, and shown in the Profit and Loss Account (formerly the Statement of Total Return).

Although the Company holds more than 20 per cent of the equity of certain companies, it is considered that the investments are held as part of an investment portfolio. Accordingly, and as permitted by FRS 9 'Associate and Joint Ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the Company's holdings represent investments in associated companies.

d) Capital reserves

Realised

The following are accounted for in this reserve:

- Gains and losses on realisation of investments;
- Permanent diminution in value of investments;
- 75% of the management fee expense, together with the related tax effect, to this reserve in accordance with the policies; and

Unrealised

Increases and decreases in the valuation of investments held at the period end are accounted for in this reserve.

In accordance with stating all investments at fair value through profit and loss, all such movements through both unrealised and realised capital reserves are now shown within the Profit and Loss Account (formerly the Statement of Total Return) for the year.

e) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. Fixed returns on debt securities are recognised on a time-apportioned basis so as to reflect the effective yield. Provisions are made against such income receivable as soon as it is considered doubtful that such income will be received.

f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are written off to the realised capital reserve as noted in 1(d) above or deducted from the disposal proceeds as appropriate, and with the further exception that 75% of the fees payable to the Investment Manager are charged against realised capital reserve. This is in line with the Board's intended long-term split of returns from the investment portfolio of the Company.

g) Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Any tax relief obtained in respect of management fees allocated to capital is reflected in the capital reserve – realised and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

Deferred tax assets are recognised where it is more likely than not there will be sufficient profits to recover against.

h) Liquid resources

Liquid resources as shown in the Cash Flow Statement are the money market investments disclosed in Note 11 b).

Notes to the Financial Statements

For the year ended 30 April 2006

2 Impact of the introduction of FRS 21, FRS 25 and FRS 26

The financial information for the year ended 30 April 2006 has been prepared in accordance with Financial Reporting Standards 21, 25 and 26. The introduction of these new standards has had the following impacts:

Valuation:

The assets held at fair value through the profit and loss by the Company are valued at bid price rather than mid-market as in prior periods.

	Year ended 30 April 2005 £	Year ended 30 April 2004 £
Valuation at bid price	8,558,929	10,158,267
Valuation at mid-market price	8,531,073	10,142,293
Decrease in valuation compared to mid-market valuation	(27,856)	(15,974)

Transaction costs:

The transaction costs incurred when purchasing or selling an asset are now written off to the capital column of the Profit and Loss Account in the period in which they occur.

In the year to 30 April 2006, no transaction costs have been incurred.

The opening balances as at 1 May 2005 for investment cost do not include any transaction costs.

Dividends:

Under the new standards, dividends are only recorded in the financial statements of the Company on declaration.

In the year to 30 April 2006, dividends of £1,536,123 have been paid to Ordinary Shareholders.

3 Restatement of opening balances as at 30 April 2004

The following is a reconciliation of the figures at 30 April 2004 previously reported under the applicable UK Accounting Standards and the Statement of Recommended Practice.

	Previously reported as at 30 April 2004 £	Adjustments £	Restated as at 30 April 2004 £
Non-current assets	10,158,267	(15,974)	10,142,293
Current assets	2,245,098		2,245,098
Creditors: amounts falling due within one year	(142,662)		(142,662)
Net assets	12,260,703	(15,974)	12,244,729
Capital and reserves			
Called up share capital	130,310		130,310
Capital redemption reserve	1,496		1,496
Cancelled share premium account	12,163,718		12,163,718
Capital reserve	647,481	(15,974)	631,507
Profit and loss account	(682,302)		(682,302)
Equity shareholders' funds	12,260,703	(15,974)	12,244,729
Basic and diluted net asset value per Ordinary Share	94.09p (0.12)p	93.97p	

Note to reconciliation:

Investments are all classified as held at fair value under FRS 26 and, where quoted, are carried at bid prices. The quoted investments were carried at mid-market prices previously. The resultant difference of £15,974 is deducted from capital reserves.

4(a) Restatement of opening balances as at 30 April 2005

The following is a reconciliation of the figures at 30 April 2005 previously reported under the applicable UK Accounting Standards and the Statement of Recommended Practice.

	Previously reported as at 30 April 2005 £	Adjustments £	Restated as at 30 April 2005 £
Non-current assets	10,417,752	(27,856)	10,389,896
Current assets	1,535,877		1,535,877
Creditors: amounts falling due within one year	(145,561)		(145,561)
Net assets	11,808,068	(27,856)	11,780,212
Capital and reserves			
Called up share capital	128,209		128,209
Capital redemption reserve	3,597		3,597
Cancelled share premium account	12,009,435		12,009,435
Capital reserve	925,912	(27,856)	898,056
Profit and loss account	(1,259,085)		(1,259,085)
Equity shareholders' funds	11,808,068	(27,856)	11,780,212
Basic and diluted net asset value per Ordinary Share	92.10p	(0.22)p	91.88p

Note to reconciliation:

Investments are all classified as held at fair value under FRS 26 and, where quoted, are carried at bid prices. The quoted investments were carried at mid-market prices previously. The resultant difference of £27,856 is deducted from capital reserves.

(b) Reconciliation of the Statement of Total Return as previously reported to the restated amount now shown for the year ended 30 April 2005 in the Profit and Loss Account

	£	Per share p
Total transfer to reserve per Statement of Total Return	(298,352)	2.30
Change from mid to bid basis at 30 April 2004	(15,974)	(0.12)
Change from mid to bid basis at 30 April 2005	27,856	0.21
As restated - total return attributable to equity shareholders	(310,234)	2.39

5 Income

	2006 £	2005 £
Investment income receivable		
- from ordinary shares	4,286	3,459
- from preference shares	42,761	51,935
- from OEIC money market funds	163,623	102,908
	210,670	158,302
Interest receivable		
- from loan stocks	74,668	29,558
- from bank deposits	26,247	38
	100,915	29,596
Total income	311,585	187,898

Notes to the Financial Statements

For the year ended 30 April 2006

6 Investment management fees

	Revenue 2006 £	Capital 2006 £	Total 2006 £	Revenue 2005 £	Capital 2005 £	Total 2005 £
Matrix Private Equity Partners Limited	72,107	216,322	288,429	61,546	184,639	246,185

Ordinary Share Fund

Matrix Private Equity Limited advise the Company on investments in qualifying companies under an agreement dated 10 May 2000 made between the Company and Matrix Private Equity (Managers) Limited, which was then a subsidiary of the Company.

This agreement was novated to Matrix Private Equity Limited on 3 July 2001, a subsidiary of Matrix Group Limited which had previously provided to Matrix Private Equity (Managers) Limited the services of Mark Burgess and Helen Sinclair. This agreement was further novated to Matrix Private Equity Partners Limited (MPEP) on 20 September 2005. The annual fee payable to MPEP was decreased from 2.5% to 2% of the net assets attributable to the Ordinary Share Fund, with effect from 21 December 2005, as part of this Novation Agreement. The Investment Manager's fee is reduced by an amount equivalent to the excess total annual expenses (excluding VAT (previously included) and exceptional costs) over 3.6% (previously 3.75%) of opening net assets at the start of each quarter, being the agreed cap on the management fee. This appointment now runs until terminated by not less than one year's notice in writing to expire at any time after the initial period. Mark Burgess resigned from Matrix Private Equity Limited on 14 February 2003; Ashley Broomberg was appointed a director on 5 March 2003; Helen Sinclair resigned on 16 May 2005.

Matrix Private Equity Partners Limited, Mark Burgess, Helen Sinclair, Ashley Broomberg and the former members of the Investment Committee are entitled to be issued with performance warrants granting the right to subscribe for Ordinary Shares at par which represent 16.67% of the sum of (i) the number of Ordinary Shares allotted pursuant to the Company's prospectus dated 10 May 2000 ("the Offer") plus (ii) the number of Ordinary Shares allotted pursuant to the exercise of performance warrants. The condition for the issue of performance warrants is that cumulative dividend payments are declared or paid amounting to the equivalent of not less than 80p for each Ordinary Share in issue ("the hurdle") at any time before the seventh anniversary of the launch of the Offer. If the hurdle is not reached until after the seventh anniversary of the launch of the Fund, the entitlement to subscribe for shares is reduced at a rate of 1.5% per annum until the twelfth anniversary, after which, if the hurdle has not been reached, the performance warrants lapse. The proportion of the conditional warrant rights payable to past Directors and past directors of the Investment Manager is restricted to the portion of the Capital of the Company which was invested in Venture Capital Investments as at the date of their resignation.

C Share Fund

A Supplemental Investment Adviser's Agreement commenced on 20 September 2005, for an initial period of three years from 20 September 2005 and thereafter until the appointment is terminated by not less than one year's notice in writing to expire at any time after the initial period.

Matrix Private Equity Partners Limited is entitled to an annual advisory fee of 2% of the net assets attributable to the C Share Fund. The annual management fees are calculated and payable quarterly in advance, together with any applicable VAT. This fee has been reduced by an amount equivalent to the excess total annual expenses (excluding VAT and exceptional costs) over 3.6% of opening net assets at the start of each quarter, being the agreed cap on the management fee.

The Investment Manager will be entitled to receive a performance related incentive fee of 20% of the excess above 6 pence per share of the annual dividends paid to Shareholders. After the Company's third annual reporting period, this 6 pence hurdle will rise in line with the Retail Price Index. The performance fee will only be payable if the mean net asset value per share over the period relating to payment has remained at or above 100 pence. The performance fee will be payable annually, with any cumulative shortfalls below the 6 pence per share hurdle having to be made up in later years.

For both Funds, the Company is responsible for external costs such as legal and accounting fees, incurred on transactions that do not proceed to completion ("abort expenses") subject to the cap on total annual expenses referred to above. In line with common practice, Matrix Private Equity Partners Limited retain the right to charge arrangement and syndication fees and Directors' or monitoring fees ("deal fees") to companies in which the Company invests.

7 Other expenses

	2006 £	2005 £
Directors' remuneration (including NIC)	50,996	50,484
IFA trail commission	35,256	37,804
Administration fees	56,800	49,350
Broker's fees	6,639	14,159
Auditors' fees –audit	12,309	9,181
Auditors' fees –non audit	13,147	7,624
Registrar's fees	8,578	4,523
Professional fees	70,222	17,396
Printing	13,274	6,501
Insurance	13,790	14,840
Subscriptions	13,478	12,959
Sundry expenses	5,311	276
	299,800	225,097

Charges for non audit services provided by the auditors for the year ended 30 April 2006 relate to the provision of corporation tax compliance - £2,421, a review of the C Share prospectus - £2,420 and a review of the interim financial statements of the Company - £8,306. The Directors consider the auditors were best placed to provide these services. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

8 Directors' remuneration

	Fees £	Irrecoverable VAT £	Employers' NI £	Total 2006 £	Total 2005 £
Directors' emoluments					
Michael Cumming	16,500	-	1,231	17,731	16,312
Fredrik Adams	11,000	-	527	11,527	10,672
Nigel Melville	12,500	2,188	-	14,688	11,750
Lawrence Sullivan	-	-	-	-	11,750
Kenneth Vere Nicoll	6,000	1,050	-	7,050	-
	46,000	3,238	1,758	50,996	50,484

The fees in respect of Nigel Melville and Kenneth Vere Nicoll were paid to third parties.

No pension scheme contributions or retirement benefit contributions were paid. There are no share option contracts held by the Directors over and above the right to be issued with performance warrants described in Note 6 above. The Company has no employees other than Directors.

Since all the Directors are non-executive, the other disclosures required by the Listing Rules are not applicable.

Notes to the Financial Statements

For the year ended 30 April 2006

9 Taxation on ordinary activities

	Revenue 2006 £	Capital 2006 £	Revenue 2005 £	Capital 2005 £
Current year				
UK Corporation tax on profits for the period	-	-	-	-
Adjustment in respect of prior periods	-	-	-	-
Total current tax charge/(relief)	-	-	-	-
(Loss)/profit on ordinary activities before tax	(60,322)	914,107	(98,745)	(211,489)
(Loss)/profit on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 19% (2004: 19%)	(11,461)	173,680	(18,762)	(40,183)
Effect of:				
UK dividends – not taxable	(8,939)	-	(10,525)	-
Capital gains and losses – not taxable	-	(214,781)	-	5,101
Unrelieved expenses	20,400	41,101	29,287	35,082
Total amount of current taxation	-	-	-	-

Tax relief relating to investment management fees is allocated between Revenue and Capital where such relief can be utilised.

There is no taxation in relation to capital gains and losses. No asset or liability has been recognised in relation to capital gains or losses on revaluing investments. The Company is exempt from such tax as a result of qualifying as a Venture Capital Trust.

No deferred tax asset has been recognised for surplus management fees. At present, it is not envisaged that any tax will be recovered in the foreseeable future. The amount no longer recognised is £177,430 (2005: £115,929).

10 Earnings and return per share

	2006 Ordinary Share Fund £	2006 C Share Fund £	2006 Total £	2005 Ordinary Share Fund £
Total earnings after taxation:	875,976	(22,191)	853,785	(310,234)
Basic earnings per share (note a)	6.91 p	(0.56)p		(2.39)p
Net revenue from ordinary activities after taxation	(62,412)	2,090		(98,745)
Revenue return per share (note b)	(0.49)p	0.05p		(0.76)p
Net realised capital gains	2,588,791	-		(230,743)
Net unrealised capital (losses)/ gains	(1,458,362)	-		203,893
Capital expenses	(192,041)	(24,281)		(184,639)
Total capital return	938,388	(24,281)		(211,489)
Capital return per share (note c)	7.40p	(0.61)p		(1.63)p
Weighted average number of shares in issue in the year	12,679,005	3,939,573		12,963,176

Notes

- Basic earnings per share is total earnings after taxation divided by the weighted average number of shares in issue.
- Revenue return per share is net revenue after taxation divided by the weighted average number of shares in issue.
- Capital return per share is total capital return divided by the weighted average number of shares in issue.

11 Assets held at fair value through profit and loss - investments

a) Movements in investments during the year are summarised as follows:

Company	Traded on AIM	Unlisted shares	Preference shares	Loan stock	Overseas quoted shares	Total venture capital investments
	£	£	£	£	£	£
Cost/valuation as at 30 April 2005 (restated)	800,216	5,787,930	742,545	518,500	681,882	8,531,073
Reclassification	-	480,045	(480,045)	-	-	-
Purchases at cost	150,000	556,234	22,056	2,557,959	60	3,286,309
Sales – proceeds	(300,508)	(7,003,744)	-	-	-	(7,304,252)
Realised gains	30,004	2,558,787	-	-	-	2,588,791
Unrealised losses	(45,987)	(848,394)	-	(256,000)	(307,981)	(1,458,362)
Cost/valuation as at 30 April 2006	633,725	1,530,858	284,556	2,820,459	373,961	5,643,559
Book cost at 30 April 2006	1,165,138	2,315,216	284,556	3,199,030	1,970,790	8,934,730
Unrealised (losses)/gains	(531,413)	815,639	650,000	(378,571)	(1,596,829)	(1,041,174)
Permanent impairment at 30 April 2006	-	(1,599,997)	(650,000)	-	-	(2,249,997)
Cost/valuation as at 30 April 2006	633,725	1,530,858	284,556	2,820,459	373,961	5,643,559

Ordinary Share Fund	Traded on AIM	Unlisted shares	Preference shares	Loan stock	Overseas quoted shares	Total venture capital investments
	£	£	£	£	£	£
Cost/valuation as at 30 April 2005 (restated)	800,216	5,787,930	742,545	518,500	681,882	8,531,073
Reclassification	-	480,045	(480,045)	-	-	-
Purchases at cost	150,000	526,258	20,672	2,407,469	60	3,104,459
Sales – proceeds	(300,508)	(7,003,744)	-	-	-	(7,304,252)
Realised gains	30,004	2,558,787	-	-	-	2,588,791
Unrealised losses	(45,987)	(848,394)	-	(256,000)	(307,981)	(1,458,362)
Cost/valuation as at 30 April 2006	633,725	1,500,882	283,172	2,669,969	373,961	5,461,709
Book cost at 30 April 2006	1,165,138	2,285,240	283,172	3,048,540	1,970,790	8,752,880
Unrealised (losses)/gains	(531,413)	815,639	650,000	(378,571)	(1,596,829)	(1,041,174)
Permanent impairment at 30 April 2006	-	(1,599,997)	(650,000)	-	-	(2,249,997)
Cost/valuation as at 30 April 2006	633,725	1,500,882	283,172	2,669,969	373,961	5,461,709

Notes to the Financial Statements

For the year ended 30 April 2006

C Share Fund	Traded on AIM	Unlisted shares	Preference shares	Loan stock	Overseas quoted shares	Total venture capital investments
	£	£	£	£	£	£
Cost/valuation as at 30 April 2005	-	-	-	-	-	-
Purchases at cost	-	29,976	1,384	150,490	-	181,850
Cost/valuation as at 30 April 2006	-	29,976	1,384	150,490	-	181,850
Book cost at 30 April 2006	-	29,976	1,384	150,490	-	181,850

Reconciliation of cash movements in investment transactions

- Deducting the annual movement in net unsettled investment transactions of £1,841,292 from sale proceeds above of £7,304,252 leaves proceeds of £5,462,960 as shown in the cash flow statement.
- Monies held pending investment comprise cash invested in four Dublin based OEIC money market funds managed by Barclays Global Investors, Royal Bank of Scotland, Scottish Widows Investment Partnership and Merrill Lynch Investment Managers. £35,257 (2005: £520,503) of this sum is subject to 2 day access, while £9,716,179 (2004: £1,338,320) is subject to immediate access.

12 Debtors

	2006 £	2005 £
Amounts due within one year:		
Other debtors	1,908,656	27,407
Prepayments	27,613	34,084
	1,936,269	61,491

13 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	64,520	84,259
Accruals	163,968	61,302
	228,488	145,561

14 Significant interests

At 30 April 2006 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

Company	Equity investment £	Investment in loan stock and preference shares £	Total investment £	Percentage of investee company's total equity £
Award International Holdings plc	250,000	-	250,000	7.69
Blaze Signs Holdings Limited	119,549	278,949	398,498	11.21
Campden Media Limited	195,000	780,000	975,000	11.38
Clarity Commerce Solutions plc	510,552	-	510,552	4.32
Flightstore Group plc	750,000	-	750,000	3.38
Gyro International Limited	225,000	525,000	750,000	6.75
Monactive Limited	264,286	378,571	642,857	13.60
Recite Limited	1,000,000	-	1,000,000	25.20
Vectair Holdings Limited	60,075	183,709	243,784	5.22
VSI Limited	48,867	439,794	488,661	12.58
Youngman Group Limited	100,000	900,000	1,000,000	8.57

It is considered that, as permitted by FRS9, "Associates and Joint Ventures", the above investments are held as part of an investment portfolio, and that, accordingly, their value to the Company lies in their marketable value as part of that portfolio. In view of this, it is not considered that any of the above represent investments in associated undertakings.

Further information concerning each of the Company's investments is contained in the Investment Manager's Review on pages 4 - 9.

15 Called up share capital

	2006 £	2005 £
Authorised:		
Ordinary Shares of 1p each: 42,000,000	420,000	420,000
C Shares of 1p each: 42,000,000	420,000	420,000
Total	840,000	840,000
Issued:		
Ordinary Shares of 1p each: 12,566,147 (2005: 12,820,898)	125,661	128,209
C Shares of 1p each: 9,145,990 (2005: nil)	91,460	-
Total	217,121	128,209

Notes to the Financial Statements

For the year ended 30 April 2006

During the year, the Company purchased 254,751 (2005: 210,106) of its own Ordinary 1p shares for cash at the prevailing market price for a total cost of £181,089 (2005: £154,283).

In the period from 16 December 2005 to 5 April 2006, the Company issued 9,145,990 C Shares of 1p each in a series of allotments, arising from the Offer of Subscription for C Shares in the Company.

Subject to the performance incentive arrangements referred to in Note 6 above, the holders of fully paid Ordinary Shares and/or C Shares as a class as the case may be are entitled *pari passu* among themselves, but in proportion to the number of Ordinary Shares and/or C Shares held by them, to share in the whole of the profits of the Company respectively attributable as the case may be to the Ordinary Shares and/or C Shares which are paid out as dividends and in the whole of any surplus in the event of the liquidation of the Company.

The capital raised by the C Share Fund is being managed and invested separately, until the Directors are satisfied that it is in the best interests of both classes of Shareholders to be merged. On conversion, C Shares would convert into Ordinary Shares at a rate determined by the ratio between the net asset value attributable to each C Share and to each Ordinary Share.

16 Reserves

	Capital redemption reserve	Share premium account	Cancelled share premium account	Capital reserve (unrealised)	Profit and loss account
	£	£	£	£	£
Company in total					
As at 30 April 2005 (as restated)	3,597	-	12,009,435	898,056	(1,259,085)
Own shares purchased during the year	2,548	-	(181,089)	-	-
Issue of shares	-	8,557,026	-	-	-
Profit for the year	-	-	-	-	853,785
Realisation of previously unrealised appreciation	-	-	-	(480,868)	480,868
Transfer of realised losses to cancelled share premium account	-	-	(3,793,592)	-	3,793,592
Decrease in unrealised appreciation transferred to unrealised capital reserve	-	-	-	(1,458,362)	1,458,362
Capital dividends	-	-	-	-	(1,536,123)
As at 30 April 2006	6,145	8,557,026	8,034,754	(1,041,174)	3,791,399
Ordinary Share Fund					
As at 30 April 2005 (as restated)	3,597	-	12,009,435	898,056	(1,259,085)
Own shares purchased during the year	2,548	-	(181,089)	-	-
Profit for the year	-	-	-	-	875,976
Realisation of previously unrealised appreciation	-	-	-	(480,868)	480,868
Transfer of realised losses to cancelled share premium account	-	-	(3,793,592)	-	3,793,592
Decrease in unrealised appreciation	-	-	-	(1,458,362)	1,458,362
Capital dividends	-	-	-	-	(1,536,123)
As at 30 April 2006	6,145	-	8,034,754	(1,041,174)	3,813,590
C Share Fund					
As at 30 April 2005	-	-	-	-	-
Issue of shares	-	8,557,026	-	-	-
Loss for the year	-	-	-	-	(22,191)
As at 30 April 2006	-	8,557,026	-	-	(22,191)

The capital reserve (unrealised) represents the Company's revaluation reserve. The transfer of £3,793,592 to the cancelled share premium account from the profit and loss account is the total of realised losses incurred by the Company in the year.

The cancelled share premium account attributable to the Ordinary Share Fund has provided this Fund with a special reserve out of which it can fund buy-backs of Ordinary Shares as and when it is considered by the Board to be in the interests of the Shareholders. The Company has authority to apply to the Court to cancel the share premium account attributable to the C Share Fund obtained at the extraordinary general meeting held on 26 March 2004. It is the Directors' intention to proceed with the cancellation within the next six months.

Under Resolution 10 of the Annual General Meeting held on 7 September 2005, the shareholders authorised the Company to purchase its own shares pursuant to section 166 of the Companies Act 1985. The authority is limited to a maximum of 14.99% of the issued Ordinary Share Capital of the Company or, as the case maybe, 14.99% of the C Share capital immediately following the issue of C Shares pursuant to the close of the C Share Offer, and will unless previously revoked or renewed expire on the conclusion of the Annual General Meeting of the Company to be held on 5 September 2006. The maximum price that may be paid for Ordinary Shares and C Shares will be an amount equal to 105% of the average of the middle market quotation as taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which that Ordinary Share or, as the case maybe, C Share, is purchased. The minimum price that may be paid for Ordinary Shares and C Shares is 1 penny per share. The authority provides that the Company may make a contract to purchase Ordinary Shares or, as the case may be, C Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares or C Shares pursuant to such contract. A resolution to renew this Authority will be proposed at the Annual General Meeting of the Company to be held on 5 September 2006.

17 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Equity shareholders' funds as at 30 April 2005 (restated)	11,780,212	12,260,703
Restatement for FRS 25 and 26	-	(27,856)
Issue of C shares	9,145,990	-
Expenses of issue	(497,504)	-
Redemption of shares	(181,089)	(154,283)
Capital dividends	(1,536,123)	-
Profit/(loss) for the year	853,785	(298,352)
Equity shareholders' funds as at 30 April 2006	19,565,271	11,780,212

18 Net asset value per share

Net asset value per Ordinary Share is based on net assets at the end of the year, and on 12,566,147 Ordinary Shares (2005: 12,820,098), being the number of Ordinary Shares in issue on that date.

Net asset value per C Share is based on net assets at the end of the year, and on 9,145,990 C Shares (2005: nil), being the number of C Shares in issue on that date.

19 Reconciliation of net revenue loss before taxation to net cash outflow from operating activities

	2006 £	2005 £
Net revenue loss before taxation	(60,322)	(98,745)
Investment management fees charged to capital	(216,322)	(184,639)
Increase in debtors	(33,562)	62,990
Increase in creditors and accruals	83,003	2,839
Loan stock interest received and converted into further investment	-	(13,053)
Net cash outflow from operating activities	(227,203)	(230,608)

Notes to the Financial Statements

For the year ended 30 April 2006

20 Analysis of changes in net funds

	Cash £	Liquid resources £	Total £
At 30 April 2005	1,474,386	1,858,823	3,333,209
Cash flows	988,109	7,892,613	8,880,722
At 30 April 2006	2,462,495	9,751,436	12,213,931

21 Management of risk

The Company's financial instruments comprise:

- Equity and non-equity shares and fixed interest securities that are held in accordance with the Company's investment objective as set out at the beginning of this Annual Report.
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The Board regularly reviews and agrees policies for managing the main risks associated with the Company's financial instruments which are summarised below.

(a) Risk

Business risk: Companies in which the Company invests are at risk of failure or underperformance to budget.

Credit risk: Failure by counterparties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered.

Market price: Quoted equities and fixed interest stocks have values which are determined by market forces.

Interest rate: Assets and net revenue may be affected by interest rate movements.

(b) Management of Risk

Business risk: Investments made are based on a wide variety of criteria and the Investment Manager aims to invest in top quality management teams. Extensive due diligence, including customer and management referencing and technical due diligence (as appropriate) is undertaken.

Credit risk: All transactions are settled on the basis of delivery against payment.

Market price: The Board manages the market price risk inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Investment Manager. It regularly reviews the investment performance and financial results of investee companies, as well as their compliance with the Company's objectives.

Interest rate: The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board.

The interest rate profile of the Company's financial assets at 30 April 2006 was:

	Financial assets on which no interest paid £	Fixed financial assets £	Variable financial assets £	Total £	Weighted average interest rate %	Average period to maturity Years
Equity shares	2,538,544	-	-	2,538,544		
Preference shares	-	284,556	-	284,556	6.04	2.33
Loan stocks	-	2,820,459	-	2,820,459	8.18	3.50
Money market investments	-	-	9,751,436	9,751,436		
Cash	2,462,495	-	-	2,462,495		
Total	5,001,039	3,105,015	9,751,436	17,857,490		

The interest rate profile of the Company's financial assets at 30 April 2005 was:

	Financial assets on which no interest paid £	Fixed financial assets £	Variable financial assets £	Total £	Weighted average interest rate %	Average period to maturity Years
Equity shares	7,297,884	-	-	7,297,884		
Preference shares	-	742,545	-	742,545	6.34	2.96
Loan stocks	-	518,500	-	518,500	5.30	3.06
Money market investments	-	-	1,858,823	1,858,823		
Cash	1,474,386	-	-	1,474,386		
Total	8,772,270	1,261,045	1,858,823	11,892,138		

Financial liabilities: The Company finances its operations through its issued share capital and existing reserves. The only financial liabilities of the Company are creditors which are due within one year and which are disclosed in Note 13. No interest is paid on these liabilities.

All assets and liabilities are carried at fair value as determined by the Board of Directors.

22 Related party transactions

Kenneth Vere Nicoll is a director and shareholder of Matrix Group Limited, which owns Matrix-Securities Limited and Matrix Private Equity Partners Limited and is also a director of Matrix-Securities Limited. Matrix-Securities Limited acts as promoter to the Company and received fees of £497,504 (2005: £nil) during the year in respect of this appointment, and provided accountancy and company secretarial services to the Company for which it received payment of £56,800 (2005: £49,350) including VAT during the year. £17,184 (2005: £11,750) was payable to Matrix Securities Limited at the year-end. Matrix Private Equity Partners Limited is the Company's Investment Manager in respect of venture capital investments and earned fees of £288,429 (2005: £246,185), including VAT for the year. £42,496 (2005: £35,803) was due to Matrix Private Equity Partners Limited at the year-end.

23 Capital commitments

As at 30 April 2006, the Company had a capital commitment of £201,630 to invest in BBI Holdings plc. (2005: £nil).

24 Post balance sheet events

After the year end the Company has completed investments in BBI Holdings plc (Ordinary Share Fund: £118,737; C Share Fund: £82,893), PastaKing Holdings Limited (Ordinary Share Fund: £274,624; C Share Fund: £191,720) Limited and British International Holdings Limited (Ordinary Share Fund: £832,827; C Share Fund: £167,173).

25 Segmental analysis

The operations of the company are wholly in the United Kingdom.

Shareholder Information

Shareholders wishing to follow the Company's progress can visit the Matrix website at www.matrixgroup.co.uk which contains publicly available information or links to information about our largest investments, the latest NAV and the share price. The London Stock Exchange's website at www.londonstockexchange.com/en-gb/pricesnews provides up to the minute details of the share price and latest NAV announcements, etc. A number of commentators such as Allenbridge at www.taxshelterreport.co.uk provide comparative performance figures for the VCT sector as a whole. The share price is also quoted in the Financial Times.

The Company circulates a bi-annual newsletter to Shareholders in the quarters in which it does not publish annual or interim accounts. The next edition will be distributed in September 2006.

Net asset value per share

The Company's NAV per share as at 30 April 2006 was 87.05 pence per Ordinary Share and 94.32 pence per C Share. The Company announces its unaudited NAV on a quarterly basis.

Dividend

Ordinary Fund Shareholders have received total dividends of 12 pence per Ordinary Share paid from capital during the year. The Directors are not recommending a final dividend for either the Ordinary Fund Shareholders or the C Fund Shareholders in respect of the year ended 30 April 2006.

Shareholders who wish to have dividends paid directly into their bank account rather than sent by cheque to their registered address can complete a mandate for this purpose. Mandates can be obtained by contacting the Company's Registrars, Capita Registrars at the address below.

Financial calendar

Mid July 2006	Annual Report for the period ended 30 April 2006 to be circulated to Shareholders
5 September 2006	Annual General Meeting and Separate Class Meetings of holders of Ordinary Shares of C Shares
Mid September 2006	Newsletter to be circulated to Shareholders
Mid December 2006	Preliminary Announcement of Interim Results
Early January 2007	Interim Report for the six months ended 30 June 2006 to be circulated to Shareholders
Mid March 2007	Newsletter to be circulated to Shareholders
30 April 2007	Year-end

Annual General Meeting

The Annual General Meeting of the Company and Separate Class Meetings of holders of Ordinary Shares of C Shares will be held on 5 September 2006 from 2.00 pm at One Jermyn Street, London SW1Y 4UH. The meetings will take place on the sixth floor at the offices of Matrix Group Limited. Please try to arrive 10 minutes before the meeting starts when tea and coffee will be served to Shareholders. The Notices of the meetings, together with a proxy form, are included on pages 42-48 of this Annual Report. Proxy forms should be completed in accordance with the instructions printed thereon and sent to the Company's Registrars, Capita Registrars, to arrive no later than 2.00 pm on 3 September 2006.

Shareholder enquires:

For enquiries concerning the investment portfolio, please contact the Investment Manager, Matrix Private Equity Partners Limited, on 020 7925 3300 or by e-mail to info@matrixpep.co.uk.

For information on your holding, to notify the Company of a change of address or to request a dividend mandate form (should you wish to have future dividends paid directly into your bank account) please contact the Company's Registrars, Capita Registrars, on 0870 162 3100 or write to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively you can contact them via their web site at www.capitaregistrars.com.

VCT Tax Benefits

Taxation Benefits

VCTs provide investors with an attractive method of investing in small to medium-sized unlisted (including AIM quoted) trading companies in the UK that would otherwise be difficult to invest in directly. The VCT is itself exempt from paying corporation tax on its chargeable gains. VCTs also offer substantial tax benefits to private investors.

Personal Taxation Benefits

The tax reliefs set out below are available to individuals aged 18 or over who subscribe for new ordinary shares¹. Whilst there is no specific limit in the amount of an individual's acquisitions of shares in a VCT, each of the following tax reliefs will only be given to the extent that the individual's total acquisitions of shares in VCTs in any tax year do not exceed the specified limit, currently £200,000 (see below).

Changes to VCT tax reliefs introduced in 2006

The Chancellor announced changes to the tax reliefs available to investors in new VCT shares in his budget speech on 22 March 2006 and these are to be incorporated into the Finance Act 2006. The following is an outline of the tax reliefs available to VCT investors with effect from 6 April 2006.

(1) Relief from income tax on investments

An investor subscribing for new ordinary shares in a VCT is entitled to claim income tax relief on amounts subscribed up to a maximum of £200,000 (increased from £100,000 in respect of shares issued on or after 6 April 2004) in any tax year. To obtain relief, an investor must subscribe in his/her own name and not through a nominee although the shares may subsequently be transferred into the name of a nominee. The relief is given at the lower rate of tax on the amount subscribed provided that the relief is limited to the amount which reduces the investor's income tax liability to nil. Investments used as security for or financed by a loan may not qualify for relief depending on the circumstances. The income tax relief available for investments in new VCT shares is currently 30%. The amount of relief was decreased from 40% in relation to VCT shares issued on or after 6 April 2006².

(2) Capital gains tax reinvestment relief

The ability to defer capital gains by reinvesting the gains in a VCT, where the VCT shares are issued in the two year period beginning twelve months before the gain arises, has been abolished in respect of shares issued on or after 6 April 2004. However, the relief will remain available in respect of shares issued before 6 April 2004 (so long as, in accordance with certain rules, the gain arose within 12 months of the issue of the shares).

(3) Dividend Relief

An investor who acquires VCT shares within the specified limit (currently £200,000 per annum) will not be liable to income tax on dividends paid on those shares.

(4) Relief from capital gains tax on disposal

A disposal by an investor of ordinary shares in a VCT will not be subject to UK capital gains tax.

(5) Purchases in the market

An individual purchaser of existing VCT shares in the market will be entitled to claim dividend relief but not relief from income tax on investment.

(6) Withdrawal of relief

Relief from income tax on subscription for shares in a VCT is withdrawn if the shares are disposed of (other than between spouses) within five years of issue (within three years of issue for shares purchased prior to 6 April 2006) or if the VCT loses its approval within this period.

The above is only an outline of the tax reliefs available under current legislation. Investors are recommended to consult an independent professional adviser as to the taxation consequences of investing in a VCT.

Notes:

¹ The C shares in the Company are ordinary shares and are classed as such for VCT purposes.

² The C shares issued pursuant to the offer for subscription dated 20 September 2005 were all issued on or before 5 April 2006 and are therefore eligible for the 40% income tax relief.

NOTICE of the ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Matrix Income & Growth 2 VCT plc will be held on Tuesday, 5 September 2006 at 2.00 pm at One Jermyn Street, London SW1Y 4UH.

The meeting will be held for the purposes of passing the following resolutions as, in the case of Resolutions 1 to 5, ordinary resolutions and, in the case of Resolutions 6 and 7, special resolutions:

Ordinary Business

1. To receive the financial statements for the year ended 30 April 2006, together with the reports of the Directors and Auditors thereon.
2. To approve the Directors' Remuneration Report for the year ended 30 April 2006, which is set out in the Annual Report of the Company for the year ended 30 April 2006.
3. To re-appoint MRI Moores Rowland LLP as auditors to the Company until the conclusion of the next Annual General Meeting of the Company.
4. To authorise the Directors to determine the Auditor's remuneration.

Special Business

5. THAT (i) subject to the passing of the resolutions to be proposed at the Separate Meeting of the holders of Ordinary Shares and the Separate Meeting of the holders of C Shares convened for 2.20 pm and 2.30 pm respectively on 5 September 2006 and (ii) in substitution for any existing authorities pursuant to Section 80 of the Companies Act 1985 ("the Act"), the Directors be and are hereby authorised to exercise all of the powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities of the Company (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £76,250 provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution unless renewed, varied or revoked by the Company in general meeting (except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements).
6. THAT (i) subject to the passing of the resolutions to be proposed at the Separate Meeting of the holders of Ordinary Shares and the Separate Meeting of the holders of C Shares convened for 2.20 pm and 2.30 pm respectively on 5 September 2006 and (ii) in substitution for any existing authorities pursuant to section 95(1) of the Companies Act 1985 ("the Act"), the Directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 94(2) of the Act) for cash pursuant to the authority sought in accordance with Section 80 of the Act by Resolution 5 set out in this notice of Annual General Meeting as if Section 89(1) of the Act did not apply to such allotment provided that this power shall expire on the earlier of the conclusion of the Annual General Meeting to be held in 2007 and the date which is eighteen months after the date on which this resolution is passed and provided further that the power conferred by this resolution shall be limited to:
 - (i) the allotment of up to 2,197,208 Ordinary Shares pursuant to performance warrant rights as set out in the carried interest agreement dated 10 May 2000 between the Company (1) and Matrix Private Equity Limited (2), Michael Cumming and others (3) and Mark Burgess and Helen Sinclair (4);
 - (ii) the allotment of equity securities with an aggregate nominal value or up to but not exceeding 10 per cent of the issued Ordinary Share capital and/or the issued C Share capital of the Company as at the date this resolution is passed in connection with any dividend reinvestment or similar scheme that may be operated by the Company from time to time;
 - (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities with an aggregate nominal value or up to but not exceeding 10 per cent of the issued Ordinary Share capital and/or the issued C Share capital of the Company as at the date this resolution is passed where the proceeds of the allotment are to be used in whole or in part to purchase the Company's Ordinary Shares or, as the case may be, C Shares in the market;
 - (iv) the allotment (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) above) of equity securities with an aggregate nominal value or up to but not exceeding 5 per cent of the issued Ordinary Share capital and/or the issued C Share capital of the Company at the date this resolution is passed.
7. THAT, subject to the passing of the resolutions to be proposed at the Separate Meeting of the holders of Ordinary Shares and the Separate Meeting of the holders of C Shares convened for 2.20 pm and 2.30 pm respectively on 5 September 2006, the Company

be empowered to make market purchases (within the meaning of Section 163 of the Act) of its own Ordinary Shares and C Shares provided that:

- (i) the aggregate nominal amount of the Ordinary Shares and C Shares to be purchased shall not exceed 14.99 per cent of the issued Ordinary Share capital of the Company as at the date this resolution is passed or, as the case may be 14.99 per cent of the C Share capital of the Company as at the date this resolution is passed;
- (ii) the minimum price which may be paid for an Ordinary Share or a C Share is 1 penny per share;
- (iii) the maximum price which may be paid for an Ordinary Share or a C Share is 105 per cent of the average of the middle market prices of an Ordinary Share or, as the case may be, C Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that Ordinary Share or, as the case may be C Share, is purchased;
- (iv) this authority shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2007 and the date which is eighteen months after the date on which this resolution is passed; and
- (v) the Company may make a contract to purchase Ordinary Shares or, as the case may be, C Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares or C Shares pursuant to such contract

and provided further that any purchase by the Company of its own shares does not prejudice the ability of the Company to disregard, to the fullest possible extent pursuant to Section 842AA (5B) of the Income and Corporation Taxes Act 1988, the use to which money raised pursuant to a share issue is put, for the purposes of complying with the 70% test and the 30% test, as those terms are defined in the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004.

By order of the Board

Matrix-Securities Limited
Company Secretary

Registered Office

One Jermyn Street
London SW1Y 4UH

26 June 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll to vote on his or her behalf. A proxy need not also be a member. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so.
2. A reply paid form of proxy for your use is enclosed on pages 47-48 of this Annual Report. To be valid, it should be completed, signed and sent (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority) to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than forty-eight hours before the time appointed for holding the meeting, any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting so as to be received not later than twenty-four hours before the time appointed for taking the poll.
3. In accordance with the requirements of the Companies Act 1985, the Register of Directors' interests will be available for inspection at place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting.

NOTICE of SEPARATE MEETING of ORDINARY SHAREHOLDERS

Notice is hereby given that a separate meeting of the holders of Ordinary Shares of 1 pence each in the capital of the Company ("Ordinary Shares") will be held at 2.20 pm (or as soon thereafter as the Annual General Meeting of the Company convened for 2.00 pm that day has been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution as an extraordinary resolution:

The holders of the Ordinary Shares in the capital of the Company hereby sanction, approve and consent to:

- (1) the passing and carrying into effect, as ordinary and special resolutions of the Company, Resolutions 5 to 7 set out in the notice of the Annual General Meeting convened for 2.00 pm on 5 September 2006 (a copy of which is produced to the meeting and signed by the Chairman for the purposes of identification); and
- (2) any effect on, variation, abrogation, dealing with and/or deemed variation or abrogation of the rights and privileges attached to the Ordinary Shares which will, or may result from the passing and carrying into effect of the said Resolutions and notwithstanding that the passing and carrying into effect of such Resolutions may affect the rights and privileges attached to the Ordinary Shares.

By order of the Board

Matrix-Securities Limited
Company Secretary

Registered Office
One Jermyn Street
London SW1Y 4UH

26 June 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll to vote on his or her behalf. A proxy need not also be a member. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so.
2. A reply paid form of proxy for your use is enclosed on pages 47-48 of this Annual Report. To be valid, it should be completed, signed and sent (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority) to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than forty-eight hours before the time appointed for holding the meeting, any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting so as to be received not later than twenty-four hours before the time appointed for taking the poll.
3. Notice is hereby further given that the necessary quorum for the Separate Meeting of the holders of Ordinary Shares shall be at least two holders of Ordinary Shares present in person or by proxy holding not less than one third of the paid up Ordinary Share capital and that if within half an hour from the time appointed for the meeting a quorum is not present it shall be adjourned to 2.20 pm on 6 September 2006 to be held at One Jermyn Street, London, SW1Y 4UH, or as soon thereafter as may be arranged, and at such adjourned meeting the holders of Ordinary Shares present in person or by proxy shall be a quorum regardless of the number of Ordinary Shares held.

NOTICE of SEPARATE MEETING of C SHAREHOLDERS

Notice is hereby given that a separate meeting of the holders of C Ordinary Shares of 1 pence each in the capital of the Company ("C Shares") will be held at 2.30 pm (or as soon thereafter as the Separate Meeting of the holders of Ordinary Shares convened for 2.20 pm on that day has been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution as an extraordinary resolution:

The holders of the C Shares in the capital of the Company hereby sanction, approve and consent to:

- (1) the passing and carrying into effect, as ordinary and special resolutions of the Company, Resolutions 5 to 7 set out in the notice of the Annual General Meeting convened for 2.00 pm on 5 September 2006 (a copy of which is produced to the meeting and signed by the Chairman for the purposes of identification); and
- (2) any effect on, variation, abrogation, dealing with and/or deemed variation or abrogation of the rights and privileges attached to the C Shares which will, or may result from the passing and carrying into effect of the said Resolutions and notwithstanding that the passing and carrying into effect of such Resolutions may affect the rights and privileges attached to the C Shares.

By order of the Board

Matrix-Securities Limited
Company Secretary

Registered Office
One Jermyn Street
London SW1Y 4UH

26 June 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll to vote on his or her behalf. A proxy need not also be a member. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so.
2. A reply paid form of proxy for your use is enclosed on pages 47-48 of this Annual Report. To be valid, it should be completed, signed and sent (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority) to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than forty-eight hours before the time appointed for holding the meeting, any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting so as to be received not later than twenty-four hours before the time appointed for taking the poll.
3. Notice is hereby further given that the necessary quorum for the Separate Meeting of the holders of C Shares shall be at least two holders of C Shares, present in person or by proxy holding not less than one third of the paid up C Share capital and that if within half an hour from the time appointed for the meetings a quorum is not present they shall be adjourned to 2.30 pm on 6 September 2006 to be held at One Jermyn Street, London, SW1Y 4UH, or as soon thereafter as may be arranged, and at such adjourned meeting the holders of C Shares present in person or by proxy shall be a quorum regardless of the number of C Shares held.

Shareholders' Notes

FORM OF PROXY

ANNUAL GENERAL MEETING 2006 AND SEPARATE MEETINGS OF ORDINARY SHAREHOLDERS AND C SHAREHOLDERS OF MATRIX INCOME & GROWTH 2 VCT PLC (the "Company")

I/We

of (address)

being a holder of Ordinary Shares and/or C Shares of the Company hereby appoint the Chairman of the Meeting, or

.....

of (address)

as my/our proxy to vote on a poll in my/our name and on my/our behalf at the Annual General Meeting and, as appropriate the Separate Meeting of Ordinary Shareholders and/or the Separate Meeting of C Shareholders of the Company to be held on 5 September 2006 at 2.00 pm, 2.20 pm and 2.30 pm respectively at One Jermyn Street, London SW1Y 4UH and at any adjournment thereof.

Please indicate with an 'X' in the boxes below how you wish your votes to be cast. Should this Form of Proxy be returned duly signed but without a specific direction, the proxy may vote or abstain as he/she thinks fit. On any other business at the Annual General Meeting and, as appropriate, the Separate Meeting of Ordinary Shareholders and/or the Separate Meeting of C Shareholders (including any motion to amend any resolution or adjourn the meeting) the proxy will vote or abstain from voting at his or her discretion.

ANNUAL GENERAL MEETING

The proxy is directed to vote on the resolutions set out in the notice convening the Annual General Meeting, of which Resolutions 1 to 5 are proposed as ordinary resolutions and Resolutions 6 and 7 are proposed as special resolutions, as follows:

	Type of Resolution	Resolution	For	Against	Vote withheld
Ordinary Business					
Resolution 1	Ordinary	To receive the financial statements of the Company for the year ended 30 April 2006.			
Resolution 2	Ordinary	To approve the Directors' Remuneration Report.			
Resolution 3	Ordinary	To re-appoint MRI Moores Rowland LLP as auditors of the Company			
Resolution 4	Ordinary	To authorise the Directors to determine the auditors' remuneration.			
Special Business					
Resolution 5	Ordinary	To authorise the Directors to allot shares.			
Resolution 6	Special	To authorise the Directors to disapply pre-emption rights of members.			
Resolution 7	Special	To authorise the Directors to make market purchases of the Company's own shares			
SEPARATE MEETING of the ORDINARY SHAREHOLDERS (to be completed by Ordinary Shareholders only)					
Resolution 1	Extraordinary	Approval of AGM Resolutions 5 to 7 and consent to variation of class rights.			
SEPARATE MEETING of the C SHAREHOLDERS (to be completed by C Shareholders only)					
Resolution 1	Extraordinary	Approval of AGM Resolutions 5 to 7 and consent to variation of class rights.			

Signed Dated

NOTES AND INSTRUCTIONS

- The notices of the meetings are set out on pages 42-46 of this Annual Report.
- A proxy need not be a member of the Company but must attend the meeting to represent you.
- Delete "the Chairman of the Meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the Meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
- Any alterations to the Form of Proxy should be initialled.
- To be effective, this Form of Proxy and any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be completed and deposited at the office of the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no less than 48 hours prior to the time fixed for the holding of the relevant meeting.
- In the case of a Corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
- In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the Register of Members.
- The completion and return of this Form of Proxy will not preclude you from attending and voting at the meetings should you subsequently decide to do so.

Third Fold (Tuck-in)

BUSINESS REPLY SERVICE
LICENCE No. MB 122



Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

First Fold

Second Fold

First Fold

Corporate Information

Directors

Michael Cumming
Fredrik Adams
Nigel Melville
Kenneth Vere Nicoll
Lawrence Sullivan (to 7 September 2005)

Investment Manager

Matrix Private Equity Partners Limited
One Jermyn Street
London
SW1Y 4UH
e-mail: info@matrixpep.com

Promoter and Company Accountants

Matrix-Securities Limited
One Jermyn Street
London
SW1Y 4UH

Company's registered office and head office

One Jermyn Street
London SW1Y 4UH

Bankers

Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

Solicitors

Martineau Johnson
No 1 Colmore Square
Birmingham
B2 5PG
Also at
78 Cannon Street
London EC4N 6NQ

Secretary

Matrix-Securities Limited
One Jermyn Street
London
SW1Y 4UH
e-mail: mig2@matrixgroup.co.uk

VCT tax Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RN

Auditors and Tax Advisers

MRI Moores Rowland LLP
3 Sheldon Square
Paddington
London
W2 6PS

Sponsors and Stockbrokers

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Company Registration Number : 3946235

Website: www.matrixgroup.co.uk

E-mail: info@matrixpep.co.uk

