

# MATRIX INCOME & GROWTH VCT PLC **2**

A VENTURE CAPITAL TRUST

REPORT & ACCOUNTS



Unaudited Half-Yearly Report  
for the six months ended 31 October 2007

## Investment Objective

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

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

## Financial Highlights

Half-Yearly Results for the six months ended 31 October 2007

### Ordinary Shares (listed on 11 July 2000)

Initial net asset value per Ordinary Share		94.00 pence	
Initial net assets		£12,388,236	
	<b>31 October 2007</b>	<b>30 April 2007</b>	<b>31 October 2006</b>
Net assets	£12,263,403	£12,912,394	£12,622,286
Net asset value per Ordinary Share	104.71 pence	107.24 pence	102.28 pence
Total dividends per Ordinary Share paid to date	20.79 pence	14.79 pence	14.79 pence
Total return to shareholders since launch per Ordinary Share*	125.50 pence	122.03 pence	117.07 pence
Earnings per Ordinary Share	2.68 pence	19.20 pence	14.87 pence
Total dividends per Ordinary Share paid in the period	6.00 pence	0.00 pence	0.00 pence

### C Shares (listed on 21 December 2005)

Initial net asset value per C Share		94.50 pence	
Initial net assets		£8,648,486	
	<b>31 October 2007</b>	<b>30 April 2007</b>	<b>31 October 2006</b>
Net assets	£9,006,727	£8,885,025	£8,681,654
Net asset value per C Share	98.48 pence	97.15 pence	94.92 pence
Total dividends per C Share paid to date	1.50 pence	0.00 pence	0.00 pence
Total return to shareholders since launch per C Share*	99.98 pence	97.15 pence	94.92 pence
Earnings per C Share	2.83 pence	2.83 pence	0.61 pence
Total dividends per C Share paid in the period	1.50 pence	0.00 pence	0.00 pence

\* 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 and Management Report

I am pleased to enclose the Half-Yearly Report of Matrix Income & Growth 2 VCT plc (the "Company") for the period from 1 May 2007 to 31 October 2007.

## Overview

Your Company continues to benefit from the strong market position of Matrix Private Equity Partners, the Investment Manager. Since April, the Ordinary and C Share Funds have made investments together in two companies, for £1 million each. The first of these was to support the Management buy-out ("MBO") of DiGiCo, the second a follow-on investment into Blaze Signs Holdings at an uplifted value. In October, the Board having decided that the Ordinary Share Fund was fully invested, the C Share Fund invested £660,000 into the MBO of Focus Pharmaceuticals. Shortly after the end of the period, the C Share Fund invested £769,000 into the MBO of Monsal.

There were no realisations to report during the period, although proceeds of £26,436 were received from the administration of Monactive, which had been fully provided for. The performance of the portfolio investments made over the last two years is generally encouraging, with a number of companies producing results in line with or better than those anticipated at investment. This performance is beginning to show more clearly as these investments move from being valued at cost to the discounted earnings method of valuation.

## Ordinary Share Fund

I am pleased to report another period of strong performance. The Net Asset Value ("NAV") per Ordinary Share at 31 October 2007 was 104.71 pence, a 2.4% increase when compared with 102.28 pence per share as at 31 October 2006, or 8% after adjusting for the 6 pence dividend paid in this period. When adjusted for all dividends paid since the Company's formation the Fund's total return has increased by 34% from 94.00 to 125.50 pence per share.

Further details of the performance of the Ordinary Share Fund investments are set out in the Investment Manager's Review set out on page three.

## C Share Fund

The NAV per C Share at 31 October 2007 stood at 98.48p, a 4% increase on the NAV when compared with 94.92 pence per share as at 31 October 2006, or 5.3% after adjusting for the 1.5 pence dividend paid in this period.

Further details of the performance of the C Share Fund investments are set out in the Investment Manager's Review set out on page three.

## Return to Shareholders

The results for this period are set out on the following pages and show a revenue profit (after tax) attributable to Ordinary Fund

Shareholders of 0.87 of a penny per Ordinary Share (31 October 2006: 0.83 of a penny). The total profit (after tax) attributable to Ordinary Fund Shareholders was 2.68 pence per Ordinary Share (31 October 2006: 14.87 pence).

The revenue profit (after tax) attributable to C Fund Shareholders was 1.25 pence per C share (31 October 2006: 0.91 of a penny). The total profit (after tax) attributable to C Fund Shareholders was 2.83 pence per C share (31 October 2006: 0.61 of a penny).

## Dividend

The Board's objective is, subject to the availability of sufficient reserves and liquidity, to distribute regular and consistent dividends. Since the change in investment strategy in September 2005, three Ordinary Share Fund dividends have been paid out, each of 6 pence per share. The Board intends to review the level of dividends to be paid at the year-end and this is expected to include an income dividend for both the Ordinary and C Share Funds.

## Outlook

Your Board and Investment Manager are paying close attention to current economic indicators which clearly pose some risk to many sectors, including smaller companies. However, the Investment Manager's strategy of investing in MBOs and evidence of performance to date suggest the portfolio is not disproportionately exposed to any prospective downturn in the UK economy. The Board continues to be encouraged by the evidence of value creation within the current portfolio and with it the potential for future profitable exit opportunities.

I would like to thank all our Shareholders for their continuing support.

## Nigel Melville

*Chairman*

20 December 2007

## Responsibility Statement

The Directors confirm that to the best of their knowledge:

- (a) the condensed set of financial statements, which has been prepared in accordance with applicable accounting standards in the United Kingdom, gives a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by Disclosure & Transparency Rule 4.2.4; and
- (b) the interim management report includes a fair review of the information required by Disclosure & Transparency Rule 4.2.7 and in accordance with Disclosure & Transparency Rule 4.2.10.

# Investment Manager's Review

## Strategy

Throughout the period Matrix Private Equity Partners LLP ("MPEP") has continued to pursue its strategy of investing in established, profitable, unquoted companies with its primary focus on investments in MBOs. This was recognised by MPEP being short listed for the third year running for the award for the Small Buyout House of the Year by the UK Private Equity journal of record, unquote".

## New Investment Activity

The first half of 2007 was characterised by a shortage of high quality investment opportunities and a sharp increase in acquisition prices, in the face of which your Investment Manager adopted a highly selective approach to new investment. These conditions proved temporary and four investments have been completed since July. We are encouraged that more realistic pricing has returned to the market.

The Ordinary Share Fund made two new investments in the period. The first was an investment of £588,886 to support the MBO of DiGiCo, the global market leading manufacturer of digital sound mixing consoles for the live performance, theatre, post-production and broadcast markets. This was followed in September by an additional investment of £452,063 in Blaze Signs Holdings, the manufacturer of signage for major multiple retailers. The Fund first invested £339,545 in Blaze in April 2006 and the additional investment enabled it to complete the acquisition of Active Sign Maintenance, a complementary maintenance business. This has broadened Blaze's capabilities and will offer considerable cross-selling opportunities and operating synergies.

The C Share Fund made three investments during the period. In addition to investing £411,114 and £547,937 alongside the Ordinary Share Fund in DiGiCo Europe and in Blaze Signs Holdings respectively, an investment of £660,238 was made in October to support the MBO of Focus Pharmaceuticals, which specialises in the licensing and distribution of generic pharmaceuticals. Shortly after the end of the period, a further new investment of £769,000 was completed to finance the MBO of Monsal, a specialist environmental technology company providing advanced solutions for the water and waste sectors.

## Ordinary Share Fund Portfolio Highlights

The Ordinary Share Fund now holds investments in 18 companies at cost of £9.5 million and current valuation of £11.3 million, overall an encouraging uplift of 19%. The investments made since the change of strategy in 2005 are showing a very pleasing uplift of 49%. Two newer investments, British International Holdings and PastaKing Holdings, now show an increase above cost after moving to an earnings basis of valuation during the period. A number of others, including BBI Holdings, Youngman Group, Gyro International, VSI and Vectair

Holdings have continued to grow earnings strongly and their higher valuations generally reflect this progress. The portfolio is not without some disappointments. Trading at Racoon has fallen behind plan and a provision has been made against the equity portion of the investment. A number of initiatives are in hand to develop additional product lines. The share prices of AIM-listed SectorGuard and Clarity Commerce Solutions have shown falls, the latter following a profit warning and subsequent shareholder dissatisfaction leading to an EGM which resulted in Board changes and a strategic review of the business. Campden Media's valuation also shows a small reduction as a consequence of a slowing down in earnings growth.

An amount of £26,436 was received in September from the proceeds of the Administration of the Fund's investment in Monactive, which had been fully provided previously. The investment in Recite had also been fully provided for and this company entered Administration in May; no proceeds are anticipated.

The Ordinary Share Fund is now fully invested and accordingly will make no new investments until portfolio divestments occur. This is likely to be before the Company's year-end, because a number of investee companies are currently formally planning to realise capital back to the Fund.

## C Share Fund Portfolio Highlights

The C Share Fund now holds investments in 9 companies at a total cost of £3.0 million and a current valuation of £3.4 million, an uplift of 13% on cost. Both British International Holdings and PastaKing Holdings show an increase above cost after moving to an earnings basis of valuation during the period. A provision on the equity portion of the investment in Racoon has been made. Four investments remain valued at cost, being less than one year old, whilst all the others are now valued at above cost, reflecting trading performances in line with or better than expectation at investment.

## Outlook

The summer's liquidity crunch and subsequent forecasts of a slowdown in economic growth inform more challenging investment conditions ahead. However, we believe our focus on investing in MBOs of profitable companies is an attractive and resilient strategy, well-suited to this point in the cycle. Companies are fully financed upon investment and generally not reliant on the availability of further external lending or other investor support to achieve their plans to grow and realise capital.

Whilst, inevitably, unquoted companies are not immune from the wider economic environment, the two portfolios are continuing to show encouraging progress. We remain positive in our expectations for both Funds, based on good early performance and the potential for realisations which is already becoming apparent.

# Investment Portfolio Summary – Ordinary Share Fund

as at 31 October 2007

Qualifying investments	Date of first investment	Total book cost £	Valuation £	% of net assets by value
<b>Unquoted investments</b>				
<b>Youngman Group Limited</b> Manufacturer of ladders and access towers	October 2005	1,000,052	3,087,018	25.2%
<b>Gyro International Limited</b> Brand communications agency	February 2005	750,013	1,443,619	11.8%
<b>Blaze Signs Holdings Limited</b> Signwriter	April 2006	791,608	1,136,072	9.3%
<b>Campden Media Limited</b> Magazine publisher and conference organiser	January 2006	975,000	953,791	7.8%
<b>British International Holdings Limited</b> Supplier of helicopter services	June 2006	832,827	950,954	7.7%
<b>VSI Limited</b> Developer and marketer of 3D software	April 2006	365,775	680,705	5.5%
<b>PastaKing Holdings Limited</b> Supplier to the educational and food service market	June 2006	274,624	622,443	5.1%
<b>DiGiCo Europe Limited</b> Design and manufacture of audio mixing desks	July 2007	588,886	588,886	4.8%
<b>PXP Holdings Limited (Pinewood Structures)</b> Designer, manufacturer and supplier of timber frames for housing	December 2006	588,886	588,886	4.8%
<b>Racoon International Holdings Limited</b> Supplier of hair extensions, hair care products and training	December 2006	517,350	362,147	3.0%
<b>Vectair Holdings Limited</b> Provider of air care and sanitary washroom products	January 2006	243,784	347,900	2.8%
<b>Other Investments<sup>2</sup></b>	March 2004	1,554,586	–	0.0%
		8,483,391	10,762,421	87.8%
<b>AIM/PLUS quoted investments</b>				
<b>Clarity Commerce Solutions plc</b> Customer relationship management software	July 2000	510,000	216,000	1.7%
<b>BBI Holdings plc</b> Development and manufacture of rapid test diagnostic products	May 2006	118,738	200,450	1.6%
<b>SectorGuard plc</b> Provision of manned guarding, mobile patrolling and alarm response services	August 2005	150,000	96,428	0.8%
<b>Award International Holdings plc</b> Sales promotion activities	March 2001	250,000	–	0.0%
		1,028,738	512,878	4.1%
<b>Total qualifying investments</b>		<b>9,512,129</b>	<b>11,275,299</b>	<b>91.9%</b>
<b>Non-qualifying investments</b>		<b>Book cost £</b>	<b>Valuation £</b>	<b>% of net assets by value</b>
Money market funds <sup>1</sup>		897,495	897,495	7.3%
AIM quoted investments		908	579	0.0%
<b>Total non-qualifying investments</b>		<b>898,403</b>	<b>898,074</b>	<b>7.3%</b>
<b>Total investments</b>		<b>10,410,532</b>	<b>12,173,373</b>	<b>99.2%</b>
Other assets			165,002	1.3%
Current liabilities			(74,972)	(0.5%)
<b>Net assets</b>			<b>12,263,403</b>	<b>100.0%</b>

<sup>1</sup> Disclosed within 'Monies held pending investment' in the Balance Sheet.

<sup>2</sup> Other investments include Recite Limited, Callserve Communications Limited and Flightstore Group plc.

# Investment Portfolio Summary – C Share Fund

as at 31 October 2007

Qualifying investments	Date of first investment	Total book cost £	Valuation £	% of net assets by value
Unquoted investments				
<b>Blaze Signs Holdings Limited</b> Signwriter	April 2006	606,890	666,686	7.4%
<b>Focus Pharma Holdings Limited</b> Licensing and distribution of generic pharmaceuticals	September 2007	660,238	660,238	7.3%
<b>PastaKing Holdings Limited</b> Supplier to the educational and food service market	June 2006	191,720	434,540	4.8%
<b>PXP Holdings (Pinewood Structures)</b> Designer, manufacturer and supplier of timber frames for housing	December 2006	411,114	411,114	4.6%
<b>DiGiCo Europe Limited</b> Design and manufacture of audio mixing desks	July 2007	411,114	411,114	4.6%
<b>Racoon International Holdings</b> Supplier of hair extensions, hair care products and training	December 2006	361,177	252,822	2.8%
<b>VSI Limited</b> Developer and marketer of 3D software	April 2006	122,901	228,718	2.5%
<b>British International Holdings Limited</b> Supplier of helicopter services	June 2006	167,173	190,956	2.1%
		2,932,327	3,256,188	36.1%
AIM quoted investments				
<b>BBI Holdings plc</b> Development and manufacture of rapid test diagnostic products	May 2006	82,893	139,937	1.5%
		82,893	139,937	1.5%
<b>Total qualifying investments</b>		<b>3,015,220</b>	<b>3,396,125</b>	<b>37.6%</b>

Non-qualifying investments	Book cost £	Valuation £	% of net assets by value
Money market funds <sup>1</sup>	5,324,924	5,324,924	59.1%
<b>Total non-qualifying investments</b>	<b>5,324,924</b>	<b>5,324,924</b>	<b>59.1%</b>
<b>Total investments</b>	<b>8,340,144</b>	<b>8,721,049</b>	<b>96.7%</b>
Other assets		323,173	3.7%
Current liabilities		(37,495)	(0.4%)
<b>Net assets</b>		<b>9,006,727</b>	<b>100.0%</b>

<sup>1</sup> Disclosed within 'Monies held pending investment' in the Balance Sheet.

# Unaudited Profit and Loss Account (by Fund)

## Profit and Loss account for the six months ended 31 October 2007

	Notes	Ordinary Share Fund			C Share Fund		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments held at fair value		–	273,973	273,973	–	208,734	208,734
Realised gains on investments held at fair value		–	26,436	26,436	–	–	–
Income		260,952	–	260,952	240,405	–	240,405
Investment management fees	3	(38,595)	(115,785)	(154,380)	(26,652)	(79,957)	(106,609)
Other expenses		(98,503)	–	(98,503)	(72,983)	–	(72,983)
<b>Profit on ordinary activities before taxation</b>		123,854	184,624	308,478	140,770	128,777	269,547
Taxation on ordinary activities		(19,797)	30,451	10,654	(26,645)	15,991	(10,654)
<b>Profit on ordinary activities after taxation</b>		104,057	215,075	319,132	114,125	144,768	258,893
<b>Return per share</b>	5	<b>0.87p</b>	<b>1.81p</b>	<b>2.68p</b>	<b>1.25p</b>	<b>1.58p</b>	<b>2.83p</b>
Average number of shares in issue				11,919,317			9,145,990

## Balance Sheet for each Fund as at 31 October 2007

	Notes	Ordinary Share Fund		C Share Fund	
		£	£	£	£
<b>Fixed assets</b>					
Assets held at fair value through profit and loss – investments			11,275,878		3,396,125
Monies held pending investment			897,495		5,324,924
			12,173,373		8,721,049
<b>Current Assets</b>					
Debtors and prepayments			130,703		54,581
Cash at bank			34,299		268,592
			165,002		323,173
<b>Creditors: amounts falling due within one year</b>			(74,972)		(37,495)
<b>Net current assets</b>			90,030		285,678
<b>Net assets</b>			<b>12,263,403</b>		<b>9,006,727</b>
<b>Capital and reserves</b>					
Called up share capital			117,115		91,460
Capital redemption reserve			14,691		–
Capital reserve			2,662,841		380,905
Cancelled share premium account			4,733,201		8,345,201
Profit and loss account			4,735,555		189,161
			<b>12,263,403</b>		<b>9,006,727</b>
<b>Number of shares in issue</b>			<b>11,711,489</b>		<b>9,145,990</b>
Net asset value per share	6		104.71 p		98.48 p

	Total of both Funds (per Half-Yearly Profit and Loss Account)			
	Revenue £	Capital £	Total £	
	–	482,707	482,707	
	–	26,436	26,436	
	501,357	–	501,357	
	(65,247)	(195,742)	(260,989)	
	(171,486)	–	(171,486)	
	264,624	313,401	578,025	
	(46,442)	46,442	–	
	218,182	359,843	578,025	

	Adjustments (see note below) £		Total of both Funds (per Half-Yearly Balance Sheet)		
	£		£	£	
				14,672,003	
				6,222,419	
				20,894,422	
	(28,065)		157,219		
			302,891		
	(28,065)		460,110		
	28,065		(84,402)		
				375,708	
	–			21,270,130	
				208,575	
				14,691	
				3,043,746	
				13,078,402	
				4,924,716	
				21,270,130	

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 Half-Yearly Balance Sheet on page 8.



# Unaudited Profit and Loss Account

for the six months ended 31 October 2007

	Notes	Six months to 31 October 2007 (unaudited)			Year ended 30 April 2007 (audited)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments held at fair value		–	482,707	482,707	–	2,712,523	2,712,523
Realised gains/(losses) on investments held at fair value		–	26,436	26,436	–	(205,547)	(205,547)
Income	4	501,357	–	501,357	906,689	–	906,689
Investment management fees	3	(65,247)	(195,742)	(260,989)	(119,557)	(358,668)	(478,225)
Other expenses		(171,486)	–	(171,486)	(298,265)	–	(298,265)
<b>Profit on ordinary activities before taxation</b>		264,624	313,401	578,025	488,867	2,148,308	2,637,175
Taxation on ordinary activities		(46,442)	46,442	–	(88,351)	88,351	–
<b>Profit on ordinary activities after taxation</b>		218,182	359,843	578,025	400,516	2,236,659	2,637,175
Dividend paid per Ordinary share		0.00p	6.00p	6.00p	0.00p	0.00p	0.00p
Dividend paid per C share		1.50p	0.00p	1.50p	0.00p	0.00p	0.00p
Basic and diluted earnings per Ordinary Share	5	0.87p	1.81p	2.68p	1.54p	17.66p	19.20p
Basic and diluted earnings per C Share	5	1.25p	1.58p	2.83p	2.30p	0.53p	2.83p

# Unaudited Balance Sheet

as at 31 October 2007

	Notes	31 October 2007 (unaudited) £	30 April 2007 (audited) £	31 October 2006 (unaudited) £
<b>Non-current assets</b>				
Assets held at fair value through profit and loss – investments	8	14,672,003	11,529,046	8,997,571
Monies held pending investment	9	6,222,419	10,289,021	9,734,238
		20,894,422	21,818,067	18,731,809
<b>Current assets</b>				
Debtors and prepayments		157,219	147,304	1,101,467
Cash at bank		302,891	327,479	1,819,997
		460,110	474,783	2,921,464
<b>Creditors: amounts falling due within one year</b>				
Other creditors		18,856	276,827	147,371
Accruals		65,546	218,804	201,962
		(84,402)	(495,631)	(349,333)
<b>Net current assets/(liabilities)</b>		375,708	(20,848)	2,572,131
<b>Net assets</b>		<b>21,270,130</b>	<b>21,797,219</b>	<b>21,303,940</b>
<b>Capital and reserves</b>	10			
Called up share capital		208,575	211,871	214,871
Capital redemption reserve		14,691	11,395	8,395
Capital reserve – unrealised		3,043,746	3,268,178	2,615,297
Special distributable reserve		13,078,402	14,089,778	14,462,321
Profit and loss account		4,924,716	4,216,197	4,003,056
<b>Equity shareholders' funds</b>		<b>21,270,130</b>	<b>21,797,419</b>	<b>21,303,940</b>
<b>Net asset value per share</b>				
Ordinary Share	6	104.71p	107.24p	102.28p
C Share	6	98.48p	97.15p	94.92p

These accounts are unaudited and are not the Company's statutory accounts.

	Six months ended 31 October 2006 (unaudited)			
	Revenue £	Capital £	Total £	
	–	2,059,642	2,059,642	
	–	(205,548)	(205,548)	
	454,371	–	454,371	
	(57,525)	(172,574)	(230,099)	
	(172,105)	–	(172,105)	
	224,741	1,681,520	1,906,261	
	(38,063)	38,063	–	
	186,678	1,719,583	1,906,261	
	0.00p	0.00p	0.00p	
	0.00p	0.00p	0.00p	
	0.83p	14.04p	14.87p	
	0.91p	(0.30)p	0.61p	

These accounts are unaudited and are not the Company's statutory accounts.

The accounts have been prepared using accounting standards and policies adopted at the previous year end.

All revenue and capital items in the above statement are derived from continuing operations. No operations were discontinued in the period.

There were no other gains or losses in the period.

# Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months ended 31 October 2007

	Notes	Six months ended 31 October 2007 (unaudited) £	Year ended 30 April 2007 (audited) £	Six months ended 31 October 2006 (unaudited) £
Opening shareholders' funds		21,797,419	19,565,271	19,565,271
Net share capital bought back in the year		(245,655)	(405,027)	(167,592)
Profit for the year		578,025	2,637,175	1,906,261
Dividends paid in year	7	(859,659)	–	–
Closing shareholders' funds		21,270,130	21,797,419	21,303,940

# Unaudited Cash Flow Statement

for the six months ended 31 October 2007

	Six months ended 31 October 2007 (unaudited) £	Year ended 30 April 2007 (audited) £	Six months ended 31 October 2006 (unaudited) £
<b>Operating activities</b>			
Net investment interest – non-qualifying	628,472	806,195	332,149
Investment management fees paid	(303,556)	(74,552)	(74,552)
Other cash payments	(439,542)	(630,903)	(168,986)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(114,626)</b>	<b>100,740</b>	<b>88,611</b>
<b>Taxation</b>			
UK corporation tax paid	–	–	–
<b>Investing activities</b>			
Acquisition of investments	(2,660,250)	(3,546,925)	(2,597,061)
Disposal of investments	26,436	2,016,346	2,016,346
<b>Net cash outflow from investing activities</b>	<b>(2,633,814)</b>	<b>(1,530,579)</b>	<b>(580,715)</b>
<b>Dividends</b>			
Dividends paid	(859,659)	–	–
<b>Net cash outflow before liquid resource management</b>	<b>(3,608,099)</b>	<b>(1,429,839)</b>	<b>(492,104)</b>
<b>Management of liquid resources</b>			
Movement in money market and other deposits	4,066,602	(537,585)	17,198
<b>Financing</b>			
Purchase of own shares	(483,091)	(167,592)	(167,592)
Share capital raised	–	–	–
<b>Net cash outflow from financing</b>	<b>(483,091)</b>	<b>(167,592)</b>	<b>(167,592)</b>
<b>Decrease in cash</b>	<b>(24,588)</b>	<b>(2,135,016)</b>	<b>(642,498)</b>

# Notes to the unaudited financial statements

## 1. Principal accounting policies

The following accounting policies have been applied consistently throughout the period. Full details of principal accounting policies will be disclosed in the Annual Report.

### a) Basis of accounting

The accounts have been prepared under the fair value rules of the Companies Act 1985, and in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies', revised December 2005.

### b) Basis of accounting

So as to improve disclosure of the activity of a VCT and in accordance with the SORP, supplementary information which analyses the Profit and Loss Account between items of a revenue and capital nature has been presented alongside the Profit and Loss Account. The net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 274 Income Tax Act 2007.

### c) Investments

Investments are stated at fair value, in accordance with applicable accounting standards and with reference to the International Private Equity and Venture Capital Valuation (IPEVVCV) guidelines published in 2005.

The fair value of quoted investments is the bid value of those investments at the close of business on 31 October 2007.

Unquoted investments are stated at fair value by the Directors in accordance with the following rules, which are consistent with the IPEVVCV 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 at 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 at 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 arms 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 arms-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.

Although the Company holds more than 20% 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 our holdings represents investments in associated companies.

2. The Company revoked its status as an investment company on 7 September 2005, so that it can regard realised capital profits as part of the profits available for distribution.
3. In accordance with the Company's prospectus dated 10 May 2000, the Directors have charged 75% of the investment management fees to the capital element of the Profit and Loss Account.

# Notes to the unaudited financial statements

## 4. Income

	Six months ended 31 October 2007 (unaudited) £	Year ended 30 April 2007 (audited) £	Six months ended to 31 October 2006 (unaudited) £
Investment income			
– from ordinary shares	23,215	48,588	57,147
– from preference shares	9,195	17,144	9,130
– from OEIC money market funds	247,452	461,891	221,799
	279,862	527,623	288,076
Interest receivable			
– from loan stocks	217,707	363,438	156,792
– from bank deposits	3,788	15,628	9,503
	221,495	379,066	166,295
<b>Total income</b>	<b>501,357</b>	<b>906,689</b>	<b>454,371</b>

## 5. Earnings and return per share

	Six months ended 31 October 2007 (unaudited)			Year ended 30 April 2007 (audited)		
	Ordinary Share Fund £	C Share Fund £	Total £	Ordinary Share Fund £	C Share Fund £	Total £
Total earnings after taxation	319,132	258,893	578,025	2,378,445	258,730	2,637,175
<b>Basic earnings per share (note a)</b>	<b>2.68p</b>	<b>2.83p</b>		<b>19.20p</b>	<b>2.83p</b>	
Revenue profit from ordinary activities after taxation	104,057	114,125	218,182	190,379	210,137	400,516
<b>Revenue earnings per share (note b)</b>	<b>0.87p</b>	<b>1.25p</b>		<b>1.54p</b>	<b>2.30p</b>	
Net realised capital gains/(losses) on investments	26,436	–	26,436	(205,547)	–	(205,547)
Net gains on realisations on investments	273,973	208,734	482,707	2,540,352	172,171	2,712,523
Capital management fees less taxation	(85,334)	(63,966)	(149,300)	(146,739)	(123,578)	(270,317)
Total capital profit/(losses) on ordinary activities after taxation	215,075	144,768	359,843	2,188,066	48,593	2,236,659
<b>Capital return per share (note c)</b>	<b>1.81p</b>	<b>1.58p</b>		<b>17.66p</b>	<b>0.53p</b>	
Weighted average number of shares in issue in the year	11,919,317	9,145,990		12,391,147	9,145,990	

### 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.

- The net asset value per Ordinary Share is based upon total net assets at 31 October 2007 of £12,263,403 (30 April 2007: £12,912,394; 31 October 2006: £12,622,286) and on 11,711,489 Ordinary Shares (30 April 2007 12,041,147; 31 October 2006: 12,341,147) being the number of Ordinary Shares in issue at that date.

The net asset value per C Share is based upon total net assets at 31 October 2007 of £9,006,727 (30 April 2007: £8,885,025; 31 October 2006: £8,681,654) and on 9,145,990 C Shares (30 April 2007: 9,145,990; 31 October 2006: 9,145,990) being the number of C Shares in issue at that date.

	Six months ended 31 October 2006 (unaudited)			
	Ordinary Share Fund £	C Share Fund £	Total £	
	1,850,902 14.87p	55,359 0.61p	1,906,261	
	103,459 0.83p	83,219 0.91p	186,678	
	(204,938)	–	(204,938)	
	2,025,772	33,870	2,059,642	
	(73,391)	(61,730)	(135,121)	
	1,747,443 14.04p	(27,860) (0.30p)	1,719,583	
	12,445,223	9,145,990		

# Notes to the unaudited financial statements

## 7. Dividends

	Six months ended 31 October 2007 (unaudited) £	Year ended 30 April 2007 (audited) £	Six months ended to 31 October 2006 (unaudited) £
Ordinary Share Fund Dividends paid in period – 6 pence per share (30 April 2007: nil pence; 31 October 2006: nil pence) – from OEIC money market funds	722,469	–	–
C Share Fund Dividends paid in period – 1.5 pence per share (30 April 2007: nil pence; 31 October 2006: nil pence)	137,190	–	–
	859,659		

Under FRS21, dividends are presented within the Reconciliation of Movement in Shareholders' Funds rather than the Profit and Loss Account, in the period in which they are irrevocably paid.

## 8. Summary of non-current asset investments at fair value during the period

	Traded on AIM £	Unlisted or traded on OFEX £	Preference shares £	Qualifying loans £	Total £
Cost at 1 May 2007	1,367,125	3,278,377	289,954	5,575,408	10,510,864
Unrealised (losses)/gains at 1 May 2007	(427,497)	2,174,250	650,000	(378,571)	2,018,182
Permanent impairment at 1 May 2007	–	(350,000)	(650,000)	–	(1,000,000)
Value at 1 May 2007	939,628	5,102,627	289,954	5,196,837	11,529,046
Purchases at cost	–	917,615	13,967	1,728,668	2,660,250
Sale proceeds	–	(2)	–	(26,434)	(26,436)
Increase in unrealised (losses)/gains	(286,234)	671,441	–	97,500	482,707
Realised gains	–	2	–	26,434	26,436
<b>Cost/valuation at 31 October 2007</b>	<b>653,394</b>	<b>6,691,683</b>	<b>303,921</b>	<b>7,023,005</b>	<b>14,672,003</b>
Book cost at 31 October 2007	1,367,125	3,931,706	303,921	6,925,505	12,528,257
Unrealised (losses)/gains at 31 October 2007	(713,731)	2,759,977	–	97,500	2,143,746
<b>Valuation at 31 October 2007</b>	<b>653,394</b>	<b>6,691,683</b>	<b>303,921</b>	<b>7,023,005</b>	<b>14,672,003</b>
Unrealised (losses)/gains at 1 May 2007	(427,497)	2,174,250	650,000	(378,571)	2,018,182
Net movement in unrealised appreciation in the period	(286,234)	671,441	–	97,500	482,707
Permanent impairment at 31 October 2007	–	(250,000)	(650,000)	–	(900,000)
Realisation of previously unrealised losses	–	164,286	–	378,571	542,857
<b>(Losses)/gains on investments at 31 October 2007</b>	<b>(713,731)</b>	<b>2,759,977</b>	<b>–</b>	<b>97,500</b>	<b>2,143,746</b>

## 9. Monies held pending investment

These comprise investments in three Dublin based OEIC money market funds, managed by Barclays Global Investors, Royal Bank of Scotland and Blackrock (formerly Merrill Lynch). £6,184,699 (30 April 2007: £10,252,029; 31 October 2006: £9,698,320) of this sum is subject to same day access, while £37,720 (30 April 2007: £36,992; 31 October 2006: £35,918) is subject to two day access.

## 10. Capital and reserves for the six months ended 31 October 2007

	Called up share capital	Capital redemption reserve	Capital reserve (unrealised)	Cancelled share premium account – distributable reserve	Profit and Loss Account	Total
	£	£	£	£	£	£
At 1 May 2007	211,871	11,395	3,268,178	14,089,778	4,216,197	21,797,419
Shares bought back	(3,296)	3,296	–	(245,655)	–	(245,655)
Realisation of previously unrealised losses	–	–	542,857	–	(542,857)	–
Transfer of impairment losses	–	–	(1,249,996)	–	1,249,996	–
Transfer of realised capital losses to Cancelled Share Premium account (see note below)	–	–	–	(765,721)	765,721	–
Dividends	–	–	–	–	(859,659)	(859,659)
Gain for the year	–	–	482,707	–	95,318	578,025
At 31 October 2006	208,575	14,691	3,043,746	13,078,402	4,924,716	21,270,130

The cancelled share premium account for each Fund provides the Company with a special reserve out of which it can fund buy-backs of each Fund's Shares as and when it is considered by the Board to be in the interests of the Shareholders, and to absorb any existing and future realised losses. Under Resolution 12 of the Annual General Meeting held on 11 September 2007, each class of 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 per cent of the issued Ordinary Share Capital of the Company or, as the case maybe, 14.99% of the C Share capital, and will unless previously revoked or renewed expire on the conclusion of the Annual General Meeting of the Company to be held in 2007.

The maximum price that may be paid for Ordinary Shares and C Shares will be an amount equal to 105 per cent 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 maybe, 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.

## 11. Related party transactions

Kenneth Vere Nicoll is a director and shareholder of Matrix Group Limited, which owns Matrix-Securities Limited and MPE Partners Limited. MPE Partners Limited has a 50% interest in Matrix Private Equity Partners LLP, the Company's Investment Manager. He is also a director of Matrix-Securities Limited who act as promoter to the Company and received fees of £nil (year ended 30 April 2007: £Nil; 6 months ended 31 October 2006: £Nil) and provided accountancy and company secretarial services to the Company for which it received payment of £44,404 (year ended 30 April 2007: £89,551; 6 months ended 31 October 2006: £43,081) including VAT during the year. £Nil (30 April 2007: £22,202; 31 October 2006: £22,804) was payable to Matrix-Securities Limited at the period-end. Matrix Private Equity Partners LLP is the Company's Investment Manager in respect of venture capital investments and earned fees of £260,989 (year ended 30 April 2007: £478,225; 6 months ended 31 October 2006: £230,099), including VAT for the year. £Nil (year ended 30 April 2007: £Nil; 6 months ended 31 October 2006: £114,945) was due to Matrix Private Equity Partners LLP at the period-end.

12. The financial information set out in this report has not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information and does not comprise full financial statements within the meaning of section 240 of the Companies Act 1985. The audited accounts for the Company for the year ended 30 April 2007, on which the auditors gave an unqualified report, have been delivered to the Registrar of Companies.

13. Copies of this statement are being sent to all Shareholders. Further copies are available free of charge from the Company's registered office, One Jermyn Street, London, SW1Y 4UH or can be downloaded via the Company Secretary's web site at [www.mig2vct.co.uk](http://www.mig2vct.co.uk).



# Shareholder Information

Shareholders wishing to follow the Company's progress at [www.mig2vct.co.uk](http://www.mig2vct.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](http://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](http://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 half-yearly accounts. The next edition will be distributed in March 2008.

## **Net asset value per share**

The Company's NAV per share as at 31 October 2007 was 104.71 pence per Ordinary Share and 98.48 pence per C Share. The Company announces its unaudited NAV on a quarterly basis.

## **Dividend**

The Board is not recommending the payment of an interim dividend in respect of the six months ended 31 October 2007 to either Ordinary Shareholders or C Shareholders. The Directors will consider the payment of final dividends in respect of the year ending 30 April 2008 when they review the full year results.

Shareholders who wish to have future 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.

## **Shareholder enquires**

For enquiries concerning the investment portfolio, please contact the Investment Manager, Matrix Private Equity Partners LLP, on 020 7925 3300 or by e-mail to [info@matrixpep.co.uk](mailto: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 3300 or write to them at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA. Alternatively you can contact them via their web site at [www.capitaregistrars.com](http://www.capitaregistrars.com).

# Corporate Information

## Directors

Nigel Melville (Chairman)  
Adam Kingdon  
Sally Leeson  
Kenneth Vere Nicoll

## Company's registered office and head office

One Jermyn Street  
London  
SW1Y 4UH

## Company Registration Number

3946235

## Website

[www.mig2vct.co.uk](http://www.mig2vct.co.uk)

## Secretary

Matrix-Securities Limited  
One Jermyn Street  
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SW1Y 4UH

e-mail: [mig2@matrixgroup.co.uk](mailto:mig2@matrixgroup.co.uk)

## Auditors and Tax Advisers

Mazars LLP  
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St Katharine's Way  
London  
E1W 1DD

## Bankers

Barclays Bank plc  
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54 Lombard Street  
London  
EC3V 9EX

## Investment Manager

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e-mail: [info@matrixpep.com](mailto:info@matrixpep.com)

## VCT Tax Adviser

PricewaterhouseCoopers LLP  
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## Sponsors and Stockbrokers

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EC3A 7QR

## Promoter and Company Accountants

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## Solicitors

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## Registrar

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