INVESTMENT PRODUCTS

# MATRIX INCOME & GROWTH VCT PLC

A VENTURE CAPITAL TRUST

REPORT & ACCOUNTS


Annual Report and Accounts
for the year ended 31 December 2011

MATRIX

# Investment Objective

Matrix Income & Growth VCT plc ("the VCT" or "MIG VCT") is a Venture Capital Trust ("VCT") listed on the London Stock Exchange. Its investment portfolio, which invests primarily in established and profitable unquoted companies, is managed by Matrix Private Equity Partners LLP ("MPEP").

The Company's objective is to provide investors with a regular income stream by way of tax-free dividends generated from income and capital returns.

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# Investment Policy

The VCT's policy is to invest primarily in a diversified portfolio of UK unquoted companies. Investments are usually structured as part loan and part equity in order to generate regular income and to generate capital gains from realisations.

Investments are made selectively across a number of sectors, primarily in management buyout transactions ("MBOs") i.e. to support incumbent management teams in acquiring the business they manage but do not own. Investments are primarily made in companies that are established and profitable.

Uninvested funds are held in cash and low risk money market funds.

- **UK companies**

The funds raised by the VCT after 6 April 2006 are subject to the £7 million gross assets test for an investment to be VCT qualifying. Pre 6 April 2006, the companies in which investments were made must have had no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

- **VCT regulation**

The investment policy is designed to ensure that the VCT continues to qualify and is approved as a VCT by HMRC. Amongst other conditions, the VCT may not invest more than 15% of its investments in a single company and must have at least 70% by value of its investments throughout the period in shares or securities comprised in VCT qualifying holdings, of which a minimum overall of 30% by value must be in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules). In addition, although the VCT can invest less than 30% of an investment in a specific company in ordinary shares it must have at least 10% by value of its total investments in each VCT qualifying company in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules).

The VCT regulations in respect of funds raised after 6 April 2011 changed, such that 70% of qualifying investments must be invested in equity.

- **Asset mix**

MIG VCT holds its liquid funds in a portfolio of readily realisable interest-bearing investments and deposits. The investment portfolio of qualifying investments has been built up over time with the aim of investing and maintaining around 80% of net funds raised in qualifying investments.

- **Risk diversification and maximum exposures**

Risk is spread by investing in a number of different businesses across different industry sectors. To reduce the risk of high exposure to equities, each qualifying investment is structured to maximise the amount which may be invested in loan stock. Initial investments in VCT qualifying companies are, subject to formal approval from the MIG VCT Board, generally made in amounts ranging from £200,000 to £1 million at cost. No holding in any one company will represent more than 10% of the value of the VCT's investments at the time of investment. Ongoing monitoring of each investment is carried out by the Manager generally through taking a seat on the board of each VCT qualifying company.

- **Co-investment**

The VCT aims to invest in larger more mature unquoted companies through investing alongside three other VCTs advised by MPEP with a similar investment policy. This enables the VCT to participate in combined investments by the Manager of up to £5 million.

- **Borrowing**

The VCT has never borrowed and has no current plans to undertake any borrowing.

- **Management**

The Board has overall responsibility for the VCT's affairs including the determination of its investment policy. Investment and divestment proposals are originated, negotiated and recommended by the Manager and are then subject to formal approval by the Directors.

## Impact of possible changes to the VCT tax rules on the VCT's investment policy

Changes to the VCT tax legislation, which may be introduced with effect from 6 April 2012 as part of the Finance Bill 2012, were published in the Budget on 21 March 2012. The exact changes have not yet been finalised and will be subject to state aid approval. If implemented, the current proposals could impact on the Company's Investment Policy as follows:

(1) The size of companies in which investment can be made is proposed to be increased to £15 million immediately before and £16 million immediately after the investment.

(2) The number of permitted employees for an investee company is proposed to be increased from 50 to 250.

(3) The amount of investment a VCT may make into a particular company within a twelve month rolling period is proposed to be increased from £1 million to £5 million.

(4) If the proposals are adopted in their current form it may no longer be possible for the Manager to carry out certain types of MBO transactions. If this turns out to be the case, the Company still intends to use other types of MBO transactions and therefore does not anticipate that this change will have a significant impact on the Company's investment policy. It is currently proposed that this change, if implemented, will not apply to funds raised up to 5 April 2012.

# Financial Highlights

### Merger with Matrix Income & Growth 3 VCT plc ("MIG 3 VCT")

The Company acquired the net assets and liabilities of MIG 3 VCT on 20 May 2010. At that date, the net assets of the merged VCT were £34.1 million, which have increased to £40.7 million at 31 December 2011.

Following the Merger, MIG 3 VCT shareholders were issued with approximately 1.0655 MIG VCT ordinary shares for each former MIG 3 VCT share. By way of illustration, a shareholder who previously held 10,000 MIG 3 VCT shares now holds 10,655 shares in the Company.

# Performance Summary

### The net asset value (NAV) per share of the Company at 31 December 2011 was 95.6 pence

To help Shareholders understand the recent past performance of their investment comparative data is shown below. Total return (NAV basis) comprises NAV per share plus cumulative dividends paid per share:-

| MIG VCT Fundraising | Net assets (£m) | NAV per Share (p) | Net cumulative dividends paid per share (p) | Total return (NAV basis) per share to shareholders since launch (p) | Share price[2] (p) | Total Expense ratio |
|---|---|---|---|---|---|---|
| **MIG VCT (2004/05)** | | | | | | |
| As at 31 December 2011[1] | 40.7 | 95.6 | 26.8 | 122.4 | 78.8 | 3.0% |
| As at 31 December 2010[1] | 38.5 | 96.7 | 21.3 | 118.0 | 84.0 | 3.3%[4] |
| As at 31 December 2009 | 17.0 | 83.3 | 16.3 | 99.6 | 57.0 | 3.7% |
| **MIG 3 VCT (2005/06)** | | | | | | |
| As at 31 December 2011[1] | – | 101.9 | 15.4 | 117.3 | –[3] | – |
| As at 31 December 2010[1] | – | 103.0 | 9.5 | 112.5 | –[3] | – |
| As at 31 December 2009 | 17.5 | 90.0 | 5.5 | 95.5 | 63.0 | 3.6% |

1 The data at 31 December 2011 shows the return on an initial subscription price at the date of inception of each fundraising taken from the next table divided by £10,000. The data at 31 December 2010 has been calculated on a similar basis.

2 Source: London Stock Exchange.

3 Former MIG 3 VCT shareholders now hold approx 1.0655 shares in MIG VCT for every one MIG 3 VCT share previously held. Shareholders should refer to the share price for MIG VCT in the lines above.

4 The TER at 31 December 2010 includes running costs in respect of MIG 3 VCT for the period up to 19 May 2010. Therefore, the reduced figure of 3.0% in 2011 shows the beneficial impact of the Merger. Excluding these running costs as part of the calculation would give an adjusted TER of 2.7%.

## Return before and after tax relief

The tables below show the total returns (NAV basis) at 31 December 2011 for MIG VCT Shareholders who invested £10,000 in each fundraising.

| MIG VCT Fundraising | | MIG VCT 2004/05 | MIG 3 VCT 2005/06 | Linked VCT Offer 2010/11[1] |
|---|---|---|---|---|
| Original investment £10,000 | (£) | 10,000 | 10,000 | 10,000 |
| Issue price | (p) | 100.0 | 100.0 | 100.4[2] |
| Number of shares held post merger/Linked VCT Offer | | 10,000 | 10,655 | 9,957 |
| Rate of income tax relief | % | 40% | 40% | 30% |
| Cost net of income tax relief | (£) | 6,000 | 6,000 | 7,000 |
| NAV at 31 December 2011 | (£) | 9,559 | 10,185 | 9,518 |
| Dividends paid to shareholders since subscription | (£) | 2,680 | 1,541 | 548[3] |
| Total return (NAV basis) to shareholders since subscription | (£) | 12,239 | 11,726 | 10,066 |
| Profit before income tax relief | (£) | 2,239 | 1,726 | 66 |
| Profit after income tax relief[4] | (£) | 6,239 | 5,726 | 3,066 |

1 This column shows the data for the MIG VCT shares only, received under the Linked VCT Offer

2 Average issue price

3 All shareholders who invested in the Linked VCT Offer, except those who received their shares in the last allotment on 6 July 2011, received the dividend of 5 pence per share paid on 27 May 2011.

4 Total return (NAV basis) minus cost net of income tax relief

## Liquidity and discount management

The Company holds approximately £13.2 million in readily realisable assets that are available for further investments, dividends and share buybacks. The discount for the Company's shares at 31 December 2011 was 10.3% based on the NAV per share at 30 September 2011 of 87.87 pence, which was the latest published figure at that time.

## Dividend history

| In respect of year ended | Payment date | Dividends paid in each year since launch MIG VCT (p) per share | MIG 3 VCT[1] (p) per share | Linked VCT Offer (p) per share[2] |
|---|---|---|---|---|
| 31 December 2011 (interim) | 15 September 2011 | 0.50 | 0.53 | 0.50 |
| 31 December 2010 | 27 May 2011 | 5.00 | 5.33 | 5.00 |
| 31 December 2009 (interim) | 21 April 2010 | 5.00 | 4.00 | – |
| 31 December 2008 | 15 May 2009 | 1.00 | 0.80 | – |
| 31 December 2008 (interim) | 11 September 2008 | 3.30 | 1.00 | – |
| 31 December 2007 | 21 May 2008 | 7.80 | 1.50 | – |
| 31 December 2007 (interim) | 20 September 2007 | 1.00 | 1.00 | – |
| 31 December 2006 | 18 May 2007 | 1.40 | 1.25 | – |
| 31 December 2006 (interim) | 14 September 2006 | 0.80 | – | – |
| 31 December 2005 | 16 May 2006 | 0.70 | – | – |
| 31 December 2005 (interim) | 27 September 2005 | 0.30 | – | – |
| **Cumulative dividends paid** | | **26.80** | **15.41** | **5.50** |

1 The dividends paid since the Merger on 20 May 2010 to former MIG 3 VCT shareholders have been adjusted by the Merger conversion ratio of 1.0655.

2 From MIG VCT shares only

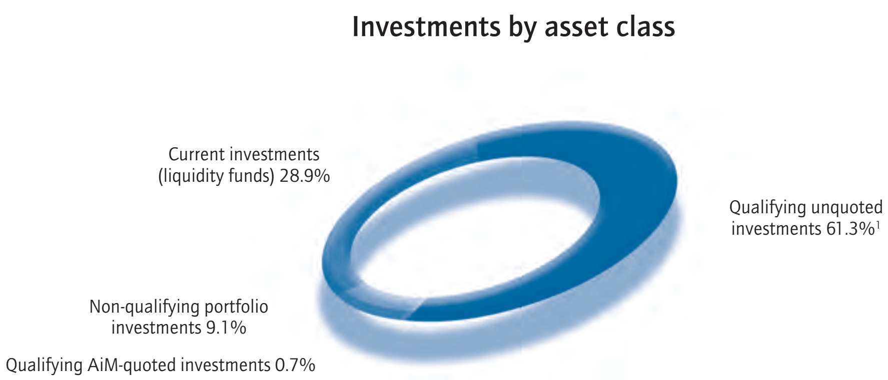
Dividends paid include distributions from both income and capital.

# Financial Highlights

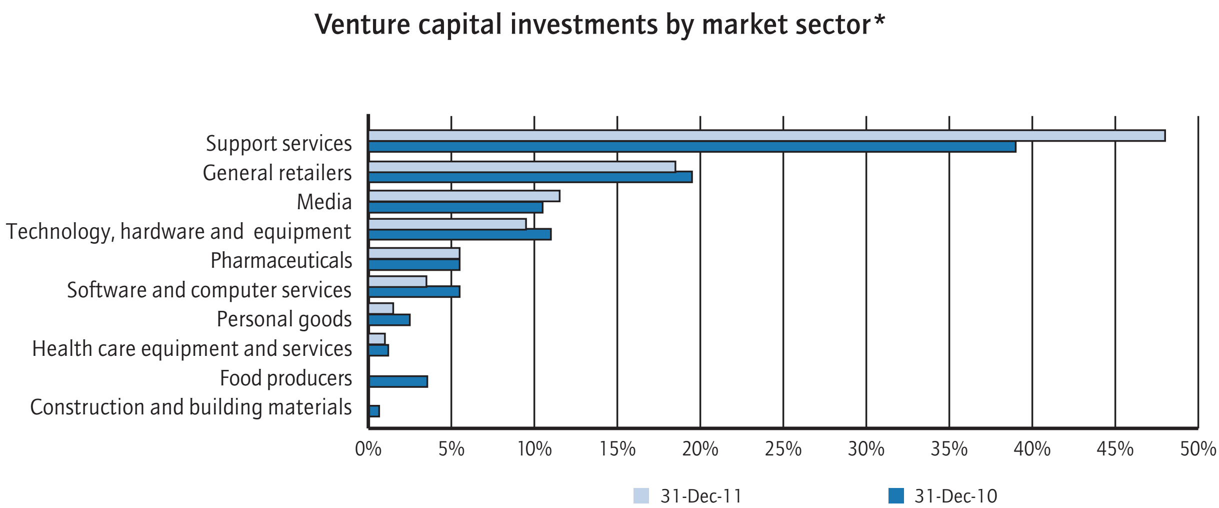
### Dividends proposed

A final dividend of 6.25 pence per share, comprising 5.00 pence from capital and 1.25 pence from income, will be recommended to Shareholders at the Annual General Meeting of the Company to be held on 10 May 2012 to be paid on 22 May 2012 to Shareholders on the Register on 11 May 2012.

### Investments by valuation at 31 December 2011 – All investments by asset class




[1] The above pie chart is based on the valuations of the investments as set out in the Investment Portfolio Summary on pages 14 – 15 and not on the tax values that are used to calculate the target set by HM Revenue & Customs (HMRC) of investing 70% of total funds raised in qualifying unquoted and AiM quoted companies ("the 70% test"). An explanation of the Company's position in respect of the 70% test is included in the Chairman's Statement on page 6 of this Annual Report under 'Investment in qualifying holdings'.




* For a breakdown of the investee companies included within each sector, please see the Investment Portfolio Summary on pages 14 – 15 of this Annual Report.

# Chairman's Statement

I am pleased to present the annual results of Matrix Income & Growth VCT plc for the year to 31 December 2011.

## Overview

The year under review was dominated by continuing uncertainty about and fragility in the UK economy. A number of factors contributed to this including the sovereign debt crisis in the Eurozone and continued downward pressure on public sector expenditure and a rise in inflation in the UK.

Against this backdrop, the quoted UK equity market as represented by the FTSE All-Share Index was very volatile and ended the year down 3.5% on a total return basis. Bearing in mind that many of the portfolio companies are valued by reference to the performance of companies trading in similar sectors within the FTSE All-Share Index, it is encouraging to note that the Company's NAV total return rose by 3.7%.

## Performance

The total return (NAV basis) per share, including dividends paid to date, is now 122.4 pence (2010: 118.0 pence), an increase over the year of 3.7% (2010: 18.5%). This compares with the initial NAV per share, net of initial costs, of 94.5 pence representing a positive total return (NAV basis) per share since inception of 29.5% (2010: 24.9%).

Taking into account initial tax relief, investors have seen an overall gain on investment cost of 104.0% since the launch of the Company on a net investment cost of 60 pence per share.

Former MIG 3 VCT Shareholders may refer to the tables included in the Financial Highlights on pages 2 – 3 for information on the performance of their original investment including dividend payments.

## New investment and portfolio review

The upturn in dealflow in the second half of 2010 continued into 2011. Three new investments were completed during the year under review to support the management buyouts ("MBOs") of Motorclean Group Limited, Equip Outdoor Technologies Limited and EMaC Limited. The Company's existing investments in the acquisition vehicles Fullfield and Vanir were used in respect of the Motorclean and EMaC investments.

Further investments were made into ASL to support the acquisition of the assets of a similar company, Transcribe Copier Systems Limited and into Monsal as part of a £1.75 million facility to support the turnaround of that company.

Three loan stocks held by the Company totalling £2.5 million in value were fully repaid during the year (including any premiums due). Repayments were received from Iglu.com Holidays, Vectair and MachineWorks.

In January 2011, the VCT realised its entire investment in Campden Media for a cash consideration of £836,294, representing 85.8% of the total investment cost of £975,000. Taking into account interest received, the overall gain on this investment was a disappointing 4.2%.

In December 2011, the VCT made a partial disposal of its investment in DiGiCo to ISIS Equity Partners. The VCT has received total cash proceeds of £5.9 million over the life of this investment representing a three times cash return to date. In addition, the VCT continues to hold a residual loan stock and small equity investment in this company, valued in total at £2.6 million.

A number of the investee companies continued to trade well, notably DiGiCo, ATG Media and Iglu.com Holidays. Other companies were still endeavouring to recover from the effects of the 2008/09 recession. Plastic Surgeon returned a modest profit after a period of weak trading and Youngman fully repaid its bank debt and so is well-positioned to benefit from any upturn in its markets. Blaze Signs reported improved results demonstrating a sound recovery during the year. PXP, however, continues to be valued at nil although a further small investment into this company has been approved.

Further details of these investments and the year's other transactions can be found in the Investment Manager's Review on pages 8 – 13.

## Review of results

The Company returned a profit for the year of £1,663,621 (2010: £6,321,656), comprised of a revenue profit of £963,571 (2010: £313,297) and a capital profit of £700,050 (2010: £6,008,359). Last year's capital return reflected a large increase of £6,527,412 in the valuation of the portfolio, which was not repeated this year. However, net income more than trebled from £313,297 to £963,571, mainly due to a rise in gross income from £934,890 to £1,681,991.

Although this increase in gross income was flattered to the extent of £141,427 by the first time inclusion of a full year's income attributable to Matrix Income & Growth 3 VCT plc, like-for-like income rose strongly due to higher loan stock interest and dividends being received from investee companies. Interest from new loan stock investments outweighed the interest foregone on loan stock redemptions while several investee companies resumed servicing their current loan interest. These factors caused loan stock interest to rise from £700,647 to £1,184,015. Dividends from investee companies more than doubled from £194,226 to £425,919. DiGiCo's dividend nearly doubled and there were also sizeable dividends from ATG Media and Lightworks.

# Chairman's Statement

On the negative side, revenue from the Company's cash balances remained at low levels due to the extremely low interest rate environment. This also affected loan stocks where the interest is linked to variable interest rates. In addition some investee companies were still not servicing their loans.

Meanwhile expenses were lower in 2011 compared with 2010, principally as this year contained no merger costs which were £69,089 last year and because some costs previously treated as administration costs are now part of investment management fees, which are partly charged to the capital account.

## Dividends

Your Directors are pleased to recommend a final dividend in respect of 2011 of a total of 6.25 pence per share (2010: 5.00 pence) comprising 5.00 pence per share (2010: 4.50 pence) from capital and 1.25 pence per share (2010: 0.50 pence) from income. Once approved, this would bring dividends for 2011 to 6.75 pence per share (2010: 5.00 pence) in total.

Subject to Shareholder approval, this dividend will be paid on 22 May 2012 to Shareholders on the Register on 11 May 2012. This payment would bring cumulative dividends paid since inception to 33.05 pence per share (2010: 26.30 pence).

## Investment in qualifying holdings

In order to comply with VCT tax legislation, the Company must meet the target set by HMRC of investing 70% of total funds raised in qualifying unquoted and AiM quoted companies ("the 70% test"). At 31 December 2011, the Company was 72.7% invested in qualifying companies (based upon the tax values, which differ from the values given in the Investment Portfolio Summary on pages 14 – 15). This figure is, however, before taking account of the disposal of DiGiCo which will reduce the percentage below 70%. In accordance with HMRC rules, the Company is allowed six months from the date of a realisation to meet the 70% test and the Board has taken steps to restore the position post year-end.

## Share buybacks

During the year ended 31 December 2011, the Company bought back 2,681,786 of its own shares (2010: 1,270,092 of which 33,525 were bought back by MIG VCT and 103,995 were bought back by MIG3 VCT prior to the Merger) at an average price of 82.45 pence per share and a total cost of £2,222,097 including expenses (2010: £951,784). These shares, representing 6.7% of the issued share capital of the Company at the beginning of the year, were subsequently cancelled by the Company.

Purchases were made at discounts to the latest published NAVs per share ranging between 10-14% (2010: 10-38%). The discount at which shares were bought back has significantly narrowed and stabilised since mid 2010. This reflects the Board's current policy which is to seek to maintain the discount at which the Company's shares trade at around 10%. Ongoing Shareholders, of course, benefit from the difference between the Net Asset Value and the price at which the shares are bought back and cancelled.

The Company's shares are listed on the London Stock Exchange and as such they should be sold in the same way as any other quoted company through a stockbroker. However, to ensure that they obtain the best price, Shareholders wishing to sell their shares are advised to contact the Company's stockbroker, Matrix Corporate Capital by telephoning 020 3206 7176/7 before agreeing a price with their stockbroker. Shareholders are also advised to discuss their individual tax position with their financial adviser before deciding to sell their shares.

## Merger with Matrix Income & Growth 3 VCT plc

The Company has continued to benefit from the merger of the Company with Matrix Income & Growth 3 VCT in May 2010 both in terms of cost savings and more efficient administration. A total of £150,000 of costs previously incurred by both separate VCTs has been saved since the Merger, comparing the 2009 financial year for both former VCTs with this year's costs. This represents 0.4% of net assets at the date of the Merger. Added to estimated savings for the second six months of 2010, we therefore continue to anticipate that the full costs of the Merger will be recovered within two years.

## Fundraising

The Company is participating in a linked fundraising with The Income & Growth VCT plc and Matrix Income & Growth 4 VCT plc which was launched on 20 January 2012 to raise up to £21 million across the three VCTs. The funds raised for the VCT of up to £7 million will further improve the Company's liquidity, enable the VCT to continue to take advantage of the expected favourable conditions for new investment, support the Company's share buyback policy and mean that its fixed running costs will be spread over a larger asset base. Details of the Offer have been posted to Shareholders. This Offer has been well received and a total of £1.7 million has been raised to date for the Company.

The Offer will remain open until 30 April 2012 (5 April 2012 in respect of the current tax year) although the Directors of the three VCTs reserve the right to extend the closing date at their discretion.

## Change of ownership at Matrix Private Equity Partners

Since April 2004, the Company's Manager MPEP has been owned jointly by its executive partners and Matrix Group Limited ("Matrix"). On 12 January 2012, the executive partners reached agreement to acquire Matrix's interest in the business and this will lead to the Manager becoming a wholly independent owner-managed firm. The acquisition is subject to approval from the FSA of the change of control in MPEP and is expected to be completed on or around 30 June 2012.

The Company's arrangements with MPEP, in particular its investment strategy and services, are not expected to change. The Directors look forward to continuing to work with MPEP to provide attractive long term returns on your VCT investment, whilst reserving the Company's rights under the investment management agreement.

Subject to the acquisition being completed, it is currently the intention that MPEP will leave its offices at One Vine Street and that both its name and the name of the VCT will be changed.

## Communication with shareholders

We aim to communicate regularly with our Shareholders. In addition to the Half-Yearly and Annual Reports, Shareholders receive a twice-yearly Matrix VCT Newsletter from the Manager, approved by the Board. The May AGM will provide a useful platform for the Board to meet Shareholders and exchange views. Your Board welcomes your attendance at General Meetings to give you the opportunity to meet your Directors and representatives of the Manager.

The Manager held a second successful investor workshop in January 2012. The workshop provided a forum for about 100 Matrix VCT Shareholders to hear presentations from the Manager about its investment activity in greater depth and from a successful entrepreneur of one of the portfolio companies. It is intended that this will be an annual event, to which all Shareholders will be invited.

## Outlook

The outlook for the UK economy remains highly uncertain. The rise in inflation in 2011 increased the pressure on consumers and the small businesses that service them. Despite this difficult environment, the majority of companies in the portfolio continue to trade profitably and several are reporting results ahead of their budget and prior year. However, the Manager expects that there may be companies in our portfolio which may find the challenges of the economic climate testing in the short term as the public sector cuts begin to take effect and the economy struggles to achieve permanent positive growth.

We expect the VCT to have sufficient liquidity after this year's fundraising to ensure it is well-placed to take advantage of new investment opportunities as well as supporting existing investee companies to respond to the difficult times that may lie ahead. The Board believes that the portfolio is well-positioned to provide growth in value over the medium-term and that the VCT's strategy of investing primarily in MBOs and structuring investments to include loan stock will continue to mitigate downside risk.

Finally, I would like to express my thanks to all Shareholders for their continuing support of the Company.

**Keith Niven,**
*Chairman*

22 March 2012

# Investment Manager's Review

## Overview

We continue to be encouraged by the positive signs that we have seen in our investment market both in terms of making investments and in achieving realisations. There has been a clear upward trend in deal flow during the latter half of the year under review and we have seen a higher number of better priced, profitable, well-positioned and cash generative businesses seeking investment.

We believe that this is due to two important converging factors which have combined to make our level of investment in the latter half of 2011 the highest for several years. Firstly, the continuing flat level of activity in the economy has led to greater realism amongst vendors regarding the value of their companies, leading to more realistic pricing. Secondly, our ability to invest significant levels of capital in a market lacking bank funding means that management buyout ("MBO") teams are increasingly turning to us as a source of deliverable, long-term finance.

Furthermore, we are finding that there is trade interest, as well as enthusiasm from private equity investors, in the type of businesses in which we have invested, creating some interesting exit opportunities.

We believe that the VCT's strategy of investing in modestly-geared MBO opportunities, supporting highly motivated management teams, focusing on acquiring established, profitable, positive cashflow businesses and investing partly in income yielding loan stocks substantially increases the degree of downside protection to Shareholders' capital.

## New investment

Three new investments have been completed during the year under review totalling £4.9 million, two of which used the VCT's existing investments of £1 million each in the acquisition vehicles Fullfield and Vanir.

In the first of these in July 2011, the VCT invested a further £840,384 into the acquisition vehicle Fullfield to enable it to support the MBO of Motorclean Group Limited, a provider of vehicle cleaning and valet services to the car dealership market, bringing the VCT's investment in this company to £1.8 million.

Secondly, the VCT made an investment of £1,298,031 to provide mezzanine finance as part of a £7.8m transaction to support the acquisition of the international intellectual property and assets of Lowe Alpine Srl from administration in Italy by Equip Outdoor Technologies Limited, a company specialising in owning and distributing brands focused on the outdoor sector. The new company is called EOTH Limited.

In the final new investment made during the year, the VCT invested a further £762,336 into the acquisition vehicle Vanir to support the MBO of EMaC Limited, the UK's leading provider of outsourced service plans to franchised dealers in the automotive sector, bringing the VCT's investment in this company to £1.8 million.

Our Operating Partner programme continues to pursue an active search for investment opportunities and two of the acquisition companies successfully identified promising businesses during the year, as described above. However, in December 2011, Bladon Castle repaid its loan stock and ceased its activity as it had been unable to execute a transaction within an acceptable period of time. Accordingly, at the year-end no acquisition vehicles were left in this VCT. However, the research undertaken by Bladon Castle will not be lost as we will continue to work with our operating partners in new vehicles in which this VCT has invested after the year-end. Each of these acquisition vehicles is headed by an experienced Chairman, well-known to us, who is working closely with us in seeking to identify and complete investments in specific sectors relevant to their industry knowledge and experience. We have established these companies to provide time for us to identify and invest in suitable target companies at sufficiently attractive prices.

## Follow-on investment

We have worked even more closely with our investee companies during the downturn in the economy to support and encourage them to make the necessary changes to ensure that they were well-placed to withstand the economic contraction. It is indicative of the success of these measures that Monsal is the only investment in the portfolio that has required further working capital funding during the year under review. Earlier in the year, Monsal was experiencing completion delays on an existing contract and in the commissioning of new contracts. These delays led to a requirement for additional funding and, following careful consideration, your Company approved a further loan stock investment of up to £293,000 as part of a £1.75 million fundraising alongside other Matrix VCTs and other shareholders. Three tranches of this new funding round, totalling £117,226, have been drawn down to date in separate tranches in July and August 2011; these investments are held at cost. The terms of this new investment round provided for it to rank ahead of the existing investment. With this additional funding, Monsal now has the ability to pursue a number of major contracts in the waste and water sector which will make the potential for recovery of value in the original investment a more realistic prospect. Encouragingly, since approval of this facility Monsal has materially advanced its negotiations on a number of new contracts.

The VCT made a follow-on investment of £622,466 in March 2011 into ASL to help fund the acquisition of Transcribe Copier Systems Limited, bringing the VCT's current investment in this company to £1,912,946.

### Realisations

We are pleased to report that a number of companies in the portfolio continue to be strongly cash generative, and some have fully repaid their loan stock during the year to 31 December 2011, returning a total of £2.5 million (including premiums where relevant) to the VCT. The payments received were: £1,418,444 from Iglu.com Holidays in February 2011; £506,074 from Vectair in March 2011; and £556,108 from MachineWorks in April 2011.

In January 2011, the VCT realised its entire investment in Campden Media for a cash consideration of £836,294, representing 85.8% of the total investment cost of £975,000. Together with interest paid over the life of the investment, the total cash return to the VCT was £1,016,150, representing 104.2% of cost.

In December 2011 the VCT made a partial realisation of its investment in DiGiCo through a sale to ISIS Equity Partners. This realisation increased the total cash proceeds received by the Company over the life of the investment by £4.2 million to £5.9 million, representing a 3.1 times cash return on the Company's original investment of £1.9 million. In addition, the VCT retains a 4.6% equity stake, and new loan stock in DiGiCo valued at £2.6 million at the date of completion of the transaction. The total return to date thus equates to approximately £8.5 million; a 4.5 times return on the VCT's original cost. DiGiCo is a leading manufacturer and distributor of sound mixing consoles used at major corporate and sporting events worldwide. Its sustained strong profit growth since investment has been largely driven by product development and a series of successful launches. DiGiCo is a good example of how a properly financed business with strong management and a market-leading product can develop a niche opportunity and grow significant value.

### Portfolio review

The portfolio at 31 December 2011 comprised 25 (2010: 24) investments with a cost of £27.1 million and valued at £27.4 million.

The portfolio's performance as a whole continues to be robust. Some investee companies, of which DiGiCo, Iglu.com Holidays and ATG Media have been the most notable, have increased sales and profits despite the challenges of the economic environment.

Of the new investments made during the year, Fullfield (Motorclean) and Ingleby (EMaC) have made a strong start. Fullfield in particular is performing in line with its investment plan. EOTH (Rab and Lowe Alpine), however, has experienced a lower level of growth than expected since investment, reflecting the recent problems affecting the retail leisure goods sector.

Iglu.com Holidays continues to perform strongly and is now valued significantly above cost following out-performance of its business plans at the time of investment. DiGiCo and ATG Media experienced increased trading and profitability which has contributed to their higher unrealised valuations. Focus Pharma continues to trade well, although it ended its financial year slightly behind a stretching budget. It launched two new products during 2011 and expects to progress further with several further product launches planned for 2012.

Other companies are still endeavouring to recover fully from the effects of the 2008-9 recession. Activity in the construction and house building sectors remains well below historical levels and this continues to affect the performance of PXP and Plastic Surgeon. PXP continues to be valued at nil although a small additional investment into this company has been approved. Although Youngman has now fully repaid its bank debt, demand for its products remains volatile and difficult to predict. Blaze Signs has made an impressive recovery from the depths of the recession but profitability remains well-below peak levels. Westway has experienced less favourable trading but remains solidly profitable and with strong customer relationships. ASL has now integrated Transcribe and is looking at further acquisitions.

Elsewhere the position is mixed but perhaps less positive than in the prior year. RDL has had a disappointing first year with delays in placing contract staff in its core pharmaceuticals market. Faversham is streamlining its operations and continues to make steady progress.

Of the VCT's investments more directly exposed to the consumer, CB Imports has continued to advance its position in a difficult floristry supplies market and has started its trading year strongly. Racoon is generating solid profitability.

British International has experienced a disappointing year after record profitability in 2010 achieved on the back of high activity in oil and gas support work. The oil support work in the Falklands ended in May and has not been replaced by other contracts. In addition the long term decline in passenger numbers on the Penzance to Isles of Scilly passenger route has continued. Your investment is, however, well underpinned by the company's assets.

# Investment Manager's Review

In March 2011, VSI completed a demerger of its two constituent businesses and the VCT now holds equivalent investment in two companies, Lightworks Software Limited and Machineworks Software Limited. As part of the agreement Machineworks assumed all of VSI's loan stock which it repaid in April. The remaining investment in Machineworks in particular is valued considerably above cost.

## Investment outlook

The outlook for the UK economy is uncertain, but we have been encouraged by developments in the last year in our market sector. Although the coming months are likely to prove more testing as the public sector cuts begin to take effect and the economy struggles to stabilise its faltering growth, we consider that good quality companies, prudently financed and capable of maintaining competitive advantage, still have the potential to succeed in this environment.

The difficult economic outlook and the volatility in the quoted markets will inevitably continue to have an impact on the unrealised valuations of the companies in the portfolio. However, we believe that the portfolio overall is resilient and essentially of high value which will be released in the long term. Our strategy of investing primarily in MBOs and structuring investments to include loan stock will continue to mitigate downside risk.

The funds raised in the current fundraising will enhance the significant levels of uninvested cash retained by the Company and ensure that the VCT is in a strong position to support portfolio companies should the need arise and to invest in attractive new opportunities. Alongside this, the Manager is conscious of the need to ensure that investee companies take appropriate actions to respond to the challenging environment ahead.

Details of the Company's ten largest investments by value as at 31 December 2011 are set out on the following pages.

**ATG Media Holdings Limited** – www.antiquestradegazette.com

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £1,486,000 | £531,000 | £2,000 | £953,000 |
| Valuation | £2,923,000 | £1,876,000 | £2,000 | £1,045,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 14.0%
**Business:** Publisher and on-line platform operator
**Location:** London
**History:** Management buyout via acquisition vehicle
**Income receivable, recognised for the year:** £146,915
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 30 September 2010 | £7,215,000 | £1,261,000 | £2,506,000 |

**Newincco 1124 Limited (non-qualifying)** – www.digiconsoles.com

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £2,593,000 | £5,000 | – | £2,588,000 |
| Valuation | £2,593,000 | £5,000 | – | £2,588,000 |

**Basis of valuation:** Price of recent investment
**Equity % held and voting rights:** 4.6% (fully diluted)
**Business:** Designer and manufacturer of digital sound mixing consoles
**Location:** Chessington, Surrey
**History:** Management buyout
**Income receivable, recognised for the year:** £284,188
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 December 2010 | £18,757,000 | £5,501,000 | £8,909,000 |

**British International Holdings Limited** – www.islesofscillyhelicopter.com

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £2,026,000 | £225,000 | £1,000 | £1,800,000 |
| Valuation | £2,261,000 | £nil | £nil | £2,261,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 17.5%
**Business:** Helicoptor service operator
**Location:** Sherborne, Dorset
**History:** Management buyout
**Income receivable, recognised for the year:** £47,805
**Audited financial information**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 December 2010 | £19,350,000 | £3,315,000 | £4,017,000 |

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**CB Imports Group Limited** – www.countrybaskets.co.uk

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £2,000,000 | £350,000 | – | £1,650,000 |
| Valuation | £2,058,000 | £58,000 | – | £2,000,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 11.6% (fully diluted)
**Business:** Importer and disributor of artificial flowers and floral sundries.
**Location:** East Ardsley, West Yorkshire
**History:** Management buyout via acquisition vehicle
**Income receivable, recognised for the year:** £163,069
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 December 2010 | £21,197,000 | £755,000 | £4,259,000 |

The financial information quoted above relates to the operating subsidiary, CB Imports Limited.

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**Blaze Signs Holdings Limited** – www.blaze-signs.com

| | Total | Ordinary Shares | Preference Shares | Loan Stock |
|---|---|---|---|---|
| Cost | £1,700,000 | £472,000 | £20,000 | £1,208,000 |
| Valuation | £1,948,000 | £178,000 | £24,000 | £1,746,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 20.8%
**Business:** Manufacturer and installer of signs
**Location:** Broadstairs, Kent
**History:** Management buyout
**Income receivable, recognised for the year:** £149,107
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 March 2011 | £20,127,000 | £1,889,000 | £2,937,000 |

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**Fullfield Limited** – www.motorclean.net

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £1,840,000 | £583,000 | – | £1,257,000 |
| Valuation | £1,840,000 | £583,000 | – | £1,257,000 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 12.6%
**Business:** Provider of vehicle cleaning and valet services
**Location:** Laindon, Essex
**History:** Management buyout
**Income receivable, recognised for the year:** £79,727
**Audited financial information:** First audited accounts since investment will be for the year ended 30 November 2011

**Iglu.com Holidays Limited** – www.iglu.com

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £217,000 | £214,000 | £3,000 | – |
| Valuation | £1,795,000 | £1,792,000 | £3,000 | – |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 11.6%
**Business:** On-line ski and cruise travel agent
**Location:** Wimbledon
**History:** Management buyout via acquisition vehicle
**Income receivable, recognised for the year:** £10,037
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 May 2011 | £72,924,000 | £1,448,000 | £1,213,000 |

**Ingleby (1879) Limted** – www.emac.co.uk

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £1,762,000 | £529,000 | 1,000 | £1,232,000 |
| Valuation | £1,762,000 | £529,000 | 1,000 | £1,232,000 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 8.8% (fully diluted)
**Business:** Provider of service plans for the motor trade
**Location:** Crewe
**History:** Management buyout
**Income receivable, recognised for the year:** £24,753
**Audited financial information:** First audited accounts since investment will be for the year ended 31 December 2011

**ASL Technology Holdings Limited** – www.aslplc.co.uk

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £1,913,000 | £452,000 | – | £1,461,000 |
| Valuation | £1,742,000 | £nil | – | £1,742,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 10.3% (fully diluted)
**Business:** Supplier of printer and photocopier services
**Location:** Cambridge
**History:** Management buyout via acquisition vehicle
**Income receivable, recognised for the year:** £133,151
**Audited financial information:** First audited accounts since investment will be for the year ended 30 September 2011

**Focus Pharma Holdings Limited** – www.focuspharmaceuticals.co.uk

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| Cost | £1,370,000 | £385,000 | £2,000 | £983,000 |
| Valuation | £1,543,000 | £366,000 | £2,000 | £1,175,000 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 5.1%
**Business:** Licensor and distributor of generic pharmaceuticals
**Location:** Burton upon Trent, Staffordshire
**History:** Management buyout
**Income receivable, recognised for the year:** £103,599
**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 31 December 2010 | £24,429,000 | £1,507,000 | £3,342,000 |

Further details of the investments in the Company's portfolio may be found on the Manager's website: www.matrixpep.co.uk.

Note: Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

# Investment Portfolio Summary
as at 31 December 2011

| | Market sector | Date of initial investment | Total book cost £'000 | Valuation £'000 | % value of net assets | % of equity held by funds managed by MPEP* |
|---|---|---|---|---|---|---|
| **Qualifying investments** | | | | | | |
| **AiM quoted investments** | | | | | | |
| **Omega Diagnostics Group plc** In-vitro diagnostics for food intolerance, autoimmune diseases and infectious diseases | Health care equipment and services | Dec 2010 | 305 | 261 | 0.6% | 9.8% |
| | | | 305 | 261 | 0.6% | |
| **Unquoted investments** | | | | | | |
| **ATG Media Holdings Limited** Publisher and on-line auction platform operator | Media | Oct 2008 | 1,486 | 2,923 | 7.2% | 38.4% |
| **CB Imports Group Limited (Country Baskets)** Importer and distributor of artificial flowers and floral sundries | General retailers | Dec 2007 | 2,000 | 2,058 | 5.1% | 23.2% |
| **Blaze Signs Holdings Limited** Manufacturer and installer of signs | Support services | Apr 2006 | 1,700 | 1,948 | 4.8% | 52.5% |
| **Fullfield Limited (Motorclean)** Provider of vehicle cleaning and valet services | Support services | Jul 2011 | 1,840 | 1,840 | 4.5% | 41.0% |
| **Iglu.com Holidays Limited** On-line ski and cruise travel agent | General retailers | Dec 2009 | 217 | 1,795 | 4.4% | 35.0% |
| **Ingleby (1879) Limited (EMaC)** Provider of service plans for the motor trade | Support services | Oct 2008 | 1,762 | 1,762 | 4.3% | 30.0% |
| **ASL Technology Holdings Limited** Printer and photocopier services | Support services | Mar 2008 | 1,913 | 1,742 | 4.3% | 34.0% |
| **British International Holdings Limited** Helicopter service operator | Support services | Jun 2006 | 1,683 | 1,625 | 4.0% | 34.9% |
| **Focus Pharma Holdings Limited** Licensor and distributor of generic pharmaceuticals | Pharmaceuticals | Oct 2007 | 1,370 | 1,543 | 3.8% | 12.7% |
| **RDL Corporation Limited** Recruitment consultant for the pharmaceutical, business intelligence and IT industries | Support services | Oct 2007 | 1,558 | 1,301 | 3.2% | 45.2% |
| **EOTH Limited (Rab and Lowe Alpine)** Branded outdoor equipment and clothing | General retailers | Oct 2011 | 1,000 | 1,000 | 2.5% | 8.0% |
| **Westway Services Holdings (2010) Limited** Installation, service and maintenance of air conditioning systems | Support services | Jun 2009 | 603 | 825 | 2.0% | 13.0% |
| **Machineworks Software Limited** Provider of software for CAM and machine tool vendors | Software and computer services | Apr 2006 | 223 | 720 | 1.8% | 45.0% |
| **Youngman Group Limited** Manufacturer of ladders and access towers | Support services | Oct 2005 | 1,000 | 701 | 1.7% | 29.7% |
| **Faversham House Holdings Limited** Publisher, exhibition organiser and operator of websites | Media | Dec 2010 | 527 | 416 | 1.0% | 31.4% |
| **Racoon International Holdings Limited** Supplier of hair extensions, hair care products and training | Personal goods | Dec 2006 | 1,213 | 393 | 1.0% | 49.0% |
| **The Plastic Surgeon Holdings Limited** Supplier of snagging and finishing services to the domestic and commercial property markets | Support services | Apr 2008 | 478 | 353 | 0.9% | 30.0% |
| **Vectair Holdings Limited** Designer and distributor of washroom products | Support services | Jan 2006 | 139 | 333 | 0.8% | 24.0% |
| **Lightworks Software Limited** Provider of software for CAD vendors | Software and computer services | Apr 2006 | 223 | 236 | 0.6% | 45.0% |

| | Market sector | Date of initial investment | Total book cost £'000 | Valuation £'000 | % value of net assets | % of equity held by funds managed by MPEP* |
|---|---|---|---|---|---|---|
| **Monsal Holdings Limited**<br>Supplier of engineering services to the water and waste sectors | Support services | Dec 2007 | 1,299 | 117 | 0.3% | 27.7% |
| **PXP Holdings Limited (Pinewood Structures)**<br>Designer, manufacturer and supplier of timber-frames for buildings | Construction and building materials | Dec 2006 | 1,164 | – | 0.0% | 37.3% |
| **Legion Group plc (in administration)**<br>Provider of manned guarding, mobile patrolling, and alarm response services | Support services | Aug 2005 | 150 | – | 0.0% | 2.9% |
| **Watchgate Limited**<br>Holding company | Support services | Nov 2011 | 1 | – | 0.0% | 100.0% |
| | | | 23,549 | 23,631 | 58.2% | |
| **Total qualifying investments** | | | **23,854** | **23,892** | **58.8%** | |
| **Non-qualifying investments** | | | | | | |
| **Newincco 1124 Limited (DiGiCo)**<br>Designer and manufacturer of digital sound mixing consoles | Technology, hardware and equipment | Jul 2007 | 2,593 | 2,593 | 6.4% | 11.0% |
| **British International Holdings Limited** | Support services | Nov 2009 | 343 | 636 | 1.6% | |
| **EOTH Limited (Rab and Lowe Alpine)** | General retailers | Oct 2011 | 298 | 298 | 0.7% | |
| **Total portfolio investments** | | | **27,088** | **27,419** | **67.5%** | |
| **Current investments** | | | | | | |
| SWIP Global Liquidity Fund plc (Scottish Widows)** | | | 2,466 | 2,466 | 6.1% | |
| Fidelity Institutional Cash Fund plc** | | | 2,207 | 2,207 | 5.4% | |
| GS Funds plc (Goldman Sachs)** | | | 1,931 | 1,931 | 4.7% | |
| Global Treasury Funds plc (Royal Bank of Scotland)** | | | 1,898 | 1,898 | 4.7% | |
| Institutional Cash Series plc (BlackRock)** | | | 1,496 | 1,496 | 3.7% | |
| Institutional Cash Series plc (Blackrock, formerly BGI)** | | | 852 | 852 | 2.1% | |
| Insight Liquidity Funds plc (HBOS)** | | | 274 | 274 | 0.7% | |
| **Total investments** | | | **38,212** | **38,543** | **94.9%** | |
| Cash at NatWest Bank plc | | | | 2,085 | 4.8% | |
| Other assets | | | | 329 | 1.0% | |
| Current liabilities | | | | (231) | (0.7)% | |
| **Net assets** | | | | **40,726** | **100.0%** | |

* The other funds managed by MPEP include Matrix Income & Growth 2 VCT plc, Matrix Income & Growth 4 VCT plc and The Income & Growth VCT plc. Details are contained in Note 10 to the accounts on pages 43 – 44.

**Disclosed as Current investments within Current assets in the Balance Sheet on page 33.

# Board of Directors

## Keith Niven

***Status:*** **Independent Non-executive Chairman**

***Age:*** **63**

*Experience:* Keith has over 30 years' experience in the financial services industry, most of which was spent at Schroder Investment Management Limited, the fund management arm of Schroders plc, where he was appointed joint vice chairman in 2000. He held a number of other senior positions within Schroders including managing director of its UK institutional fund management business between 1986 and 1992 and chairman of its retail business, Schroder Unit Trusts Limited, from 1992 to 2001. He retired from Schroders in October 2001. Keith is also a non-executive director of two other trusts, Schroder Income Growth Fund plc and Impax Environmental Markets plc. Keith is an investment adviser to the Rolls-Royce Pension Fund and a director of the Trossachs Community Trust. Until May 2010, he was chairman of Matrix Income & Growth 3 VCT plc (and continued to be a director until the company's dissolution in October 2011).

*Length of Service as at 31 December 2011:* 7.5 years

*Committee Memberships:* Audit Committee, Management Engagement Committee (Chairman) and Nominations and Remuneration Committee (Chairman)

*Number of Board and Committee meetings attended 2011:* 15/16

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

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 40,098 Ordinary shares.

## Bridget Guérin

***Status:*** **Non-executive Director**

***Age:*** **50**

*Experience:* Experience: Bridget has over 26 years of experience in the financial services industry including 12 years at Matrix Group, a specialist financial services company, between 1999-2011, where she sat on the Matrix Group board between 2000 and 2009. Bridget was managing director of Matrix Money Management Limited from June 1999 to March 2011, a wholly owned subsidiary of Matrix Group Limited which has managed and promoted a wide range of funds to the institutional and retail markets. Whilst at Matrix, Bridget was also a director of the Matrix Alternative Investment Strategies Fund Limited, an open ended fund of hedge funds, Matrix Structured Products Limited, a closed ended fund based in Bermuda and Matrix UCITS Fund plc, a fund which has a number of UCITS sub funds.

Prior to joining Matrix, Bridget gained 14 years' of retail investment fund experience at Schroder Unit Trusts Limited, Ivory & Sime and County NatWest. Bridget is currently a non-executive director of CCP Quantitative Fund and York Racecourse Knavesmire LLP and is a trustee of the York Racecourse Pension Fund.

Bridget was a director of Matrix Income & Growth 3 VCT plc until it merged with the Company on 20 May 2010 (and remained a director until this company's dissolution in October 2011).

*Length of Service as at 31 December 2011:* 7.5 years

*Committee Memberships:* None. Attends by invitation.

*Number of Board and Committee meetings attended 2011:* 11/11

(and 5 committee meetings attended by invitation)

*Relevant relationships with the Investment Manager or other service providers:* Former director and current shareholder (0.3%) of Matrix Group Limited which owns 100% of the equity of (1) MPE Partners Limited which in turn holds a 50% interest in Matrix Private Equity Partners LLP, Investment Manager, Promoter, Company Secretary and Administrator to the Company; and (2) Matrix CC Limited which in turn holds a 97% interest in Matrix Corporate Capital LLP, Corporate Broker to the Company.

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 27,338 Ordinary shares.

## Tom Sooke

***Status:*** **Senior Independent Director (Non-executive)**

***Age:*** **67**

*Experience:* Tom is an experienced venture capitalist and is chairman of Travel à la Carte Limited. In recent years he has been chairman and non-executive director of a number of quoted and unquoted private equity funds and other companies. Previously, up until 1991, he was a partner in Deloitte LLP, co-managing the firm's corporate advisory group in London. Prior to that he was a main board director at Granville Holdings plc, where he also established and ran its main private equity fund activities from 1980 to 1987. In 1983, whilst with Granville, Tom was one of the co-founding members of the British Venture Capital Association. Tom was a director of Matrix Income & Growth 3 VCT plc until it merged with the Company on 20 May 2010 (and remained a director until this company's dissolution in October 2011).

*Length of Service as at 31 December 2011:* 7.5 years

*Committee Memberships:* Audit Committee (Chairman), Management Engagement Committee and Nominations and Remuneration Committee

*Number of Board and Committee meetings attended 2011:* 16/16

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

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 20,742 Ordinary shares.

# Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2011.

## Business and principal activities

The principal activity of the Company during the year under review was investment in a diverse selection of established profitable unquoted companies in the United Kingdom.

The ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") were first admitted to the Official List of the UK Listing Authority and to trading on 8 October 2004.

The Company has satisfied the requirements for full approval as a Venture Capital Trust under section 274 of the Income Tax Act 2007 (ITA). It is the Directors' intention to continue to manage the Company's affairs in such a manner as to comply with section 274 of the ITA.

The Company revoked its status as an investment company as defined in section 266 of the Companies Act 1985 ("the 1985 Act") subsequently superceded by section 833 of the Companies Act 2006 ("the 2006 Act") on 19 December 2007. The Company can now distribute capital profits to Shareholders as dividends. The Company does not intend to re-apply for such status.

## Future developments

The Company will continue to pursue its Investment Objective and Investment Policy as set out on the inside front cover and page 1 of this Report.

## Business review and performance review

For a review of the Company's development and performance during the year, please see the Chairman's statement on pages 5 – 7 and the Investment Manager's Review and Investment Portfolio Summary on pages 8 – 15 of this Annual Report. The Financial Highlights on pages 2 – 4 provide data on the Company's key performance indicators.

The Board reviews performance by reference to various measures, taking account of the long term nature of the assets in which the Company invests.

- **Total Return (NAV basis)**
  The Total Return per share (NAV basis) is the key measure of performance for the Company, which comprises NAV plus cumulative dividends paid per share. The NAV is calculated quarterly in accordance with the International Private Equity Venture Capital Valuation (IPEVCV) guidelines. The total return (NAV basis) rose by 3.7% (2010: 18.5%).

- **Total expense ratio (TER)**
  The gross TER of the Company for the year under review was 3.01% (2010: 2.78%). If irrecoverable VAT and exceptional costs are excluded the ratio falls to 2.96% (2010: 2.66%).

  Under the terms of the management agreement, the total management and administration expenses of the Company, excluding any irrecoverable VAT and exceptional costs, are limited to a maximum of 3.6% of the value of the Company's closing net assets. Therefore, there were no excess expenses for the year under review (2010: £nil;). For further information, please see Note 4 on page 39.

  The TER at 31 December 2010 excludes running costs in respect of MIG 3 VCT for the period up to 19 May 2010. Including these running costs as part of the calculation gives an adjusted TER of 3.27%. Therefore, the reduced figure of 3.01% in 2011 shows the beneficial impact of the Merger.

## Principal risks, management and regulatory environment

The Board believes that the principal risks faced by the Company are:

- **Economic risk** – events such as an economic recession and movement in interest rates could affect trading conditions for smaller companies and consequently the value of the Company's qualifying investments.

- **Loss of approval as a Venture Capital Trust** – the Company must comply with section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains. If the proposals in the draft Finance Act 2012 are adopted in their current form it may no longer be possible for the Manager to carry out certain types of MBO transactions involving share acquisitions. If this turns out to be the case, the Company still intends to use other types of MBO transactions and therefore does not anticipate that this change will have a significant impact on the Company's investment policy.

- **Investment and strategic risk** – inappropriate strategy or consistently weak VCT qualifying investment recommendations might lead to under performance and poor returns to Shareholders.

- **Regulatory risk** – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of

# Directors' Report

these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

- **Financial and operating risk** – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or beaches of regulations. Failure of the Manager's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- **Market risk** – Investment in unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the London Stock Exchange main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals.
- **Asset liquidity risk** – The Company's investments may be difficult to realise especially in the current economic climate.
- **Market liquidity risk** – Shareholders may find it difficult to sell their shares at a price which is close to the net asset value.
- **Credit/counterparty risk** – A counterparty may fail to discharge an obligation or commitment that it has entered into with the Company.

The Board seeks to mitigate the internal risks by setting policy and by undertaking a key risk management review at each quarterly Board meeting. Performance is regularly reviewed and assurances in respect of adequate internal controls and key risks are sought and received from the Manager on a six monthly basis. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the AIC Code of Corporate Governance. The Board also has a share buyback policy to try to mitigate the Market Liquidity risk. This policy is reviewed at each quarterly Board Meeting.

## Share capital

During the year ended 31 December 2011, the Company bought back 2,681,786 of its own shares (2010: 1,270,092 of which 33,525 were bought back by MIG VCT and 103,995 were bought back by MIG3 VCT prior to the Merger) at an average price of 82.45 pence per share and a total cost of £2,222,097 including expenses (2010: £951,784). These shares, representing 6.7% of the issued share capital of the Company at the beginning of the year, were subsequently cancelled by the Company.

During the year ended 31 December 2011, the Company issued 5,508,292 (2010: nil) ordinary shares of 1 pence each in the capital of the Company raising a total of £5,236,341.

The issued Ordinary Share Capital of the Company as at 31 December 2011 was £426,061 (2010: £397,795) and the number of Ordinary Shares in issue at this date was 42,606,052 (2010: 39,779,546), subject to the cancellation from the Register of the shares bought-back by the Company up until this date. The number of ordinary shares in issue includes 5,508,292 shares that were allotted by the Company pursuant to the Matrix VCT Linked Offer for Subscription 2010/11.

Following the year-end, the Company has bought-back a further 425,000 of its own shares and issued a further 1,763,460 new Ordinary Shares under the Linked Offer for Subscription launched on 20 January 2012. The issued Ordinary Share Capital of the Company as at the date of this report is therefore £439,445 and the number of Ordinary Shares in issue is 43,944,512.

## Results and dividend

The revenue return after taxation attributable to Shareholders for the year was £963,571, an increase of £650,274 over the revenue return for the year ended 31 December 2010 of £313,297.

The capital return has decreased from £6,008,359 for the year ended 31 December 2010 to £700,050.

The Directors are proposing a final dividend of 6.25 pence per share comprising 5.00 pence from capital and 1.25 pence from income in respect of the year ended 31 December 2011, payable on 22 May 2012 to Shareholders who are on the Register on 11 May 2012. This dividend, once paid, will increase cumulative dividends paid since inception to 33.05 pence per share.

## Directors and their interests

The names of the Directors appear below and brief biographical details on each of the Directors are given on page 16 of this Annual Report. The current Directors were all appointed to the Board on 1 July 2004. In accordance with the Company's Articles of Association and the AIC Code of Corporate Governance ("the Code"), Tom Sooke will retire by rotation at the Annual General Meeting of the Company to be held on 10 May 2012 and being eligible offers himself for re-election. Following a review of his performance, the remaining Directors believe that Tom Sooke continues to provide strong leadership as the chairman of the Audit Committee and commitment to his role and are pleased to recommend his re-election to Shareholders.

The independence of each Director is reviewed on a continuing basis. Keith Niven and Tom Sooke are considered to be independent of the Company's Investment Manager. Bridget Guérin is considered to be independent under the Listing Rules. She has however, agreed to retire annually from the Board in accordance with the AIC Code owing to her recent connection with the Matrix Group and, being eligible, she will offer herself for re-election at the forthcoming Annual General Meeting. The Board confirms that, following a review of her performance, the Board is pleased to recommend Bridget Guérin's re-election to Shareholders. She has shown herself to be a committed and strongly, independently-minded director who is highly regarded and respected and continues to make a substantial contribution to the Board. For further information on Bridget Guérin's connection to Matrix Group and the Manager, please see Note 22 to the Accounts on page 54.

The Directors who held office throughout the year under review and their interests (including those of their connected persons) as at 31 December 2011 were:

| | Ordinary Shares held on: 31 December 2011 | 31 December 2010 |
|---|---|---|
| Keith Niven | 35,929 | 32,341 |
| Bridget Guérin | 24,211 | 18,980 |
| Tom Sooke | 18,136 | 16,342 |

| | Holding at 31 December 2011 | Shares issued since the year-end | Holding at 22 March 2012 |
|---|---|---|---|
| Keith Niven | 35,929 | 4,169 | 40,098 |
| Bridget Guérin | 24,211 | 3,127 | 27,338 |
| Tom Sooke | 18,136 | 2,606 | 20,742 |

## Management

Matrix Private Equity Partners LLP (MPEP) acts as Manager and provides administrative and company secretarial services to the Company.

During the year under review the Management Engagement Committee reviewed the services provided by the Manager. The continued appointment of the Manager on the current terms was recommended by the Committee and agreed by the Board on 10 November 2011. The Board concluded that the Company's investment portfolio continued to perform well as evidenced by the increase in value and total return on the portfolio on both an absolute and a relative basis. The Company has a good track record and its performance was strong compared to the VCT industry as a whole. The Board believed that the Manager had continued to exercise sound independent judgement while producing realistic valuations. The Board continued to believe, also, that MPEP possessed the experience, knowledge and resources necessary to help the Board achieve the Company's long term investment objectives. The Board, therefore, believes that the continued appointment of the Manager remains in the interest of Shareholders. Summaries of the performances of the portfolio as a whole and the Company's individual investments are contained in the Financial Highlights on pages 2 – 4 and the Investment Manager's Review and the Investment Portfolio Summary on pages 8 – 15.

The new management agreement between the Company and MPEP, which was entered into following the Merger with MIG 3 VCT on 20 May 2010, was extended to include Administration and Company Secretarial Services for which MPEP assumed responsibility from Matrix-Securities Limited following an internal re-organisation within Matrix Group Limited.

The principal terms of the Company's investment management agreement dated 20 May 2010 and the previous contractual arrangements prior to this date are set out in Note 3 to the Accounts on pages 38 – 39 of this Annual Report.

MPEP has been owned jointly by its executive partners and Matrix Group Limited ("Matrix") since April 2004. On 12 January 2012, the executive partners reached agreement to acquire Matrix's interest in the business and to form a wholly independent owner-managed firm. The acquisition is subject to approval from the FSA of the change of control in MPEP and is expected to be completed on or around 30 June 2012.

The Company's arrangements with MPEP, in particular its investment strategy and services, are not expected to change.

## VCT status monitoring

PricewaterhouseCoopers LLP advise the Company on its compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers review new investment opportunities as appropriate and carry out regular reviews of the Company's investment portfolio.

## Auditor

PKF (UK) LLP ("PKF") were re-appointed as auditor of the Company during the year and have expressed their willingness to continue in office. Resolutions to re-appoint PKF and to authorise the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

The non-audit services provided by PKF relate to the provision of tax compliance work and a review of the Half-Yearly Report and will in the current year also include tagging of the Annual Report for iXBRL to enable it to be filed at HMRC. The Directors consider the auditor was best placed to provide these services.

# Directors' Report

## Auditor's right to information

So far as the Directors are aware, there is no relevant audit information of which the auditor is 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 auditor is aware of that information.

## Financial instruments

Note 19 on pages 47 – 53 provides a definition of the financial instruments used by the Company. The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates, credit risk and liquidity risk. The Board regularly reviews and agrees policies for managing these risks.

## Substantial interests

As at 22 March 2012, the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

## Creditors' payment policy

The Company's policy is to pay all creditors' invoices within 30 days of the invoice date unless otherwise agreed. At 31 December 2011 the average credit period for trade creditors was 3 days (2010: 7 days).

## Employees

The Company does not have any employees, except for directors.

## Anti-bribery policy

The VCT has adopted a zero tolerance approach to bribery. The following is a summary of its policy:

- It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships where it operates.
- Directors and service providers must not promise, offer, give, request, agree to receive or accept a financial or other advantage in return for favourable treatment, to influence a business outcome or to gain any other business advantage on behalf of themselves or of the Company or encourage others to do so.
- The Company has communicated its anti-bribery policy to each of its service providers. It requires each of its service providers to have policies in place which reflect the key principles of this policy and procedures and which demonstrate that they have adopted procedures of an equivalent standard to those instituted by the Company.

## Environmental and social responsibility

The Board seeks to conduct the Company's affairs responsibly and considers relevant social and environmental matters when appropriate, particularly with regard to investment decisions. The Company uses mixed sources paper from well-managed forests and recycled wood and fibre as endorsed by the Forest Stewardship Council for the printing of its Annual and Half-Yearly Reports. The Company offers Shareholders the opportunity to sign-up for electronic communications which means that they receive an email notifying them when published information is available to download from the Company's website thus reducing the volume of paper that the Company uses to produce its reports.

## Authorisation of conflicts of interest

The Directors were granted the authority to authorise conflicts or potential conflicts of interest under the 2006 Act at the Annual General Meeting of the Company held on 16 May 2008. Since implementation of these new statutory requirements on 1 October 2008, they have exercised this authority in accordance with the Company's Articles of Association effectively following the procedures set out therein. Each of the Directors has a small interest (not exceeding 0.02%) in each of Matrix Income & Growth 4 VCT plc and The Income & Growth VCT plc. Bridget Guérin's interest in the Manager is disclosed in Note 22 on page 54.

## Accountability and audit

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 30 of this Annual Report.

The report of the independent auditor is set out on page 31 of this Annual Report.

The Board regularly reviews and monitors the external auditor's independence and objectivity. As part of this it reviews the nature and extent of services supplied by the auditor to ensure that independence is maintained. The Audit Committee has concluded that it is in the interests of the Company to purchase tax services from the auditor due to its greater knowledge of the Company which improves efficiency. The Committee believes that audit independence has been maintained as the fees involved are relatively small compared to those for the audit, the work is undertaken by separate teams and does not involve undertaking any management role in preparing the information reported in the accounts.

## Directors' and officers' liability insurance

The Company maintains a Directors' and Officers' Liability Insurance policy. The policy does not provide cover for fraudulent or dishonest actions by the Directors.

## Going concern

The Board has assessed the Company's operation as a going concern. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Management Report which is included within the Chairman's Statement, the Investment Portfolio Summary, the Investment Manager's Review and the Directors' Report. The Directors have satisfied themselves that the Company continues to maintain a significant cash position and it is currently raising additional funds. The majority of companies in the portfolio continue to trade profitably and the portfolio taken as a whole remains resilient and well-diversified. The major cash outflows of the Company (namely investments, buy-backs and dividends) are within the Company's control. The Board's assessment of liquidity risk and details of the Company's policies for managing its capital and financial risks are shown in Note 19 on pages 47 – 53. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Related party transactions

For details of the Company's related party transactions, please see Note 22 on page 54.

## Post balance sheet events

On 27 January 2012, Fullfield Limited (trading as Motorclean) made a partial repayment of its loan stock of £122,692.

On 30 January 2012, Focus Pharma Holdings Limited made a partial repayment of its loan of £269,708 plus a premium of £121,045 totalling £390,753.

Since the year-end, the Company has allotted 1,763,460 shares, raising net funds of £1,689,584 up to the date of the approval of these accounts under the Joint Offer launched on 20 January 2012.

On 20 March 2012, the Company made separate investments of £1 million into each of the acquisition vehicles Almsworthy Trading Limited, Culbone Trading Limited, Madacombe Trading Limited and Sawrey Limited.

On 8 March 2012, the Company bought back 425,000 of its own Ordinary Shares at 79 pence per share, for cancellation.

## Annual General Meeting

Notice of the eighth Annual General Meeting of the Company to be held at 2.30 pm on 10 May 2012 at the offices of Matrix Group Limited, One Vine Street, London W1J 0AH is set out on pages 56 – 58 of this Annual Report. A proxy form for the meeting is enclosed separately with Shareholder's copies of this Annual Report.

The notice of the meeting includes separate resolutions to re-appoint Tom Sooke and Bridget Guérin as Directors. Mr Sooke is retiring by rotation in accordance with the Articles of Association of the Company and Mrs Guérin, who is not considered to be independent of the Manager, has agreed to stand for re-election annually in accordance with the recommendations of the AIC Code. Brief biographical details of both Directors are published on page 16 of this Annual Report.

Resolutions 1-8 are being proposed as ordinary resolutions requiring more than 50% of the votes cast at the meeting to be in favour and resolutions 9 and 10 will be proposed as special resolutions requiring the approval of at least 75% of the votes cast at the meeting. An explanation of resolutions 8 to 10 is set out below,

## Authorities for the Directors to allot shares (Resolution 8) and disapply pre-emption rights (Resolution 9) under sections 551 and 570(1) of the 2006 Act.

These two resolutions grant the Directors the authority to allot shares for cash to a limited and defined extent otherwise than pro rata to existing Shareholders.

Resolution 8 will enable the Directors to allot up to an aggregate nominal amount not exceeding £153,945 representing approximately 35.0% of the existing issued share capital of the Company as at the date of the notice of the Annual General Meeting. The Company does not currently hold any shares as treasury shares.

Under section 561(1) of the 2006 Act, if the Directors wish to allot any new shares or sell or transfer treasury shares for cash they must first offer such shares to existing Shareholders in proportion to their current holdings. It is proposed by resolution 9 to sanction the disapplication of such pre-emption rights in respect of the allotment of equity securities (i) with an aggregate nominal value of £110,000 in connection with offer(s) for subscription; and (ii) with a nominal value of up to 10% of the issued share capital of the Company from time to time, in each case, where the proceeds may be used in whole or part to purchase the Company's shares.

Both of these authorities, unless previously renewed or revoked, will expire on the conclusion of the Annual General Meeting of the Company to be held in 2013. The Directors may allot securities after this date in pursuance of offers or agreements made prior to the expiration of these authorities. Both resolutions generally renew previous authorities approved on 4 May 2011.

# Directors' Report

The Directors launched a joint offer for subscription with The Income & Growth VCT plc and Matrix Income & Growth 4 VCT plc on 20 January 2012 to raise up to £7 million for each company and it is the Directors' intention that new shares may be issued pursuant to the offer under this authority (to the extent that existing authorities do not apply). The Directors have no further immediate intention of exercising the above powers.

## Authority to purchase the Company's own shares (Resolution 10)

This resolution authorises the Company to purchase its own shares pursuant to section 701 of the 2006 Act. The authority is limited to the purchase of an aggregate of 6,587,000 Ordinary Shares representing approximately 14.99% of the issued share capital of the Company at the date of the notice convening the Annual General Meeting. The resolution specifies the minimum and the maximum price which may be paid for an Ordinary Share.

Market liquidity in VCTs is normally very restricted. The passing of this resolution will enable the Company to purchase its own shares thereby providing a mechanism by which the Company may enhance the liquidity of its shares and seek to manage the level and volatility of the discount to NAV at which its shares may trade.

It is the Directors' intention to cancel any shares bought back under this authority. Shareholders should note that the Directors do not intend to exercise this authority unless to do so would result in an increase in net assets per share which would be in the interests of Shareholders generally. This resolution will expire at the conclusion of the Annual General Meeting of the Company to be held in 2013.

**By order of the Board of Directors**

**Matrix Private Equity Partners LLP**
*Company Secretary*
22 March 2012

# Directors' Remuneration Report

This Report has been prepared by the Directors in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A resolution to approve the Report will be proposed at the Annual General Meeting to be held on 10 May 2012. The Company's auditor is required to give its opinion on the specified information provided on Directors' emoluments and this is explained further in its report to Shareholders on page 31.

## Remuneration committee

The remuneration of individual Directors is determined by the Nominations and Remuneration Committee. The Committee comprises two Directors, Keith Niven (Chairman) and Tom Sooke who are both considered to be independent from the Manager. It meets at least once a year and makes recommendations to the Board within its terms of reference. Its duties include responsibility for reviewing the remuneration of the Directors and the appropriateness and relevance of the remuneration policy. The Committee has access to independent advice where it considers it appropriate.

## Remuneration policy

The remuneration policy is set by the Board. When considering the level of Directors' fees, the Nominations and Remuneration Committee is directed to take account of remuneration levels elsewhere in the Venture Capital Trust industry and other relevant information. It considers the levels and make-up of remuneration which are sufficient to attract, retain and motivate directors of the quality required to run the Company successfully and reflect the time commitment and responsibilities of the roles.

During the year under review the Nominations and Remuneration Committee commissioned a review of Directors' remuneration from Trust Associates, a leading firm of consultants with specialist knowledge of the investment trust industry. This review concluded that the Directors had unusually demanding roles, and therefore there was a strong case for an increase in annual fees to £30,000 per Director with appropriate premiums payable to the Chairman of the Board and to the Chairman of the Audit Committee. On the recommendation of the Committee, the Board agreed to phase-in these increases over a three year period starting from 1 January 2012. Details of the Directors' remuneration are disclosed on page 24 and in Note 5 on page 39.

It is not considered appropriate at the current time to relate any portion of the fees paid to the Directors, who are all non-executive, to performance. However, under an Incentive Agreement dated 9 July 2004 the Company will pay an incentive fee to the Manager and to the Promoter. For further information on the incentive fee and on Bridget Guérin's connection to Matrix Group Limited please see Notes 3 and 22 respectively of the Notes to the Accounts on pages 38 – 39 and 54. The Directors do not have any plans to introduce any further incentive schemes at the present time and will seek Shareholder approval for any such schemes should they be proposed in the future.

It is intended that this policy will continue for the year ended 31 December 2012.

## Terms of appointment

All of the Directors are non-executive. 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. Subject to the provisions of the Companies Act 2006, one-third of the Directors retire from office by rotation at each Annual General Meeting, or if their number is not a multiple of three, the number nearest to but not greater than one-third. The Director retiring at each Annual General Meeting shall be the Director who has been longest in office since their last re-election.

Tom Sooke has been appointed a Director of the Company under separate service and consultant's agreements originally entered into on 1 October 2008. Each of the agreements may be terminated by either party by giving not less than three months notice in writing. The employment under the service agreement is on a continuous basis and the consultant's agreement is subject to review after twelve months. The service agreement does not make any provision for compensation payable for loss of office. The remaining Directors have received 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 and 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. A Director's appointment may be terminated on three months' notice being given by the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office. None of the Directors receive pension benefits from the Company and the Company has not granted any Director any options over the share capital of the Company.

# Directors' Remuneration Report

## Directors' emoluments (audited information)

The total emoluments in respect of qualifying services of each person who served as a Director during the year are as set out in the table below. The Company does not have any schemes in place to pay any of the Directors bonuses or benefits in addition to their Directors' fees.

### Total directors' fees

| | Year ended 31 December 2011 £ | Year ended 31 December 2010 £ |
|---|---|---|
| Keith Niven | 25,000 | 24,479 |
| Bridget Guérin | 20,000 | 19,023 |
| Christopher Moore (to 20 May 2010) | – | 7,985 |
| Tom Sooke | 25,000 | 23,273 |
| **Total** | **70,000** | **74,760** |

The Directors received no further emoluments in respect of their services. Aggregate fees in respect of qualifying services for all Directors amounted to £70,000 (2010: £74,760).

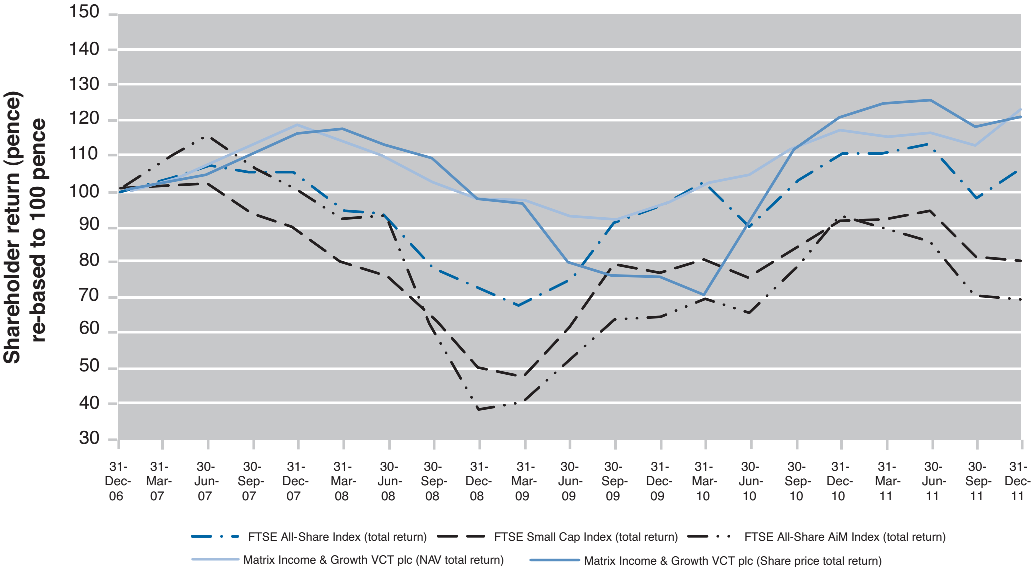
## Total shareholder return

The following graph charts the total cumulative shareholder return of the Company (assuming all dividends are re-invested) over the past five years compared with the total cumulative returns of the FTSE All-Share, SmallCap and AIM Indices. These indices represent broad equity market indices against which investors can measure the performance of the Company and are appropriate indices against which to measure the Company's performance over the medium to long term.

The total returns have each been re-based to 100 pence. An explanation of the recent performance of the Company is given in the Chairman's Statement and the Investment Manager's Review.

The net asset value (NAV) total shareholder return for the Company has been shown separately on the graph because the Directors believe that for a very long term investment such as a VCT, this represents a fairer reflection of the Company's long term value than the share price.

**Total cumulative shareholder return over the past five years compared with the total return of the FTSE All-Share, Small Cap and AIM indices**




Source: Matrix Corporate Capital LLP

**By order of the Board of Directors**

**Matrix Private Equity Partners LLP**
*Company Secretary*
22 March 2012

# Corporate Governance Statement

The Directors have adopted the Association of Investment Companies (AIC) Code of Corporate Governance 2010 ("the AIC Code") for the financial year ended 31 December 2011. The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for investment companies ("AIC Guide"). The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ("the UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide the most appropriate information to Shareholders.

The AIC Code was endorsed by the Financial Reporting Council (FRC) on 3 February 2006, and 30 September 2010 in respect of the 2010 edition. The FRC has confirmed that in complying with the AIC Code, the Company will meet its obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules. The AIC Code is available online at:

http://www.theaic.co.uk/Documents/Other/AICCodeofCorporateGovernance2010.pdf

This statement has been compiled in accordance with the FSA's Disclosure and Transparency Rule (DTR) 7.2 on Corporate Governance Statements.

The Board considers that the Company has fully complied with the AIC Code and the relevant provisions of the UK Code, as set out below.

## Compliance with the Combined Code

The UK Code includes provisions relating to:

- The role of the chief executive
- Executive directors' remuneration
- The need for an internal audit function.

As an externally managed investment company, the Company does not employ a chief executive nor any executive directors. The investment management and administration systems and procedures provided by MPEP, the provision of VCT monitoring services by PricewaterhouseCoopers LLP, as well as the size of the Company's operations, give the Board full confidence that an internal audit function is not necessary.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the Company, being an externally managed VCT. The Company has therefore not reported further in respect of these provisions.

## The Board

The Company has a Board of three non-executive Directors. All the Directors are equally responsible under the law for the proper conduct of the Company's affairs. In addition, the Directors are responsible for ensuring that their policies and operations are in the best interests of all the Company's Shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

In respect of the year under review and in the interim, the Board has considered whether each Director is independent in character and judgment and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Directors' judgment and has concluded that all of the Directors are independent of the Manager with the exception of Bridget Guérin who is a shareholder and was until 31 March 2011, an employee of Matrix Group Limited as set out in Note 22 of the Notes to the Accounts on page 54 on related party transactions.

The Board assessed the independence of the Chairman on appointment and concluded that he fully met the independence criteria as identified in the Combined Code, as re-stated in principle 1 of the AIC Code. As recommended by the AIC Code, the Directors monitor the continuing independence of the Chairman and inform the Chairman of their discussions. The significant directorships and time commitments of the Chairman and the other Directors are considered by the Board and are disclosed on page 16.

The Board places great emphasis on the requirement for the Directors to disclose their interests in investments (and potential investments) and has instigated a procedure whereby a Director declaring such an interest does not participate in any decisions relating to such investments. For the year under review, none of the Directors was a director of or had any other interest in any of the investee companies.

The Directors have declared any existing or potential conflicts of interest and these are reviewed and authorised by the Board as appropriate in accordance with the procedures under the Articles of Association and applicable rules and regulations. The Articles allow the Directors not to disclose information relating to a conflict where to do so would amount to a breach of confidence. The Nominations & Remuneration Committee undertakes an annual review of the authorisations given by the Board.

The Board has appointed Tom Sooke as the Senior Independent Director whom Shareholders may contact if they have concerns which contact through the Chairman or Manager has failed to resolve or for which such contact is inappropriate.

# Corporate Governance Statement

As is common practice among Venture Capital Trusts, the Directors are not appointed for fixed terms, as the AIC Code requires. However, they are subject to re-election by shareholders at approximate intervals of three years, and each Director's appointment may be terminated on three months' notice being given by the Company. Further information is given in the Remuneration Report. With regard to tenure, the Board does not believe that length of service, by itself, leads to a closer relationship with the Manager or necessarily affects a Director's independence of character or judgment. Thus, the independence of Directors will continue to be assessed on a case by case basis (see below). Nonetheless, in accordance with the provisions of the AIC Code, any Director who has served for more than nine years will thereafter be subject to annual re-election by shareholders. None of the Directors has presently served for nine years or more.

The Directors were subject to election by Shareholders at the first Annual General Meeting after their appointment, and retire by rotation thereafter. For further details please see the Directors' Remuneration Report on page 23. The Directors are therefore not appointed for specific terms.

Tom Sooke will retire by rotation from the Board at the forthcoming AGM to be held on 10 May 2012 and has been nominated for re-election. Bridget Guérin, has also agreed to stand for re-election annually in accordance with the recommendations of the AIC Code as she is not considered to be independent of the Manager (for further details please see Note 22 to the Accounts on related party transactions on page 54 of this Annual Report).

Appointment letters for new directors 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.

The effectiveness of the Board and of the Chairman is reviewed regularly as part of the internal control process led by the Audit Committee. The Board has continued to implement an annual performance evaluation review during the year ended 31 December 2011.

A formal training programme has not been required during the year under review as all the Directors are experienced directors of listed companies. All of the Directors regularly attend conferences and workshops relevant to the VCT industry.

## Board committees

The Audit Committee comprises two Directors: Tom Sooke (Chairman) and Keith Niven. The Committee meets at least twice a year to review the half-yearly and annual financial statements before submission to the Board, and meets with the independent auditor at least once during each year. The Committee makes recommendations to the Board on the appointment, re-appointment and removal of the external auditor. It is responsible for monitoring the effectiveness of the Company's internal control systems and for reviewing the scope and results of the audit and ensuring its cost effectiveness. The Audit Committee held three formal meetings during the year with full attendance from each of the two Directors and has met informally on other occasions.

The Management Engagement Committee comprises two Directors: Keith Niven (Chairman) and Tom Sooke. The Committee meets at least annually to review the Company's contracts with its service providers and at other times as and when necessary. The Committee met once during the year under review with both of the Directors in attendance.

The Nominations and Remuneration Committee comprises two Directors: Keith Niven (Chairman) and Tom Sooke. The Board has considered whether the Committee should be chaired by the Chairman of the Company and has concluded the Chairman is sufficiently independent to fulfil this role. The Committee meets at least once a year. All members of the Committee are considered to be independent of the Manager. In considering nominations, it is responsible for making recommendations to the Board concerning new appointments of Directors to the Board and its Committees; the periodic review of the composition of the Board and its Committees; and the annual performance review of the Board, the Directors and the Chairman including the ongoing review of each Director's actual or potential conflicts of interest which may arise as a result of the external business activities of Board members. In considering remuneration, it is responsible for reviewing the remuneration of the Directors and the Company's remuneration policy to ensure that it reflects the duties, responsibilities and value of time spent by the Directors on the business of the Company and makes recommendations to the Board accordingly. The Committee held one formal meeting during the year with both of the Directors in attendance and met informally on other occasions.

The Board has satisfied itself that each of its Committees has sufficient resources to undertake their duties. 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 Company's website: www.migvct.co.uk.

## Board meetings and the relationship with the Manager

The Board meets at least quarterly and is in regular contact with the Manager between these meetings. The Board held nine formal meetings during the year. The four quarterly Board meetings were each attended by all three current directors. The Board met informally on other occasions.

The Board and the Manager work together in a supportive, co-operative and open manner. The Board has overall responsibility for the Company's affairs including the determination of its investment policy. The Manager takes the initiative on most aspects of the Company's operations, under the guidance and formal approval of the Board and the Board has agreed policies with the Manager covering key operational issues. All investment, divestment and variation decisions are made by the Board having considered formal recommendations from the Manager. The Manager up-dates the Board on developments at each of the investee companies, including decisions and discussions at board meetings, if appropriate, through quarterly valuation reports, presentations to quarterly Board meetings of the VCT and otherwise when specific issues requiring the Board's attention emerge. The Board has delegated to the Manager authority to attend and vote at General Meetings of each of the investee companies in the portfolio as its Corporate Representative. The Manager consults the Board concerning extraordinary agenda items particularly when a proposed resolution concerns an issue that may impact on the Company's economic interest. It is however authorised to vote as it thinks appropriate on standard agenda items.

The primary focus at board meetings is the review of investment performance and associated matters as well as the monitoring of financial and other internal controls including maintenance of VCT status and the level of share price discount or premium. The Board regularly considers overall strategy. The Board monitors the investments made by the Manager to ensure that the overall investment portfolio is in line with the Company's Investment Policy. The Board also considers peer group performance, asset allocation and wider industry and economic issues in reviewing investment performance and strategy.

The Board has agreed a schedule of matters specifically reserved for decision by the Board. These include: compliance with the requirements of the Companies Act 2006 and the Income Tax Act 2007, the UK Listing Authority and the London Stock Exchange; changes to the Company's capital structure or its status as a plc; Board and committee appointments as recommended by the Nominations and Remuneration Committee and terms of reference of committees; and material contracts of the Company and contracts of the Company not in the ordinary course of business.

A procedure has been adopted for individual Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring board procedures are followed. Both the appointment and removal of the Company Secretary are matters for the Board as a whole. Where Directors have concerns about the running of the Company or about a proposed action which cannot be resolved, 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.

The Board reviews annually, and at other times as and when necessary, the Investment Services Agreement and the performance of the Manager, as well as service providers including the administrator, auditor, VCT status adviser, solicitors, bankers and registrars. Particular emphasis is placed on reviewing the Manager, in terms of investment performance, quality of information provided to the Board and remuneration. This work forms part of the Board's overall internal control procedures as discussed elsewhere.

## Internal control

The Board acknowledges that it is responsible for the Company's system of internal control. Internal control systems are designed to manage the particular needs of the Company and the risks to which it is exposed and can by their nature only provide reasonable and not absolute assurance against material misstatement or loss.

The Directors are responsible for the internal control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information used for publication and upon which business decisions are made, and that the assets of the Company are safeguarded. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance.

The Board has put in place procedures for identifying, evaluating and managing the significant risks faced by the Company. As part of this process an annual review of the control systems is carried out in accordance with the Turnbull guidelines for

# Corporate Governance Statement

internal control. The review covers a consideration of the key business, operational, compliance and financial risks facing the Company and includes a review of the risks in relation to the financial reporting process. Each risk is considered with regard to: the controls exercised at Board level; reporting by service providers; controls relied upon by the Board; exceptions for consideration by the Board; responsibilities for each risk and its review period; and risk rating. As part of this process, investment risk is spread by means of a diverse investment portfolio, which is described in more detail in the Investment Manager's Review and Investment Portfolio Summary on pages 8 – 15. The Board reviews a schedule of key risks at each Board meeting which identifies the risk, controls, any deficiencies that have arisen in the quarter and action to be taken. Each quarterly board meeting reviews the management accounts, and annual or half-yearly reports arising therefrom, prepared by the Manager.

The Board has delegated, contractually to third parties, the management of the investment portfolio, the procurement of safekeeping services for the documents of title to the Company's investments, the day-to-day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Manager and the other service providers as appropriate, in addition to ad hoc reports and information which are supplied to the Board as required. It remains the responsibility of the Board to keep under review the terms of the investment management agreement with the Manager. The Directors carry out an Annual Review of the performance of and contractual arrangements with the Manager.

The Board, assisted by the Audit Committee, carries out separate assessments in respect of the Annual and Half-Yearly Reports and other published financial information. As part of these reviews, the Board appraises all the relevant risks ensuing from the internal control process referred to above. The main aspects of the internal controls which have been in place throughout the year in relation to financial reporting are:

- Controls are in place around the preparation and reconciliation of the valuations prepared by the Manager;
- Independent reviews of the valuations of investments within the portfolio are undertaken quarterly by the Board and annually by the external auditor;
- Bank and money-market fund reconciliations are carried out monthly by the Manager;
- The information contained in the Annual Report and other financial reports is reviewed separately by the Audit Committee prior to consideration by the Board; and
- The Board reviews all financial information prior to publication.

This system of internal controls and the procedure for the review of control systems referred to above has been in place and operational throughout the year under review and up to the date of this Report. The assessment of the effectiveness of internal controls in managing risk included consideration of reports from the relevant service providers. The last review took place on 13 March 2012. The Board has not identified any issues with the Company's internal control mechanisms that warrant disclosure in the Annual Report.

### Shareholder communications

The Company communicates with Shareholders and solicits their views where it is appropriate to do so. The Manager publishes a twice-yearly VCT shareholder newsletter which contains information on the portfolio, recent investment and corporate activity. It holds an annual shareholder workshop for the Matrix VCTs at which Shareholders are encouraged to contribute their views on any aspect of the Company and its performance. Shareholders are welcome at the Annual General Meeting which provides a forum for Shareholders to ask questions of the Directors and to discuss issues affecting the Company with them. The Board takes account of Shareholders comments and questions at general meetings. Shareholders may contact the Senior Independent Director, Tom Sooke, if they have concerns which contact through the Chairman or Manager has failed to resolve or for which such contact is inappropriate. Please see Shareholder Information on page 55 for contact details.

The Board as a whole approves the Annual Report to Shareholders. The Directors aim to ensure that the Chairman's Statement, Financial Highlights and the Investment Manager's Review and Investment Portfolio Summary (which comprises a full list of all the VCT investments in the Company's portfolio) present a balanced and understandable assessment of the Company's position and future prospects and that Shareholders are provided with sufficient information to enable them to understand the risk:reward balance to which they are exposed by investing in the Company.

The Board normally has a direct involvement in the content of communications regarding major corporate events even if the Manager is asked to act as spokesman.

The notice of the Annual General Meeting accompanies this Annual Report, which is normally sent to shareholders allowing a minimum of 20 working days before each meeting. Separate resolutions are proposed for each substantive issue. The number of proxy votes received for each resolution is announced after each resolution has been dealt with on a show of hands and is published on the Company's website: www.migvct.co.uk.

## Diversity

The Directors have considered diversity in relation to the composition of the Board and have concluded that its membership is diverse in relation to gender and quality and depth of experience. The Board has made a commitment to consider diversity in making future appointments.

## Directors' remuneration

A Directors' Remuneration Report, prepared in compliance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, is contained on pages 23 – 24 of this Annual Report. The Report includes an explanation of the procedure for developing policy and determining the remuneration for individual directors.

## Restrictions on voting rights

There are no restrictions on voting rights.

## Appointment and replacement of directors

The rules concerning the election of directors are set out in the paragraph headed 'Terms of appointment' on page 23 of the Directors' Remuneration Report.

## Amendment of the Company's Articles of Association

The Company may amend its articles of association ("the Articles") by special resolution in accordance with section 21 of the Companies Act 2006.

## Share capital

Details of the Company's share capital and substantial shareholdings can be found in the Directors' Report on pages 18 and 20.

## Powers of the directors

The powers of the Directors have been granted by company law, the Company's Articles and resolutions passed by the Company's members in general meeting. Resolutions are proposed annually at each annual general meeting of the Company to authorise the Directors to allot shares, disapply the pre-emption rights of members and buy back the Company's own shares on behalf of the Company. These authorities are currently in place and resolutions to renew them will be proposed at the next AGM of the Company to be held on 10 May 2012.

**By order of the Board of Directors**

**Matrix Private Equity Partners LLP**
*Company Secretary*

22 March 2012

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge that:

(a) the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice and the 2009 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP), give a true and fair view of the assets, liabilities, financial position and the profit of the Company; and

(b) the management report, comprising the Chairman's Statement, Investment Manager's Review, Investment Portfolio Summary and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The names and functions of all the Directors are stated on page 16.

**For and on behalf of the Board of Directors**

**Keith Niven**
*Chairman*

22 March 2012

# Independent Auditor's Report to the Members of Matrix Income & Growth VCT plc

We have audited the financial statements of Matrix Income & Growth VCT plc for the year ended 31 December 2011 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 25 – 29 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 21 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the board on directors' remuneration.

**Rosemary Clarke (Senior statutory auditor)**
**for and on behalf of PKF (UK) LLP, Statutory auditor**
**London, UK**
22 March 2012

# Income Statement
## for the year ended 31 December 2011

| | Notes | Year ended 31 December 2011 Revenue £ | Capital £ | Total £ | Year ended 31 December 2010 Revenue £ | Capital £ | Total £ |
|---|---|---|---|---|---|---|---|
| Unrealised gains on investments | 9 | – | 688,724 | 688,724 | – | 6,527,412 | 6,527,412 |
| Realised gains/(losses) on investments | 9 | – | 520,219 | 520,219 | – | (75,045) | (75,045) |
| Income | 2 | 1,681,991 | – | 1,681,991 | 934,890 | – | 934,890 |
| Investment management fees | 3 | (230,025) | (690,074) | (920,099) | (164,619) | (493,859) | (658,478) |
| Other expenses | 4 | (307,214) | – | (307,214) | (338,661) | – | (338,661) |
| Merger costs | | – | – | – | (69,089) | – | (69,089) |
| **Profit on ordinary activities before taxation** | | 1,144,752 | 518,869 | 1,663,621 | 362,521 | 5,958,508 | 6,321,029 |
| Tax on profit on ordinary activities | 6 | (181,181) | 181,181 | – | (49,224) | 49,851 | 627 |
| **Profit for the year** | | 963,571 | 700,050 | 1,663,621 | 313,297 | 6,008,359 | 6,321,656 |
| **Basic and diluted earnings per ordinary share** | 8 | 2.25p | 1.64p | 3.89p | 0.95p | 18.30p | 19.25p |

All the items in the above statement derive from continuing operations of the Company.

There were no other recognised gains or losses in the year.

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

Other than revaluation movements arising on investments held at fair value through the profit and loss account, there were no differences between the return as stated above and at historical cost.

The notes on pages 36 – 54 form part of these financial statements.

# Balance Sheet
## as at 31 December 2011

| | Notes | as at 31 December 2011 £ | as at 31 December 2010 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 9 | 27,418,790 | 31,043,002 |
| **Current assets** | | | |
| Debtors and prepayments | 11 | 329,659 | 231,222 |
| Current investments | 12, 18 | 11,123,681 | 7,466,137 |
| Cash at bank | 18 | 2,085,082 | 114,672 |
| | | 13,538,422 | 7,812,031 |
| **Creditors: amounts falling due within one year** | 13 | (231,037) | (404,126) |
| **Net current assets** | | 13,307,385 | 7,407,905 |
| **Net assets** | | **40,726,175** | **38,450,907** |
| **Capital and reserves** | | | |
| Called up share capital | 14 | 426,061 | 397,795 |
| Capital redemption reserve | 15 | 56,182 | 29,364 |
| Share premium account | 15 | 22,034,106 | 16,852,849 |
| Revaluation reserve | 15 | 3,455,913 | 4,290,333 |
| Special distributable reserve | 15 | 11,161,745 | 16,423,246 |
| Profit and loss account | 1g, 15 | 3,592,168 | 457,320 |
| **Equity Shareholders' funds** | **15** | **40,726,175** | **38,450,907** |
| **Basic and diluted net asset value per Ordinary Share** | **16** | **95.59p** | **96.66p** |

The notes on pages 36 – 54 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2012 and were signed on its behalf by:

*Chairman*

# Reconciliation of Movements in Shareholders' Funds

## for the year ended 31 December 2011

| | Notes | Year ended 31 December 2011 £ | Year ended 31 December 2010 £ |
|---|---|---|---|
| Opening shareholders' funds | | 38,450,907 | 16,979,370 |
| Net share capital subscribed for in the year | 14 | 5,236,341 | – |
| Net share capital bought back in the year | 14 | (2,222,097) | (890,013) |
| Shares issued upon merger with Matrix Income & Growth 3 VCT plc | | – | 17,111,545 |
| Stamp duty on shares issued upon merger with Matrix Income & Growth 3 VCT plc | | – | (52,975) |
| Profit for the year | | 1,663,621 | 6,321,656 |
| Dividends paid in year | 7 | (2,402,597) | (1,018,676) |
| **Closing Shareholders' funds** | 15 | 40,726,175 | 38,450,907 |

The Notes on pages 36 – 54 form part of these financial statements.

# Cash Flow Statement

## for the year ended 31 December 2011

| | Notes | Year ended 31 December 2011 £ | £ | Year ended 31 December 2010 £ | £ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Investment income received | | 1,577,644 | | 827,488 | |
| VAT received and interest thereon | | 3,873 | | – | |
| Investment management fees paid | | (920,099) | | (587,816) | |
| Other cash payments | | (322,439) | | (461,372) | |
| Payment of merger costs of the Company | | (9,555) | | (78,636) | |
| **Net cash inflow/(outflow) from operating activities** | 17 | | 329,424 | | (300,336) |
| **Investing activities** | | | | | |
| Acquisitions of investments | 9 | (3,645,194) | | (1,124,409) | |
| Disposals of investments | 9 | 8,478,349 | | 1,123,942 | |
| **Net cash inflow/(outflow) from investing activities** | | | 4,833,155 | | (467) |
| **Taxation** | | | | | |
| Taxation paid | | | – | | – |
| **Equity dividends** | | | | | |
| Payment of dividends | 7 | | (2,402,597) | | (1,018,676) |
| **Cash inflow/(outflow) before liquid resource management and financing** | | | 2,759,982 | | (1,319,479) |
| **Management of liquid resources** | | | | | |
| Increase in current investments | 18 | | (3,657,544) | | (2,288,567) |
| **Financing** | | | | | |
| Share capital raised | | 5,236,341 | | – | |
| Cash received on acquisition of net assets from Matrix Income & Growth 3 VCT plc | | – | | 4,561,289 | |
| Stamp duty on shares issued to acquire net assets of Matrix Income & Growth 3 VCT plc | | – | | (52,975) | |
| Payments to meet merger cost of Matrix Income & Growth 3 VCT plc | | – | | (133,191) | |
| Share capital bought back | | (2,368,369) | | (698,658) | |
| | | | 2,867,972 | | 3,676,465 |
| **Increase in cash for the year** | 18 | | 1,970,410 | | 68,419 |

The Notes on pages 36 – 54 form part of these financial statements.

# Notes to the Accounts

for the year ended 31 December 2011

## 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 UK Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("SORP") issued by the Association of Investment Companies in January 2009.

**b) Comparatives**

On 20 May 2010 the Company acquired the assets and liabilities of Matrix Income & Growth 3 VCT plc, the transaction being accounted for as an asset acquisition. The income and costs for the comparative period up to 20 May 2010 reflect the activities of the Company before the acquisition and after that date reflect those of the Company as enlarged by the acquisition.

**c) Presentation of the Income Statement**

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The revenue column of profit attributable to equity shareholders 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.

**d) Investments**

All investments held by the Company are classified as "fair value through profit and loss", in accordance with the International Private Equity and Venture Capital Valuation ("IPEVCV") guidelines, as updated in September 2009. This classification is followed as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income.

For investments actively traded on organised financial markets, fair value is generally determined by reference to Stock Exchange market quoted bid prices at the close of business on the balance sheet date. Purchases and sales of quoted investments are recognised on the trade date where a contract of sale exists whose terms require delivery within a time frame determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional.

Unquoted investments are stated at fair value by the Directors in accordance with the following rules, which are consistent with the IPEVCV guidelines:

All investments are held at the price of a recent investment for an appropriate period where there is considered to have been no change in fair value. Where such a basis is no longer considered appropriate, the following factors will be considered:

(i) Where a value is indicated by a material arms-length transaction by an independent third party in the shares of a company, this value will be used.

(ii) In the absence of i), and depending upon both the subsequent trading performance and investment structure of an investee company, the valuation basis will usually move to either:-

a) an earnings multiple basis. The shares may be valued by applying a suitable price-earnings ratio to that company's historic, current or forecast post-tax earnings before interest and amortisation (the ratio used being based on a comparable sector but the resulting value being adjusted to reflect points of difference identified by the Manager compared to the sector including, inter alia, a lack of marketability).

or:-

b) where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate. Where the value of an investment has fallen permanently below cost, the loss is treated as a permanent impairment and as a realised loss, even though the investment is still held. The Board assesses the portfolio for such investments and, after agreement with the Manager, will agree the values that represent the extent to which an investment loss has become realised. This is based upon an assessment of objective evidence of that investment's future prospects, to determine whether there is potential for the investment to recover in value.

(iii) Premiums on loan stock investments are accrued at fair value when the Company receives the right to the premium and when considered recoverable.

(iv) Where an earnings multiple or cost less impairment basis is not appropriate and overriding factors apply, discounted cash flow or net asset valuation bases may be applied.

**e) Current investments**

Monies held pending investment are invested in financial instruments with same day access and as such are treated as current investments and have been valued at fair value.

**f) 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.

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the loan stocks only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment, where appropriate.

**g) Capital reserves**

*(i) Realised (included within the Profit and Loss Account reserve)*

The following are accounted for in this reserve:

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

*(ii) Revaluation reserve (Unrealised capital reserve)*

Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

In accordance with stating all investments at fair value through profit and loss, all such movements through both revaluation and realised capital reserves are now shown within the Income Statement for the year.

*(iii) Special distributable reserve*

The cost of share buybacks is charged to this reserve. In addition, any realised losses on the sale of investments, and 75% of the management fee expense, and the related tax effect, are transferred from the Profit and Loss Account reserve to this reserve.

**h) Expenses**
All expenses are accounted for on an accruals basis.

25% of the Manager's fees are charged to the revenue column of the Income Statement, while 75% is charged against the capital column of the Income Statement. This is in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

100% of any performance incentive fee payable for the period is charged against the capital column of the Income Statement, as it is based upon the achievement of capital growth.

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 capital column of the Income Statement or deducted from the disposal proceeds as appropriate.

**i) 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 that arise from the inclusion of gains and losses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years 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.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised.

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.

# Notes to the Accounts

for the year ended 31 December 2011

## 2 Income

| | 2011 £ | 2010 £ |
|---|---|---|
| Income from bank deposits | 12,879 | 367 |
| Income from investments | | |
| – from equities | 425,919 | 194,226 |
| – from overseas based OEICs | 59,178 | 35,779 |
| – from loan stock | 1,184,015 | 700,647 |
| | 1,669,112 | 930,652 |
| Other income | – | 3,871 |
| Total income | 1,681,991 | 934,890 |
| Total income comprises | | |
| Dividends | 485,097 | 230,005 |
| Interest | 1,196,894 | 701,014 |
| Other income | – | 3,871 |
| | 1,681,991 | 934,890 |
| Income from investments comprises | | |
| Listed overseas securities | 59,178 | 35,779 |
| Unlisted UK securities | 425,919 | 194,226 |
| Loan stock interest | 1,184,015 | 700,647 |
| | 1,669,112 | 930,652 |

Total loan stock interest due but not recognised in the year was £514,475 (2010: £457,084).

## 3 Investment manager's fees

| | Revenue 2011 £ | Capital 2011 £ | Total 2011 £ | Revenue 2010 £ | Capital 2010 £ | Total 2010 £ |
|---|---|---|---|---|---|---|
| Matrix Private Equity Partners LLP | 230,025 | 690,074 | 920,099 | 164,619 | 493,859 | 658,478 |

From the date of the Merger on 20 May 2010, the following agreements were in place:

Matrix Private Equity Partners Limited had been appointed to advise the Company on investments in qualifying companies under an agreement dated 9 July 2004. The agreement was novated to Matrix Private Equity Partners LLP on 23 October 2006. The Manager's appointment could be terminated at any time by giving them not less than one year's notice in writing. Fees were payable in advance at the rate of 2% per annum, based upon the value of the net assets of the Company each quarter, one month after the end of that quarter.

Under the terms of a revised investment management agreement dated 20 May 2010, MPEP provides investment advisory, administrative and company secretarial services to the Company, for a fee of 2% per annum of closing net assets, calculated on a quarterly basis by reference to the net assets at the end of the preceding quarter, plus a fixed fee of £126,225 per annum, the latter inclusive of VAT and subject to annual increases in RPI. This agreement replaced the previous agreements with MPEP described above, and with Matrix-Securities Limited dated 9 July 2004, which were all terminated with effect from 20 May 2010.

The investment management fee includes provision for a cap on expenses excluding irrecoverable VAT and exceptional items set at 3.6% of closing net assets at the year-end. In accordance with the investment management agreement, any excess expenses are borne by the Manager. The excess expenses during the year amounted to £nil (2010: £nil).

Under an incentive agreement dated 9 July 2004, the Manager was entitled to receive an annual performance-related incentive fee of 20% of the excess above an agreed hurdle rate in the annual dividends paid to Shareholders. The hurdle rate was 6 pence per share for the Company's first three annual reporting periods and increased annually thereafter in line with the Retail Price Index. The performance fee was only payable if the mean net asset value per share over the period relating to payment had remained at or above 100 pence and any cumulative shortfalls below the annual hurdle rate have been recovered.

Under a deed of variation to the Performance Incentive Agreement, dated 20 May 2010, the Company and MPEP agreed to amend the agreement to provide weighted average hurdles linked to the performance of the Company and Matrix Income & Growth 3 VCT plc up to the date of the Merger, and so that it applied across the enlarged Company after that date. As a result, the hurdle rate of dividends to be paid in a year before an incentive could become payable was set at 6.13 pence per share, at the date of the Merger, which became 6.57 pence by the year-end. The cumulative shortfall of dividends paid below the annual hurdle rate at the date of the merger was 13.67 pence, which had become 18.51 pence at the year end. The base net asset value of 100p that must be maintained for an incentive fee to be payable has been amended to 97.33 pence per share, (previously 96.91 pence following rebasing from 100 pence at the time of the merger) to allow for the impact of further shares being allotted during the year at an average price of 100.4 pence per share.

No performance incentive fee is payable to date.

## 4 Other expenses

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Directors' remuneration (including NIC) (see Note 5) | 74,146 | 79,448 |
| IFA trail commission | 125,408 | 96,296 |
| Administration fees (see note) | – | 35,590 |
| Broker's fees | 14,400 | 15,863 |
| Auditor's fees – audit | 24,747 | 16,852 |
| – other services supplied relating to taxation | 3,846 | 3,793 |
| – other services supplied pursuant to legislation | 6,666 | 2,068 |
| Registrar's fees | 23,639 | 19,397 |
| Printing | 5,739 | 32,405 |
| Legal and professional fees | 1,944 | 822 |
| VCT monitoring fees | 3,917 | 8,925 |
| Directors' insurance | 11,231 | 9,450 |
| Listing and regulatory fees | 18,979 | 16,927 |
| Sundry (see note) | (7,448) | 825 |
| | 307,214 | 338,661 |

Note: The Administration fees above arose from the Agreement with Matrix-Securities Limited referred to in Note 3 above, which was terminated on 20 May 2010. Sundry costs are a credit this year, as costs relating to the merger last year were eventually lower than anticipated.

## 5 Directors' remuneration

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| **Directors' emoluments** | | |
| Keith Niven | 25,000 | 24,479 |
| Bridget Guérin | 20,000 | 19,023 |
| Tom Sooke | 25,000 | 23,273 |
| Christopher Moore (resigned 20 May 2010) | – | 7,985 |
| | 70,000 | 74,760 |
| Employer's NIC and VAT | 4,146 | 4,688 |
| | 74,146 | 79,448 |

No pension scheme contributions or retirement benefit contributions were paid (2010: £nil). There are no share option contracts held by the Directors. Since all the Directors are non-executive, the other disclosures required by the Listing Rules are not applicable. The Company has no employees other than Directors.

## 6 Tax on profit/(loss) on ordinary activities

| | 2011 Revenue £ | 2011 Capital £ | 2011 Total £ | 2010 Revenue £ | 2010 Capital £ | 2010 Total £ |
|---|---|---|---|---|---|---|
| **a) Analysis of tax charge:** | | | | | | |
| UK Corporation tax on profits/(losses) for the year | 181,181 | (181,181) | – | 49,224 | (49,851) | (627) |
| Total current tax charge/(credit) | 181,181 | (181,181) | – | 49,224 | (49,851) | (627) |
| Corporation tax is based on a rate of 20.25% (2010: 21%) | | | | | | |
| **b) Profit/(loss) on ordinary activity before tax** | 1,144,752 | 518,869 | 1,663,621 | 362,521 | 5,958,508 | 6,321,029 |
| Profit/(loss) on ordinary activities multiplied by small company rate of corporation tax in the UK of 20.25% (2010: 21%) | 231,812 | 105,072 | 336,884 | 76,129 | 1,251,287 | 1,327,416 |
| ***Effect of:*** | | | | | | |
| UK dividends | (86,249) | – | (86,249) | (40,788) | – | (40,788) |
| Unrealised gains not taxable | – | (139,467) | (139,467) | – | (1,370,757) | (1,370,757) |
| Realised gains not taxable | – | (105,344) | (105,344) | – | 15,759 | 15,759 |
| Income not yet taxable | – | – | – | (269) | – | (269) |
| Unrelieved expenditure | – | – | – | – | 53,860 | 53,860 |
| (Under)/over provision in prior period | – | – | – | (358) | – | (358) |
| Losses brought forward | (5,824) | – | (5,824) | | | |
| Marginal rate | 41,442 | (41,442) | – | | | |
| Expenses not deductible | – | – | – | 14,510 | – | 14,510 |
| Actual current tax charge | 181,181 | (181,181) | – | 49,224 | (49,851) | (627) |

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 or losses.

Investment Trust companies are exempt from tax on capital gains if they meet the HMRC criteria set out in section 274 of the ITA.

### Deferred taxation

No provision for deferred taxation has been made on potential capital gains due to the Company's current status as a VCT under section 274 of the Income Tax Act 2007 and the Directors' intention to maintain that status. There is an unrecognised deferred tax asset of £99,621 (2010: £105,445) in respect of unrelieved surplus management expenses.

## 7 Dividends paid and payable

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the year:** | | |
| Final dividend for the year ended 31 December 2010 of 0.5p (income) (2009: 0.5p); 4.5p (capital) (2009: 4.5p) per Ordinary Share | 2,184,361 | 1,018,676 |
| Interim dividend for the year ended 31 December 2011 of 0.5p (2010: nil) per Ordinary Share | 218,236 | – |
| | 2,402,597 | 1,018,676 |
| **Proposed distributions to equity holders at the year-end:** | | |
| Final dividend for the year ended 31 December 2011 of 1.25p (income) (2010: 0.5p (income)); 5.0p (capital) (2010: 4.5p (capital)) per Ordinary share | 2,746,532 | 2,162,255 |

Any proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Set out below are the total income dividends payable in respect of the financial year, which is the basis on which the requirements of Section 259 of the Income Tax Act 2007 are considered.

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Revenue available for distribution by way of dividends for the year | 963,571 | 313,297 |
| Interim income dividend of 0.5p (2010: nil) paid during the year | 218,236 | – |
| Final income dividend proposed for the year ended 31 December 2011 of 1.25p (2010: 0.5p) per Ordinary Share | 549,306 | 216,226 |
| | 767,542 | 216,226 |

## 8 Basic and diluted earnings per share

| | 2011<br>£ | 2010<br>£ |
|---|---|---|
| Total earnings after taxation: | **1,663,621** | **6,321,656** |
| **Basic and diluted earnings per share (note a)** | **3.89p** | **19.25p** |
| Revenue profit from ordinary activities after taxation | **963,571** | **313,297** |
| **Basic and diluted revenue earnings per share (note b)** | **2.25p** | **0.95p** |
| Net unrealised capital gains on investments | 688,724 | 6,527,412 |
| Net realised capital gains/(losses) on investments | 520,219 | (75,045) |
| Capital management fees less taxation | (508,893) | (444,008) |
| **Total capital earnings** | **700,050** | **6,008,359** |
| **Basic and diluted capital earnings per share (note c)** | **1.64p** | **18.30p** |
| Weighted average number of shares in issue in the year | 42,820,660 | 32,833,601 |

**Notes**

a) Basic earnings per share is total profit after taxation divided by the weighted average number of shares in issue.

b) Revenue earnings per share is the revenue profit after taxation divided by the weighted average number of shares in issue.

c) Capital earnings per share is the total capital profit after taxation divided by the weighted average number of shares in issue.

d) There are no instruments that will increase the number of shares in issue in future. Accordingly, the above figures currently represent both basic and diluted earnings per share.

# Notes to the Accounts

## for the year ended 31 December 2011

### 9 Investments at fair value

Movements in investments during the year are summarised as follows:

| | Traded on AiM or OFEX £ | Unquoted ordinary shares £ | Unquoted preference shares £ | Loan stock £ | Total £ |
|---|---|---|---|---|---|
| Cost at 31 December 2010 | 305,000 | 8,300,631 | 52,803 | 18,244,340 | 26,902,774 |
| Unrealised gains/(losses) at 31 December 2010 | 76,248 | 4,057,067 | (36,481) | 193,500 | 4,290,334 |
| Permanent impairment in value of investments | – | (150,106) | – | – | (150,106) |
| Valuation at 31 December 2010 | 381,248 | 12,207,592 | 16,322 | 18,437,840 | 31,043,002 |
| Purchases at cost | – | 447,151 | 1,819 | 5,784,246 | 6,233,216 |
| Sale proceeds | – | (6,620,991) | (845) | (4,484,124) | (11,105,960) |
| Realised gains | – | 160,805 | – | 399,003 | 559,808 |
| Reclassification at value | – | 3,339 | (3,339) | – | – |
| Net unrealised (losses)/gains for the year | (120,729) | 966,739 | 21,104 | (178,390) | 688,724 |
| Closing valuation at 31 December 2011 | 260,519 | 7,164,635 | 35,061 | 19,958,575 | 27,418,790 |
| Cost at 31 December 2011 | 305,000 | 6,389,408 | 50,438 | 20,342,450 | 27,087,296 |
| Net unrealised (losses)/gains at 31 December 2011 | (44,481) | 1,213,331 | (13,548) | (287,411) | 867,891 |
| Permanent impairment in value of investments | – | (438,104) | (1,829) | (96,464) | (536,397) |
| Valuation at 31 December 2011 | 260,519 | 7,164,635 | 35,061 | 19,958,575 | 27,418,790 |

Within net unrealised gains of £688,724 for the year, the significant gains were £2,588,022 in DiGiCo Europe Limited (reclassified into Newincco 1124 Limited), £884,871 in Iglu.com Holidays Limited, £856,007 in ATG Media Holdings Limited; the significant losses were as follows: £1,173,974 in Monsal Holdings Limited, £728,289 in British International Holdings Limited, and £597,099 in CB Imports Group Limited.

**Reconciliation of investment transactions to cash and income statement movements**

The difference between the purchases and sales of investments above, being a net inflow of £4,872,744, and the net inflow of £4,833,155 shown by the Cash Flow Statement, is £39,589, being transaction costs. These transaction costs also account for the difference in realised gains between £559,808 shown above and £520,219 disclosed in the Income Statement.

## 10 Significant interests

At 31 December 2011 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

| | Equity investment (ordinary shares) £ | Investment in loan stock and preference shares £ | Total investment (at cost) £ | Percentage of investee company's total equity |
|---|---|---|---|---|
| Watchgate Limited | 1,000 | – | 1,000 | 33.3% |
| Racoon International Holdings Limited | 262,258 | 950,777 | 1,213,035 | 23.3% |
| Blaze Signs Holdings Limited | 472,125 | 1,227,382 | 1,699,507 | 20.8% |
| Lightworks Software Limited | 222,584 | – | 222,584 | 20.0% |
| Machineworks Software Limited | 222,584 | – | 222,584 | 20.0% |
| British International Holdings Limited | 225,000 | 1,801,316 | 2,026,316 | 17.5% |
| PXP Holdings Limited (Pinewood Structures) | 288,000 | 875,436 | 1,163,436 | 17.1% |
| RDL Corporation Limited | 271,044 | 1,287,290 | 1,558,334 | 14.1% |
| ATG Media Holdings Limited | 530,975 | 955,239 | 1,486,214 | 14.0% |
| Fullfield Limited (Motorclean) | 582,789 | 1,257,595 | 1,840,384 | 12.6% |
| Vectair Holdings Limited | 138,074 | 500 | 138,574 | 12.0% |
| CB Imports Group Limited (Country Baskets) | 350,000 | 1,650,000 | 2,000,000 | 11.6% |
| Iglu.com Holidays Limited | 213,263 | 3,306 | 216,569 | 11.6% |
| The Plastic Surgeon Holdings Limited | 39,029 | 439,392 | 478,421 | 11.1% |
| Monsal Holdings Limited | 406,211 | 892,871 | 1,299,082 | 10.8% |
| ASL Technology Holdings Limited | 452,130 | 1,460,815 | 1,912,945 | 10.3% |
| Faversham House Holdings Limited | 200,036 | 327,178 | 527,214 | 9.5% |
| Ingleby (1879) Limited (EMaC) | 530,169 | 1,232,167 | 1,762,336 | 8.8% |
| Youngman Group Limited | 100,052 | 900,000 | 1,000,052 | 8.5% |
| Westway Services Holdings (2010) Limited | 214,336 | 388,442 | 602,778 | 5.1% |
| Focus Pharma Holdings Limited | 384,663 | 985,463 | 1,370,126 | 5.1% |
| Newincco 1124 Limited (DiGiCo) | 4,647 | 2,588,022 | 2,592,669 | 4.7% |
| Omega Diagnostics Group plc | 305,000 | – | 305,000 | 3.0% |

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.

All of the above companies are incorporated in the United Kingdom.

Matrix Private Equity Partners LLP also advises The Income and Growth VCT plc, Matrix Income and Growth 2 VCT plc and Matrix Income and Growth 4 VCT plc, which have investments as at 31 December 2011 in the following:

| | The Income & Growth VCT plc at cost £ | Matrix Income & Growth 2 VCT plc at cost £ | Matrix Income & Growth 4 VCT plc at cost £ | Total at cost £ | % of equity held by funds managed by MPEP |
|---|---|---|---|---|---|
| ASL Technology Holdings Limited | 1,769,790 | 1,360,130 | 1,257,135 | 4,387,055 | 34.0 |
| Ingleby (1879) Limited (EMaC) | 1,878,124 | 1,095,723 | 1,263,817 | 4,237,664 | 30.0 |
| Fullfield Limited (Motorclean) | 1,718,189 | 1,160,549 | 1,280,879 | 4,159,617 | 41.0 |
| Newincco 1124 Limited (DiGiCo) | 876,497 | 1,334,291 | 1,334,293 | 3,545,081 | 11.0 |
| RDL Corporation Limited | 1,441,667 | 1,000,000 | 1,000,000 | 3,441,667 | 45.2 |
| Blaze Signs Holdings Limited | 1,338,500 | 1,398,498 | 610,016 | 3,347,014 | 52.5 |
| EOTH Limited (RAB and Lowe Alpine) | 1,383,313 | 817,185 | 951,471 | 3,151,969 | 8.0 |
| PXP Holdings Limited (Pinewood Structures) | 920,176 | 1,163,436 | 679,549 | 2,763,161 | 37.3 |
| ATG Media Holdings Limited | 888,993 | 768,011 | 888,993 | 2,545,997 | 38.4 |
| Youngman Group Limited | 1,000,052 | 1,000,052 | 500,026 | 2,500,130 | 29.7 |
| British International Holdings Limited | 590,909 | 1,160,000 | 295,455 | 2,046,364 | 34.9 |
| CB Imports Group Limited (Country Baskets) | 1,000,000 | – | 1,000,000 | 2,000,000 | 23.2 |
| Monsal Holdings Limited | 452,744 | 820,265 | 676,583 | 1,949,592 | 27.7 |
| Focus Pharma Holdings Limited | 516,900 | 660,238 | 772,451 | 1,949,589 | 12.7 |
| Racoon International Holdings Limited | 550,852 | 878,527 | 406,805 | 1,836,184 | 49.0 |
| The Plastic Surgeon Holdings Limited | 406,082 | 392,264 | 458,837 | 1,257,183 | 30.0 |
| Faversham House Holdings Limited | 487,744 | 374,870 | 346,488 | 1,209,102 | 31.4 |
| Omega Diagnostics Group plc | 279,996 | 214,998 | 199,998 | 694,992 | 9.8 |
| Westway Services Holdings (2010) Limited | 353,588 | – | 236,096 | 589,684 | 13.0 |
| Vectair Holdings Limited | 215,914 | 243,784 | 100,000 | 559,698 | 24.0 |
| Legion Group plc | 150,000 | 150,106 | 150,102 | 450,208 | 2.9 |
| Iglu.com Holidays Limited | 152,326 | 152,326 | 133,779 | 438,431 | 35.0 |
| Lightworks Software Limited | 20,471 | 25,727 | 9,329 | 55,527 | 45.0 |
| Machineworks Software Limited | 20,471 | 25,727 | 9,329 | 55,527 | 45.0 |
| Watchgate Limited | 1,000 | – | 1,000 | 2,000 | 100.0 |

## 11 Debtors

| | 2011 £ | 2010 £ |
|---|---|---|
| **Amounts due within one year:** | | |
| Accrued income | 311,809 | 207,464 |
| Prepayments | 17,726 | 19,887 |
| Other debtors | 124 | 3,871 |
| | 329,659 | 231,222 |

## 12 Current investments

| | 2011 £ | 2010 £ |
|---|---|---|
| Monies held pending investment | 11,123,681 | 7,466,137 |

This comprises cash invested in seven Dublin based OEIC money market funds. This entire sum is subject to same day access. These sums are treated as liquid resources in the Cash Flow Statement on page 35 and in Note 18 on page 47.

## 13 Creditors: amounts falling due within one year

| | 2011 £ | 2010 £ |
|---|---|---|
| Trade creditors | 52,313 | 198,714 |
| Other creditors | 7,046 | 12,122 |
| Accruals | 171,678 | 193,290 |
| | 231,037 | 404,126 |

## 14 Called up share capital

| | 2011 £ | 2010 £ |
|---|---|---|
| **Allotted, called-up and fully paid:** | | |
| Ordinary Shares of 1p each: 42,606,052 (2010: 39,779,546) | 426,061 | 397,795 |
| | 426,061 | 397,795 |

Under the Joint VCT Offer for Subscription launched on 12 November 2010 and which closed on 30 June 2011, 5,508,292 ordinary share were allotted at an average issue price of 100.4 pence per share, raising net proceeds of £5,236,341.

During the year the Company made the following share repurchases for a total consideration of £2,222,097 (2010: £890,013):

| Purchased | Date of purchase | Nominal value £ |
|---|---|---|
| 460,000 | 30 March 2011 | 4,600 |
| 492,478 | 31 March 2011 | 4,925 |
| 452,608 | 08 April 2011 | 4,526 |
| 76,222 | 19 May 2011 | 762 |
| 159,237 | 24 June 2011 | 1,592 |
| 245,186 | 19 August 2011 | 2,452 |
| 398,009 | 30 September 2011 | 3,980 |
| 64,371 | 10 October 2011 | 644 |
| 200,000 | 18 November 2011 | 2,000 |
| 77,281 | 21 December 2011 | 773 |
| 56,394 | 21 December 2011 | 564 |
| 2,681,786 | | 26,818 |

## 15 Movement in share capital and reserves

| | Called up share capital £ | Capital redemption reserve £ | Share Premium reserve £ | Revaluation reserve £ | Special distributable reserve (note b) £ | Profit and loss account (note b) £ | Total £ |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 397,795 | 29,364 | 16,852,849 | 4,290,333 | 16,423,246 | 457,320 | 38,450,907 |
| Shares Issued | 55,084 | – | 5,181,257 | – | – | – | 5,236,341 |
| Share buybacks | (26,818) | 26,818 | | – | (2,222,097) | – | (2,222,097) |
| Write off to special reserve (note a) | – | – | | – | (1,073,480) | 1,073,480 | – |
| Realisation of previously unrealised appreciation | – | – | | (1,523,144) | – | 1,523,144 | – |
| Dividends paid | – | – | – | – | (1,965,924) | (436,673) | (2,402,597) |
| Profit for the year | – | – | – | 688,724 | – | 974,897 | 1,663,621 |
| **As at 31 December 2011** | **426,061** | **56,182** | **22,034,106** | **3,455,913** | **11,161,745** | **3,592,168** | **40,726,175** |

Note a: The cancellation of the share premium account (as approved at the Extraordinary General Meeting held on 30 June 2004 and by the order of the Court dated 24 August 2006) has provided the Company with a special distributable reserve. The purpose of the reserve is to fund market purchases of the Company's own shares, and to write off existing and future capital losses, now that the Company has revoked its investment company status and is obliged to take into account capital losses in determining distributable reserves. The transfer of £1,073,480 to the profit and loss account from the special distributable reserve is the total of realised capital losses incurred by the Company during the year.

Note b: These reserves total £14,753,913 (2010: £16,880,566) and are regarded as distributable reserves for the purpose of assessing the Company's ability to pay dividends to shareholders.

## 16 Basic and diluted net asset value per share

Net asset value per Ordinary share is based on net assets at the end of the year, and on 42,606,052 (2010: 39,779,546) Ordinary Shares, being the number of Ordinary Shares in issue on that date.

## 17 Reconciliation of profit on ordinary activities before taxation to net cash inflow/(outflow) from operating activities

| | 2011 £ | 2010 £ |
|---|---|---|
| Profit on ordinary activities before taxation | 1,663,621 | 6,321,029 |
| Net (gains)/losses on realisations of investments | (520,219) | 75,045 |
| Net unrealised gains on investments | (688,724) | (6,527,412) |
| Increase in debtors | (98,437) | (40,976) |
| Decrease in creditors and accruals | (26,817) | (128,022) |
| Net cash inflow/(outflow) from operating activities | 329,424 | (300,336) |

## 18 Analysis of changes in net funds

| | Cash<br>£ | Liquid resources<br>£ | Total<br>£ |
|---|---|---|---|
| At beginning of year | 114,672 | 7,466,137 | 7,580,809 |
| Cash flows | 1,970,410 | 3,657,544 | 5,627,954 |
| **At 31 December 2011** | **2,085,082** | **11,123,681** | **13,208,763** |

## 19 Financial instruments

The Company's financial instruments in both years comprise:

- Equity and preference shares and fixed and floating rate interest securities that are held in accordance with the Company's investment objective; and
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

The principal purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors. It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

### Classification of financial instruments

The Company held the following categories of financial instruments at 31 December 2011:

| | 2011<br>(Book value)<br>£ | 2011<br>(Fair value)<br>£ | 2010<br>(Book value)<br>£ | 2010<br>(Fair value)<br>£ |
|---|---|---|---|---|
| **Assets at fair value through profit and loss:** | | | | |
| Investment portfolio | 27,418,790 | 27,418,790 | 31,043,002 | 31,043,002 |
| Current investments | 11,123,681 | 11,123,681 | 7,466,137 | 7,466,137 |
| **Loans and receivables** | | | | |
| Accrued income | 311,809 | 311,809 | 207,464 | 207,464 |
| Other debtors | 124 | 124 | 3,871 | 3,871 |
| Cash at bank | 2,085,082 | 2,085,082 | 114,672 | 114,672 |
| **Liabilities at amortised cost or equivalent** | | | | |
| Other creditors | (231,037) | (231,037) | (404,126) | (404,126) |
| Total for financial instruments | 40,708,449 | 40,708,449 | 38,431,020 | 38,431,020 |
| Non financial instruments | 17,726 | 17,726 | 19,887 | 19,887 |
| Total net assets | 40,726,175 | 40,726,175 | 38,450,907 | 38,450,907 |

The investment portfolio principally consists of unquoted investments (99.0%; 2010: 98.8%) and AiM quoted stocks (1.0%; 2010: 1.2%). The investment portfolio has a 100% (2010: 100%) concentration of risk towards small UK based, £ denominated companies, and represents 67.3% (2010: 80.7%) of net assets at the year-end.

Current investments are money market funds, discussed under credit risk below, which represent 27.3% (2010: 19.4 %) of net assets at the year-end.

The main risks arising from the Company's financial instruments are due to fluctuations in market prices (market price risk), credit risk and cash flow interest rate risk, although liquidity risk and currency risk are also discussed below. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These have been in place throughout the current and preceding years.

# Notes to the Accounts

## for the year ended 31 December 2011

**Market price risk**

Market price risk arises from uncertainty about the future valuations of financial instruments held in accordance with the Company's investment objectives. These future valuations are determined by many factors but include the operational and financial performance of the underlying investee companies, as well as market perceptions of the future performance of the UK economy and its impact upon the economic environment in which these companies operate. This risk represents the potential loss that the Company might suffer through holding its investment portfolio in the face of market movements, which was a maximum of £27,418,790 at the year-end (2010: £31,043,002). It represents the potential gain or loss that the Company might benefit or suffer through holding its investment portfolio in the face of market movements.

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded and as such the prices are more uncertain than those of more widely traded securities. As, in a number of cases, the unquoted investments are valued by reference to price earnings ratios prevailing in quoted comparable sectors, their valuations are exposed to changes in the price earnings ratios that exist in the quoted markets.

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equities and loan stock investments is determined by the requirement to meet the Company's investment objective, as set out at the front of this Annual Report. As part of the investment management process, the Board seeks to maintain an appropriate spread of market risk, and also has full and timely access to relevant information from the Manager. No single investment is permitted to exceed 15% of total investment assets at the point of investment. The Investment Committee meets regularly and reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Company does not use derivative instruments to hedge against market risk.

**Market price risk sensitivity**

The Board believes that the Company's assets are mainly exposed to market price risk, as the Company is required to hold most of its assets in the form of £ denominated investments in small companies.

Although one of these assets is quoted on AiM, all others are unquoted. All of the investments made by the Manager in unquoted companies, irrespective of the instruments the Company actually holds, (whether shares, preference shares or loan stock) carry a full market risk, even though some of the loan stocks may be secured on assets, but behind any prior ranking bank debt in the investee company.

The Board considers that the value of investments in equity and loan stock instruments are ultimately sensitive to changes in quoted share prices, insofar as such changes eventually affect the enterprise value of unquoted companies. The table below shows the impact on profit and net assets if there were to be a 20% (2010: 20%) movement in overall share prices, which might in part be caused by changes in interest rate levels. However, it is not considered possible to evaluate separately the impact of changes in interest rates upon the value of the Company's portfolios of investments in small, unquoted companies.

The sensitivity analysis below assumes that each of these sub categories of investments (shares, preference shares and loan stocks) held by the Company produces a movement overall of 20% (2010: 20%), and that the actual portfolio of investments held by the Company is perfectly correlated to this overall movement in share prices. However, Shareholders should note that this level of correlation is unlikely to be the case in reality, particularly in the case of the loan stock instruments. This is because loan stock instruments would not share in the impact of any increase in share prices to the same extent as the equity instruments, as the returns are set by reference to interest rates and premiums agreed at the time of initial investment. Similarly, where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to market price risk in isolation.

| | 2011 £ Profit and net assets | 2010 £ Profit and net assets |
|---|---|---|
| If overall share prices fell by 20% (2010: 20%), with all other variables held constant – | (5,483,758) | (6,208,600) |
| Decrease in earnings, and net asset value, per Ordinary Share (in pence) | (12.87)p | (15.61)p |
| If overall share prices increase by 20% (2010: 20%), with all other variables held constant – | 5,483,758 | 6,208,600 |
| Increase in earnings, and net asset value, per Ordinary Share (in pence) | 12.87p | 15.61p |

The impact of a change of 20% (2010: 20%) has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement.

### Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company's maximum exposure to credit risk is:

| | 2011 £ | 2010 £ |
|---|---|---|
| Loan stock investments | 19,958,575 | 18,437,840 |
| Money market funds | 11,123,681 | 7,466,137 |
| Accrued income | 311,809 | 207,464 |
| Cash at bank | 2,085,082 | 114,672 |
| | 33,479,147 | 26,226,113 |

The Company has an exposure to credit risk in respect of the loan stock investments it has made into investee companies, most of which have no security attached to them, and where they do, such security ranks beneath any bank debt that an investee company may owe.

The accrued income shown above was all due within five months of the year-end.

The following table shows the maturity of the loan stock investments referred to above. In some cases, the loan maturities are not the contractual ones, but are the best estimates using management's expectations of when it is likely that such loans may be repaid.

| | 2011 £ | 2010 £ |
|---|---|---|
| **Repayable within** | | |
| 0 to 1 year | 1,406,202 | 3,891,644 |
| 1 to 2 years | 6,788,589 | 3,009,053 |
| 2 to 3 years | 2,522,480 | 3,790,826 |
| 3 to 4 years | 3,458,261 | 4,519,413 |
| 4 to 5 years | 5,783,043 | 3,226,904 |
| Total | 19,958,575 | 18,437,840 |

Four loans valued at £2,935,528 are now past their repayment date but have not been renegotiated. The loan stock investments are made as part of the qualifying investments within the investment portfolio, and the risk management processes applied to the loan stock investments have already been set out under market price risk above.

An aged analysis of the value of loan stock investments included above, which are past due but not individually impaired, is set out below. For this purpose, these loans are considered to be past due when any payment due under the loan's contractual terms (such as payment of interest or redemption date) is received late or missed. We are required to report in this format and include the full value of the loan even though in some cases it is only in respect of interest that they are in default.

Past due loan stock assets:

| | 0-6 months £ | 6-12 months £ | over 12 months £ | 2011 Total £ |
|---|---|---|---|---|
| Loans to investee companies past due | 636,364 | – | 4,464,744 | 5,101,108 |

| | 0-6 months £ | 6-12 months £ | over 12 months £ | 2010 Total £ |
|---|---|---|---|---|
| Loans to investee companies past due | – | – | 5,197,073 | 5,197,073 |

There is also a risk of default by the money market funds and the bank deposit with NatWest Bank plc within cash at bank above, which could suffer defaults within their underlying portfolios that could affect the values at which the Company could sell its holdings. The Board manages credit risk in respect of these money market funds and cash by ensuring a spread of such investments such that none should exceed 15% of the Company's total investment assets. These money market funds are all triple A rated funds and so credit risk is considered to be relatively low even in current circumstances. The cash at bank figure of £2,085,082 is held with NatWest Bank plc, where the risk of default is considered to be low.

There could also be a failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered. This risk is considered to be small as most of the Company's investment transactions are in unquoted investments, where investments are conducted through solicitors, to ensure that payment matches delivery. In respect of any quoted investment transactions that are undertaken, the Company uses brokers with a high credit quality, and these trades usually have a short settlement period. Accordingly, counterparty risk is considered to be relatively low.

### Cash flow interest rate risk

The Company's fixed and floating rate interest securities, its equity and preference equity investments and net revenue may be affected by interest rate movements. Investments are often in relatively small businesses, which are relatively high risk investments sensitive to interest rate fluctuations.

Due to the short time to maturity of some of the Company's floating rate investments, it may not be possible to re-invest in assets which provide the same rates as those currently held. The Company's assets include fixed and floating rate interest instruments, as shown below. The rate of interest earned is regularly reviewed by the Board, as part of the risk management processes applied to these instruments, already disclosed under market price risk above.

The interest rate profile of the Company's financial net assets at 31 December 2011 was:

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate (see note) % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 7,425,154 | – | – | 7,425,154 | | |
| Preference shares | – | 35,061 | – | 35,061 | – | 1.44 |
| Loan stocks | – | 19,591,422 | 367,153 | 19,958,575 | 7.68 | 2.15 |
| Money market funds | – | – | 11,123,681 | 11,123,681 | 0.64 | |
| Cash | – | – | 2,085,082 | 2,085,082 | | |
| Debtors | 311,933 | – | – | 311,933 | | |
| Creditors | (231,037) | – | – | (231,037) | | |
| Total for financial instruments | 7,506,050 | 19,626,483 | 13,575,916 | 40,708,449 | | |
| Non-financial instruments | 17,726 | – | – | 17,726 | | |
| Total net assets | 7,523,776 | 19,626,483 | 13,575,916 | 40,726,175 | | |

The interest rate profile of the Company's financial net assets at 31 December 2010 was

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate (see note) % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 12,588,840 | – | – | 12,588,840 | | |
| Preference shares | – | 16,322 | – | 16,322 | 1.48 | 1.88 |
| Loan stocks | – | 15,274,065 | 3,163,775 | 18,437,840 | 4.84 | 2.96 |
| Money market funds | – | – | 7,466,137 | 7,466,137 | 0.57 | |
| Cash | – | – | 114,672 | 114,672 | | |
| Debtors | 211,335 | – | – | 211,335 | | |
| Creditors | (404,126) | – | – | (404,126) | | |
| Total for financial instruments | 12,396,049 | 15,290,387 | 10,744,584 | 38,431,020 | | |
| Non-financial instruments | 19,887 | – | – | 19,887 | | |
| Total net assets | 12,415,936 | 15,290,387 | 10,744,584 | 38,450,907 | | |

Note: Weighted average interest rates above are derived by calculating the expected annual income that would be earned on each asset (but only for those sums that are currently regarded as collectible and would therefore be recognised), divided by the values for each asset class at the balance sheet date.

Floating rate cash earns interest based on LIBOR rates.

The Company's investments in equity shares have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

### Cash flow interest rate sensitivity

Although the Company holds investments in loan stocks that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes in isolation upon the value of the unquoted investment portfolio, as interest rate changes are only one factor affecting the market price movements that are discussed above under market price risk. However, as the Company has a substantial proportion of its assets in money market funds, the table below shows the sensitivity of income earned to changes in interest rates:

| | 2011 Profit and net assets £ | 2010 Profit and net assets £ |
|---|---|---|
| If interest rates fell by 1%, with all other variables held constant – decrease | (108,607) | (84,882) |
| Decrease in earnings, and net asset value, per Ordinary share (in pence) | (0.25p) | (0.21p) |

| | 2011 Profit and net assets £ | 2010 Profit and net assets £ |
|---|---|---|
| If interest rates rose by 1%, with all other variables held constant – increase | 108,607 | 84,882 |
| Increase in earnings, and net asset value, per Ordinary share (in pence) | 0.25p | 0.21p |

### Liquidity risk

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded, so they are not readily realisable. The ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The Company's ability to sell investments may also be constrained by the requirements set down for VCTs. The maturity profile of the Company's loan stock investments disclosed within the consideration of credit risk above indicates that these assets are also not readily realisable until dates up to five years from the year-end.

# Notes to the Accounts

## for the year ended 31 December 2011

To counter these risks to the Company's liquidity, the Manager maintains sufficient cash and money market funds to meet running costs and other commitments. The Company invests its surplus funds in high quality money market funds which are, as reported in Note 12, all accessible on an immediate basis.

**Currency risk**

All assets and liabilities are denominated in sterling and therefore there is no currency risk.

**Fair value hierarchy**

The table below sets out fair value measurements using FRS29 fair value hierarchy.

**Financial assets at fair value through profit and loss**

**At 31 December 2011**

| | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| Equity investments | 260,519 | – | 7,164,635 | 7,425,154 |
| Preference shares | – | – | 35,061 | 35,061 |
| Loan stock | – | – | 19,958,575 | 19,958,575 |
| Money market funds | 11,123,681 | – | – | 11,123,681 |
| Total | 11,384,200 | – | 27,158,271 | 38,542,471 |

There are currently no financial liabilities at fair value through profit and loss.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Company are explained in the in accounting policies in Note 1.

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out on below:

| | Equity investments<br>£'000 | Preference shares<br>£'000 | Loan stock<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| Opening balance at 1 January 2011 | 12,207,592 | 16,322 | 18,437,840 | 30,661,754 |
| Purchases | 447,151 | 1,819 | 5,784,246 | 6,233,216 |
| Sales | (6,620,991) | (845) | (4,484,124) | (11,105,960) |
| Transfers into Level 3 | – | – | – | – |
| Reclassification at value | 3,339 | (3,339) | – | – |
| Total gains/(losses) included in the Income Statement: | | | | |
| – on assets sold | 160,805 | – | 399,003 | 559,808 |
| – on assets held at the year end | 966,739 | 21,104 | (178,390) | 809,453 |
| **Closing balance at 31 December 2011** | **7,164,635** | **35,061** | **19,958,575** | **27,158,271** |

As detailed in the accounting policies note, where investments are valued on an earnings-multiple basis, the main input used for this basis of valuation is a suitable price-earnings ratio taken from a comparable sector on the quoted market. These ratios are correlated to the share prices and so any change in share prices will have a significant effect on the fair value measurements of the investments classified as Level 3 investments.

Level 3 unquoted equity and loan stock investments are valued in accordance with the IPEVCV guidelines as follows:

| | 31 December 2011 £ | 31 December 2010 £ |
|---|---|---|
| **Investment methodology** | | |
| Cost (reviewed for impairment) | 4,900,751 | 4,359,678 |
| Asset value supporting security held | 700,992 | 700,992 |
| Recent investment price | 2,709,895 | 3,376,027 |
| Earnings multiple | 18,846,633 | 22,225,057 |
| | 27,158,271 | 30,661,754 |

The unquoted equity and loan stock investments had the following movements between valuation methodologies between 31 December 2010 and 31 December 2011:

| Change in investment methodology (2010 to 2011) | Carrying value as at 31 December 2011 £ | Explanatory note |
|---|---|---|
| Recent investment price to earnings multiple | 3,458,261 | More appropriate basis for determining fair value |
| Cost (reviewed for impairment) to earnings multiple | 353,188 | More appropriate basis for determining fair value |
| Earnings multiple to cost (reviewed for impairment) | – | More appropriate basis for determining fair value |

The valuation will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the September 2009 IPEVCV guidelines. The Directors believe that, within these parameters, these are the most appropriate methods of valuation which would be reasonable as at 31 December 2011.

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives, the value of the unquoted investments would be £1,851k or 6.7% lower. Using the upside alternatives the value would be increased by £3,665k or 13.4%. In arriving at both these figures, a 5% change to earnings multiples was applied, and in the case of two investee companies' upside alternatives, an enterprise value based upon break sale proceeds and a third party offer (discounted by 10%) was used.

## 20 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the Investment Policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous year.

## 21 Segmental analysis

There is only one class of business and the operations of the Company are wholly in the United Kingdom.

# Notes to the Accounts

for the year ended 31 December 2011

## 22 Related party transactions

### Ongoing related party transactions

Bridget Guérin is a shareholder (0.3%) of Matrix Group Limited, which owns 100% of the equity of MPE Partners Limited which has a 50% interest in Matrix Private Equity Partners LLP ('MPEP'), the Company's Investment Manager. Further information on the investment management agreement and the fees paid during the year is included in Note 3.

Following a re-organisation of the Matrix group of companies, MPEP now provides administration services under the terms of an investment management agreement dated 20 May 2010 as disclosed in Note 3. The revised annual fee is 2% of net assets plus £126,225 per annum, the latter inclusive of VAT and subject to increase in RPI. Matrix Securities Limited previously provided Company Secretarial and Accountancy Services to the Company under agreements dated 9 July 2004 for a fee of £nil (2010: £35,590) in the period. At the year-end £nil (2010: £7) was due to Matrix-Securities Limited.

Matrix Group Limited also owns Matrix CC Limited, which has a 97% interest in Matrix Corporate Capital LLP ("MCC"), the Company's Corporate Broker. Eleven (2010: nine) share buybacks were undertaken by MCC on the Company's instruction, costing £2,222,097 (2010: £890,013). Fees of £14,400 (2010: £15,863) were paid to MCC during the year and there was £45,082 (2010: £190,399) due to MCC at the year-end in respect of a purchase by the Company of 56,394 of its own shares on 21 December 2011.

Each of the Directors holds a small number of shares, representing less than 0.02% of the issued share capital in each case, in each of Matrix Income & Growth 4 VCT plc and The Income & Growth VCT plc which are both also managed by MPEP.

### Post year-end related party transactions

On 12 January 2012, MPEP's executive partners, being the holders of the other 50% interest in MPEP, have agreed to purchase the 50% interest held by MPE Partners Limited, which transaction is due to complete on 30 June 2012.

As part of the arrangements for the Matrix VCTs Linked Offer launched on 20 January 2012 ("the Offer"), the Company has agreed to pay Matrix Private Equity Partners, the Company's Manager the sum of 5.5% of the gross proceeds by way of a promoter's fee out of which MPEP will pay all of the expenses of the Offer (excluding trail commission to financial intermediaries which will continue to be paid by the Company), including the Sponsor's fee below.

In addition, the Company has also appointed Matrix Corporate Capital as sponsor to the Offer at a fee based on 0.12% of funds raised. An additional charge will also be made across the three VCTs in the Offer of £1,500 per supplementary prospectus issued. The agreement includes a "cap" of £15,000 per company.

These last two transactions are both deemed to be related party transactions under the Listing Rules of the UK Listing Authority.

## 23 Post balance sheet events

On 27 January 2012, Fullfield Limited (Motorclean) made a part repayment of the A loan stock realising proceeds of £122,692.

On 30 January 2012, Focus Pharma Holdings Limited made a part repayment of loan stock realising proceeds of £390,753.

On 8 March 2012, under the Linked Offer for subscription launched on 20 January 2012, 1,763,460 Ordinary shares were allotted at a price of 100.12 pence per share raising net funds of £1,689,584.

On 20 March 2012, the Company made separate investments of £1 million into each of the acquisition vehicles Almsworthy Trading Limited, Culbone Trading Limited, Madacombe Trading Limited and Sawrey Limited.

On 8 March 2012, the Company bought back 425,000 of its own Ordinary Shares at 79 pence per share, for cancellation.

# Shareholder Information

Shareholders wishing to follow the Company's progress can visit the Company website at www.migvct.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/prices-and-markets/stocks/stocks-and-prices.htm provides up to the minute details of the share price and latest NAV announcements, etc. A number of commentators such as Tax Efficient Review at www.taxefficientreview.com provide comparative performance figures for the VCT sector as a whole. The share price is also quoted in the Financial Times.

The Manager circulates a twice-yearly newsletter to its VCT shareholders in June and December of each year. The newsletter contains information on the investment portfolio, the latest performance figures and details of the VCT's latest investment activity.

## Net asset value per share

The Company's NAV per share as at 31 December 2011 was 95.6 pence per share. The Company announces its unaudited NAV on a quarterly basis.

## Dividend

The Directors are recommending a final dividend in respect of the year ended 31 December 2011 of 6.25 pence per share (comprising 5.00 pence from capital and 1.25 pence from income). The dividend will be paid on 22 May 2012 to Shareholders on the Register on 11 May 2012.

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, Computershare Investor Services PLC at the address below.

## Financial calendar

| | |
|---|---|
| Late March 2012 | Annual Report for the year ended 31 December 2011 to be circulated to Shareholders |
| 10 May 2012 | Annual General Meeting |
| 11 May 2012 | Record date for Shareholders to be eligible for final dividend |
| 22 May 2012 | Final dividend in respect of the year ended 31 December 2011 to be paid to Shareholders. |
| August 2012 | Announcement of Half-Yearly Results and circulation of Half-Yearly Report for the six months ended 30 June 2012 to Shareholders |
| 31 December 2012 | Year-end |

## Annual General Meeting

The next Annual General Meeting of the Company will be held on 10 May 2012 at 2.30 pm at One Vine Street, London W1J 0AH. Please try to arrive 10 minutes before the meeting starts when tea and coffee will be served to Shareholders. A short presentation will be given by the Investment Manager during the AGM. The Notice of the meeting is included on pages 56 – 58 of this Annual Report. A proxy form for use at the Meeting is enclosed separately with Shareholders' copies of this Annual Report. Proxy forms should be completed in accordance with the instructions printed thereon and sent to the Company's Registrars, Computershare Investor Services PLC, to arrive no later than 2.30 pm on 8 May 2012.

## Shareholder enquires:

For enquiries concerning the Fund, please contact the Investment Manager, Matrix Private Equity Partners LLP, on 020 3206 7000 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, Computershare Investor Services PLC, on 0870 702 0010 or write to them at PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH or should you prefer visit their website at www-uk.computershare.com.

To contact the Chairman or any member of Board, please contact the Company Secretary, Matrix Private Equity Partners LLP in the first instance, on 020 3206 7000 or by e-mail to mig@matrixgroup.co.uk.

# MATRIX INCOME & GROWTH VCT PLC

(Registered in England and Wales No. 5153931)

# NOTICE of the ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the eighth annual general meeting of Matrix Income & Growth VCT plc ("the Company") will be held at 2.30 pm on 10 May 2012 at One Vine Street, London W1J 0AH for the purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:-

1. To receive and adopt the annual report and accounts of the Company for the year ended 31 December 2011 ("Annual Report"), together with the auditors' report thereon.
2. To approve the directors' remuneration report as set out in the Annual Report of the Company for the year ended 31 December 2011.
3. To re-appoint PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP as auditors to the Company until the conclusion of the next annual general meeting.
4. To authorise the directors to determine the remuneration of the auditors.
5. To re-elect Tom Sooke as a director of the Company.
6. To re-elect Bridget Guérin as a director of the Company.
7. To approve the payment of a final dividend in respect of the year ended 31 December 2011 of 6.25 pence per ordinary share of 1 penny each in the capital of the Company.
8. That, in substitution for any existing authorities, the directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 ("the Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £153,945, provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution unless previously renewed, revoked or varied by the Company in general meeting (except that the Company may, before such expiry, make offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry and notwithstanding such expiry the directors may allot shares or grant rights in pursuance of such offers or agreements).
9. That, subject to the passing of resolution 8 set out in this notice and in substitution for any existing authorities, the directors be and hereby are empowered in accordance with sections 570(1) and 573 of the Act to allot or make offers or agreement to allot equity securities (as defined in section 560(1) of the Act) for cash, pursuant to the authority conferred upon them by resolution 8 set out in this notice, or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that the power conferred by this resolution shall be limited to:
   (i) The allotment of equity securities with an aggregate nominal value of up to but not exceeding £110,000 in connection with offer(s) for subscription; and
   (ii) the allotment and/or sale of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of 10% of the issued share capital of the Company from time to time

   in each case where the proceeds may be used in whole or in part to purchase the Company's shares in the market

   and provided that this authority shall expire on the conclusion of the annual general meeting of the Company to be held in 2013 (unless previously 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 the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
10. That, in substitution for any existing authorities, the Company be and hereby is generally authorised pursuant to and in accordance with section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of its own shares provided that:
    (i) the maximum aggregate number of shares authorised to be purchased shall not exceed 6,587,000;
    (ii) the minimum price which may be paid a share is 1 penny, the nominal value thereof;
    (iii) the maximum price which may be paid for a share (excluding expenses) shall be the higher of (i) 5 per cent above the average of the middle market quotations for a share in the Company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003 (EC 2273/2003);

(iv) the authority conferred by this resolution shall (unless previously renewed or revoked) expire on conclusion of the annual general meeting of the Company to be held in 2013; and

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

Registered Office
One Vine Street
London W1J 0AH

22 March 2012

**BY ORDER OF THE BOARD OF DIRECTORS**

Matrix Private Equity Partners LLP
*Company Secretary*

# MATRIX INCOME & GROWTH VCT PLC

(Registered in England and Wales No. 5153931)

# NOTICE of the ANNUAL GENERAL MEETING

NOTES:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrars helpline on 0870 707 1155.
2. To appoint a proxy (a) the form of proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or (b) the proxy appointment must be registered electronically at www.eproxyappointment .com, in each case so as to be received not later than 2.30 pm am on 8 May 2012 or 48 hours before the time appointed for 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 no later than 24 hours before the time appointed for taking the poll.
3. To vote electronically, shareholders will be asked to provide the Control Number, their individual Shareholder Reference Number (SRN) and PIN, details of which are contained on the form of proxy, or the electronic broadcast message issued by the Company. This is the only acceptable means by which proxy instructions may be submitted electronically
4. The return of a completed proxy form, other such instrument or any electronic Proxy Instruction (as described in paragraph 2 above) will not prevent a shareholder attending the annual general meeting and voting in person if he/she wishes to do so.
5. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
6. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
7. To be entitled to attend and vote at the annual general meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at close of business on 8 May 2012 (or, in the event of any adjournment, is 48 hours prior to the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
9. Any member attending the meeting has the right to ask questions. The Company is obliged to answer any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
10. Under section 527 of the Act (i) members representing at least 5% of the total voting rights of all the members or (ii) at least 100 members who have a relevant right to vote and hold shares in the company on which there has been paid up an average sum, per member, of at least £100 (in accordance with section 525 of the Act) can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the annual general meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last annual general meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the Company's website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website. By attending the meeting, Members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the shares of the Company made at the meeting.
11. As at 22 March 2012 (being the last business day prior to the publication of this notice) the Company's issued share capital consisted of 43,944,512 Ordinary Shares, each carrying one vote. Therefore, the total voting rights in the Company as at 22 March 2012 were 43,944,512.
12. The Register of Directors' Interests, copies of Keith Niven's and Bridget Guérin's directors' appointment letters and the service contract and consultant's agreement with Tom Sooke shall be available for inspection at the place of the annual general meeting for at least fifteen minutes prior to and during the meeting.
13. A copy of this notice, and other information required by section 311A of the Act, can be found at www.migvct.co.uk.

# Corporate Information

**Directors**
Keith Niven (Chairman)
Bridget Guérin
Tom Sooke (Senior Independent Director)

*All of whom are non-executive and of:*
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**Website:** www.migvct.co.uk

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