

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

A VENTURE CAPITAL TRUST

REPORT & ACCOUNTS



Unaudited Interim Report  
for the six months ended 31 October 2006

MATRIX

## Investment Objective

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

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

## Financial Highlights

Interim Results for the six months ended 31 October 2006

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

Initial net asset value per Ordinary Share		94.00 pence	
Initial net assets		£12,388,236	
	<b>31 October 2006</b>	30 April 2006	31 October 2005
Net assets	£12,622,286	£10,938,976	£11,075,033
Net asset value per Ordinary Share	102.28 pence	87.05 pence	87.30 pence
Total dividends per Ordinary Share paid to date	14.79 pence	14.79 pence	8.79 pence
Total return to shareholders since launch per Ordinary Share*	117.07 pence	101.84 pence	96.09 pence
Earnings per Ordinary Share	14.87 pence	6.91 pence	1.26 pence

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

Initial net asset value per C Share		94.50 pence	
Initial net assets		£8,648,486	
	<b>31 October 2006</b>	30 April 2006	
Net assets	£8,681,654	£8,626,295	
Net asset value per C Share	94.92 pence	94.32 pence	
Total return to shareholders since launch per C Share*	94.92 pence	94.32 pence	
Earnings/(loss) per C Share	0.61 pence	(0.56) pence	

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

# Chairman's Statement

I am pleased to enclose the Interim Report and Financial Statements of Matrix Income & Growth 2 VCT plc (the "Company") for the period from 1 May 2006 to 31 October 2006.

## Overview

Your Company is benefiting from a solid performance by Matrix Private Equity Partners, the Investment Manager. Since the year end the Ordinary and C Share Funds have made investments together in three further companies, totalling £1.2 million and £440,000 respectively. The Board is encouraged by the satisfactory early performance of these investments.

Your Board was also pleased to hear that your Investment Manager successfully retained the award for Venture Capital Trust Manager of the Year at the Investor AllStars 2006 Awards ceremony held in September 2006.

## Ordinary Share Fund

I am satisfied to report another period of strong performance. The NAV per Ordinary Share at 31 October 2006 was 102.28 pence, a 17% increase when compared with 87.30 pence per share as at 31 October 2005, or 26% after adjusting for the 6 pence capital dividend referred to in my Statement in respect of the period ended 31 October 2005. When adjusted for all dividends paid since the Company's formation, the Fund's total return has increased by 22% from 96.09 pence at 31 October 2005 to 117.07 pence per share at 31 October 2006.

With a full year having passed since the implementation of the change in investment strategy, the Fund now more fully reflects the Investment Manager's focus on Management Buy Outs ("MBOs"), which now account for seven of the Fund's sixteen investments. During August the decision was taken to complete the exit from Miva Inc generating a positive return of £145,000 above original cost of £612,000. Of the more recent investments, Youngman Group in particular, has demonstrated strong performance which has been reflected in a material uplift in its valuation. A number of other newer investments are also trading encouragingly.

During the period, 225,000 Ordinary Shares were bought back for cancellation at an average price of 74.50 pence per share.

## C Share Fund

The NAV per C Share at 31 October 2006 stood at 94.92p, a 0.4% increase on the NAV at the close of the Offer for Subscription in April 2006.

The Fund has invested in five companies, all but one reflecting the Investment Manager's MBO focus. Given the short time since investment all remain held at cost with the exception of BBI Holdings, an AIM quoted investment whose share price has increased by 38.00 pence (40.90%) since the Fund invested in May.

## Return to Shareholders

The results for this period are set out on the following pages and show a revenue profit (after tax) attributable to Ordinary Fund Shareholders of 0.83 of a penny per Ordinary Share (31 October 2005: loss of 0.32 of a penny). The total profit (after tax) attributable to Ordinary Fund Shareholders was 14.87 pence per Ordinary Share (31 October 2005: 1.26 pence).

The revenue profit (after tax) attributable to C Share Fund Shareholders was 0.91 of a penny. The total profit (after tax) attributable to C Share Fund Shareholders was 0.61 of a penny.

## Dividend

The Board is not recommending the payment of an interim dividend in respect of the six months ended 31 October 2006 to either Ordinary Shareholders or C Shareholders. The Directors will consider the payment of final dividends in respect of the year ending 30 April 2007 when they review the full year results.

## The Board

This is my first report as Chairman of the Company, following the retirement of Michael Cumming in September 2006. I would like to place on record my appreciation for his contribution since the Company's formation and also that of Fredrik Adams, who did not stand for re-election in September as a result of his increased other commitments.

I am delighted to report the appointment of Adam Kingdon to the Board. Adam joined us as a Non-Executive director on 29 September 2006 and brings with him a wealth of UK and European commercial experience across a range of sectors accumulated over more than 20 years. We look forward very much to working with him.

The Board intends to make a further appointment in due course.

**Nigel Melville**  
*Chairman*

18 December 2006

# Investment Manager's Review

The Company's focus remains on investing primarily in profitable, established unquoted companies, by way of MBOs operating across a wide range of sectors. Typically these investee companies will be cash-generative and therefore capable of producing dividend income, as well as capital returns to Shareholders on their ultimate sale or flotation.

The Ordinary Share Fund comprises investments in sixteen companies and now better reflects the Investment Manager's strategy. Nine new investments have been completed in total since the change in investment strategy last year. Most continue to be held at cost, in accordance with the International Private Equity & Venture Capital Valuation ("IPEVCV") guidelines, but the Fund's two AIM quoted investments, BBI Holdings and SectorGuard, are valued at bid market prices in excess of cost. Further, the first MBO investment, Youngman Group, has seen a significant uplift following very strong trading during the latter part of 2005 which has continued during the current year.

During August the decision was taken to complete the exit from Miva Inc. The proceeds from the disposal of £175,000 contributed to a total return of £757,000 from this £612,000 investment made in 2003.

The C Share Fund now has five investments, all made alongside the Ordinary Share Fund since April of this year. These all remain valued at cost, apart from BBI Holdings whose market price has increased by 40.90% since investment.

Your Investment Manager is encouraged by the performance of its Ordinary and C Share Fund investments and is committed to actively sourcing appropriate investment opportunities to develop the portfolio further.

# Investment Portfolio Summary - Ordinary Share Fund

as at 31 October 2006

Qualifying investments	Date of first investment	Total book cost £	Valuation £	% of net assets by value
<b>AIM quoted investments</b>				
Clarity Commerce Solutions plc Customer relationship management software	July 2000	510,000	417,600	3.3%
BBI Holdings plc Developer and manufacturer of rapid test diagnostic products	May 2006	118,738	167,254	1.3%
SectorGuard plc Provision of manned guarding, mobile patrolling and alarm response services	August 2005	150,000	160,714	1.3%
Flightstore Group plc In-flight retail services	March 2001	254,586	1,584	0.0%
		1,033,324	747,152	5.9%
<b>Unquoted investments</b>				
Youngman Group Limited Manufacturer of ladders and access towers	October 2005	1,000,000	2,526,964	20.0%
Gyro International Limited Brand Communications agency	February 2005	750,000	1,283,646	10.2%
Campden Media Limited Magazine publisher and conference organiser	January 2006	975,000	975,000	7.7%
British International Holdings Limited Supplier of helicopter services	June 2006	832,827	832,827	6.6%
Recite Limited Sales support software	August 2003	1,000,000	750,000	5.9%
VSI Limited Developer and marketer of 3D software	April 2006	365,764	365,764	2.9%
Blaze Signs Holdings Limited Signwriter	April 2006	339,545	339,545	2.7%
PastaKing Holdings Limited Supplier to the educational and food service market	June 2006	274,624	274,624	2.2%
Vectair Holdings Limited Provider of air care and sanitary washroom products	January 2006	243,784	243,784	1.9%
Callserve Communications Limited Voice over Internet Protocol	October 2000	300,000	–	0.0%
Monactive Limited Software asset management tools and services	March 2001	642,857	–	0.0%
Award International Holdings plc Sales promotion activities	March 2004	250,000	–	0.0%
		6,974,401	7,592,154	60.1%
<b>Total qualifying investments</b>		<b>8,007,725</b>	<b>8,339,306</b>	<b>66.0%</b>
<b>Non-qualifying investments</b>		<b>Book cost £</b>	<b>Valuation £</b>	<b>% of net assets by value</b>
Money market funds <sup>1</sup>		2,193,780	2,193,780	17.4%
AIM quoted investments		908	759	0.0%
<b>Total non-qualifying investments</b>		<b>2,194,688</b>	<b>2,194,539</b>	<b>17.4%</b>
<b>Total investments</b>		<b>10,202,413</b>	<b>10,533,845</b>	<b>83.4%</b>
Other assets			2,306,872	18.3%
Current liabilities			(218,431)	(1.7%)
<b>Net assets</b>			<b>12,622,286</b>	<b>100.0%</b>

<sup>1</sup> Disclosed within Non-current assets (monies held pending investment) in the Balance Sheet.

# Investment Portfolio Summary - C Share Fund

as at 31 October 2006

Qualifying investments	Date of first investment	Total book cost £	Valuation £	% of net assets by value
AIM quoted investments				
<b>BBI Holdings plc</b> Developer and manufacturer of rapid test diagnostic products	May 2006	82,893	116,763	1.3%
		82,893	116,763	1.3%
Unquoted investments				
<b>PastaKing Holdings Limited</b> Supplier to the educational and food service market	June 2006	191,720	191,720	2.2%
<b>British International Holdings Limited</b> Supplier of helicopter services	June 2006	167,173	167,173	1.9%
<b>VSI Limited</b> Developer and marketer of 3D software	April 2006	122,897	122,897	1.4%
<b>Blaze Signs Holdings Limited</b> Signwriter	April 2006	58,953	58,953	0.7%
		540,743	540,743	6.2%
<b>Total qualifying investments</b>		<b>623,636</b>	<b>657,506</b>	<b>7.5%</b>
Non-qualifying investments		Book cost £	Valuation £	% of net assets by value
Money market funds <sup>1</sup>		7,540,458	7,540,458	86.9%
AIM quoted investments		–	–	0.0%
<b>Total non-qualifying investments</b>		<b>7,540,458</b>	<b>7,540,458</b>	<b>86.9%</b>
<b>Total investments</b>		<b>8,164,094</b>	<b>8,197,964</b>	<b>94.4%</b>
Other assets			690,335	8.0%
Current liabilities			(206,645)	(2.4%)
<b>Net assets</b>			<b>8,681,654</b>	<b>100.0%</b>

<sup>1</sup> Disclosed within Non-current assets (monies held pending investment) in the Balance Sheet.



# Independent Review Report to Matrix Income & Growth 2 VCT plc

## Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 October 2006 which comprises a Profit and Loss Account, a Balance Sheet, a Cash Flow Statement and a Reconciliation of Movements in Shareholders' Funds. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting

policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial statements. This report, including the conclusion, has been prepared for and only for the Company for the purposes of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2006.

MRI Moores Rowland LLP  
Chartered Accountants  
London  
18 December 2006

# Unaudited Profit and Loss Account (by Fund)

## Profit and Loss account for the six months ended 31 October 2006

	Notes	Ordinary Share Fund			C Share Fund		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains on investments		–	2,025,772	2,025,772	–	33,870	33,870
Realised losses on investments		–	(204,938)	(204,938)	–	–	–
Transaction costs		–	(610)	(610)	–	–	–
Income		240,763	–	240,763	213,608	–	213,608
Management fees	3	(32,121)	(96,364)	(128,485)	(25,404)	(76,210)	(101,614)
Other expenses		(89,320)	–	(89,320)	(82,785)	–	(82,785)
<b>Profit/(loss) on ordinary activities before taxation</b>		119,322	1,723,860	1,843,182	105,419	(42,340)	63,079
Tax on ordinary activities		(15,863)	23,583	7,720	(22,200)	14,480	(7,720)
<b>Retained profit/(loss)</b>		103,459	1,747,443	1,850,902	83,219	(27,860)	55,359
<b>Return per share</b>	4	<b>0.83p</b>	<b>14.04p</b>	<b>14.87p</b>	<b>0.91p</b>	<b>(0.30)p</b>	<b>0.61p</b>

## Balance Sheet for each Fund as at 31 October 2006

	Notes	Ordinary Share Fund		C Share Fund	
		£	£	£	£
<b>Non-current assets</b>					
Assets held at fair value through profit and loss - investments			8,340,065		657,506
Monies held pending investment			2,193,780		7,540,458
			10,533,845		8,197,964
<b>Current Assets</b>					
Debtors and prepayments			750,074		427,136
Cash at bank			1,556,798		263,199
			2,306,872		690,335
<b>Creditors: amounts falling due within one year</b>			(218,431)		(206,645)
<b>Net current assets</b>			2,088,441		483,690
<b>Net assets</b>			<b>12,622,286</b>		<b>8,681,654</b>
<b>Capital and reserves</b>					
Called up share capital			123,411		91,460
Capital redemption reserve			8,395		–
Capital reserve			2,581,427		33,870
Cancelled share premium account			5,991,306		8,471,015
Profit and loss account			3,917,747		85,309
<b>Equity shareholders' funds</b>			<b>12,622,286</b>		<b>8,681,654</b>
Net asset value per share	5		102.28 p		94.92 p



	Total of both funds (per Interim Profit and Loss Account)			
	Revenue £	Capital £	Total £	
	–	2,059,642	2,059,642	
	–	(204,938)	(204,938)	
	–	(610)	(610)	
	454,371	–	454,371	
	(57,525)	(172,574)	(230,099)	
	(172,105)	–	(172,105)	
	(224,741)	1,681,520	1,906,261	
	(38,063)	38,063	–	
	186,678	1,719,583	1,906,261	

	Adjustments (see note below) £		Total of both funds (per Interim Balance Sheet)		
	£		£	£	
				8,997,571	
				9,734,238	
	(75,743)		1,101,467	18,731,809	
			1,819,997		
	(75,743)		2,921,464		
	75,743		(349,333)		
				2,572,131	
	–			<b>21,303,940</b>	
				214,871	
				8,395	
				2,615,297	
				14,462,321	
				4,003,056	
				<b>21,303,940</b>	

Note: The adjustment above nets off the inter-fund debtor and creditor balances so that the "Total of both funds" balance sheet agrees to the interim Balance Sheet on page 8.

# Unaudited Profit and Loss Account

for the six months ended 31 October 2006

Notes	Six months to 31 October 2006 (unaudited)			Year ended 30 April 2006 (audited)		
	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised gains/(losses) on investments	–	2,059,642	2,059,642	–	(1,458,362)	(1,458,362)
Realised (losses)/gains on investments	–	(204,938)	(204,938)	–	2,588,791	2,588,791
Transaction costs	–	(610)	(610)	–	–	–
Income	454,371	–	454,371	311,585	–	311,585
Management fees	(57,525)	(172,574)	(230,099)	(72,107)	(216,322)	(288,429)
Other expenses	(172,105)	–	(172,105)	(299,800)	–	(299,800)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>224,741</b>	<b>1,681,520</b>	<b>1,906,261</b>	<b>(60,322)</b>	<b>914,107</b>	<b>853,785</b>
Tax on ordinary activities	(38,063)	38,063	–	–	–	–
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>186,678</b>	<b>1,719,583</b>	<b>1,906,261</b>	<b>(60,322)</b>	<b>914,107</b>	<b>853,785</b>
Dividend per share	0.00p	0.00p	0.00p	0.00p	0.00p	0.00p
Basic earnings and return per Ordinary Share	4 0.83p	14.04p	14.87p	(0.49)p	7.40p	6.91p
Basic earnings and return per C Share	4 0.91p	(0.30)p	0.61p	0.05p	(0.61)p	(0.56)p

# Unaudited Balance Sheet

as at 31 October 2006

Notes	31 October 2006 (unaudited) £	30 April 2006 (audited) £	31 October 2005 (unaudited) £
<b>Non-current assets</b>			
Assets held at fair value through profit and loss - investments	7 8,997,571	5,643,559	7,173,378
Monies held pending investment	8 9,734,238	9,751,436	3,966,958
	18,731,809	15,394,995	11,140,336
<b>Current assets</b>			
Debtors and prepayments	1,101,467	1,936,269	133,793
Cash at bank	1,819,997	2,462,495	6,613
	2,921,464	4,398,764	140,406
<b>Creditors: amounts falling due within one year</b>			
Other creditors	147,371	64,520	41,644
Accruals	201,962	163,968	164,065
	(349,333)	(228,488)	(205,709)
<b>Net current assets/(liabilities)</b>	<b>2,572,131</b>	<b>4,170,276</b>	<b>(65,303)</b>
<b>Net assets</b>	<b>21,303,940</b>	<b>19,565,271</b>	<b>11,075,033</b>
<b>Capital and reserves</b>	9		
Called up share capital	214,871	217,121	126,861
Capital redemption reserve	8,395	6,145	4,945
Share premium account	–	8,557,026	–
Cancelled share premium account - distributable reserve	14,462,321	8,034,754	8,313,114
Capital reserve	2,615,297	(1,041,174)	1,319,635
Profit and loss account	4,003,056	3,791,399	1,310,478
<b>Equity shareholders' funds</b>	<b>21,303,940</b>	<b>19,565,271</b>	<b>11,075,033</b>
<b>Net asset value per share</b>			
Ordinary Share	5 102.28p	87.05p	87.30p
C Share	5 94.92p	94.32p	–

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

	Six months ended 31 October 2005 (unaudited)			
	Revenue £	Capital £	Total £	
	–	295,647	295,647	
	–	5,838	5,838	
	–	–	–	
	139,982	–	139,982	
	(33,056)	(99,169)	(132,225)	
	(147,459)	–	(147,459)	
	(40,533)	202,316	161,783	
	–	–	–	
	(40,533)	202,316	161,783	
	0.00p	0.00p	6.00p	
	(0.32)p	1.58p	1.26p	
	–	–	–	

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

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

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

# Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months ended 31 October 2006

	Notes	Six months ended 31 October 2006 (unaudited) £	Year ended 30 April 2006 (audited) £	Six months ended 31 October 2005 (unaudited) £
Opening shareholders' funds		19,565,271	11,780,212	11,808,068
Restated for application of new accounting policies		–	–	(27,856)
Net share capital (bought back)/subscribed in the year		19,565,271 (167,592)	11,780,212 8,467,397	11,780,212 (97,708)
Profit for the year		1,906,261	853,785	161,783
Dividends paid in year	6	-	(1,536,123)	(769,254)
Closing shareholders' funds		21,303,940	19,565,271	11,075,033

# Unaudited Cash Flow Statement

for the six months ended 31 October 2006

	Six months ended 31 October 2006 (unaudited) £	Year ended 30 April 2006 (audited) £	Six months ended 31 October 2005 (unaudited) £
<b>Operating activities</b>			
Net investment interest - non-qualifying	332,149	301,551	119,813
Investment management fees paid	(74,552)	(249,360)	(127,377)
Other cash payments	(168,986)	(279,394)	(144,029)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>88,611</b>	<b>(227,203)</b>	<b>(151,593)</b>
<b>Investing activities</b>			
Acquisition of investments	(2,597,061)	(3,286,309)	(1,180,365)
Disposal of investments	2,016,346	5,462,960	2,846,350
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(580,715)</b>	<b>2,176,651</b>	<b>1,665,985</b>
<b>Dividends</b>			
Dividends paid	–	(1,536,123)	(776,322)
<b>Net cash (outflow)/inflow before liquid resource management</b>	<b>(492,104)</b>	<b>413,325</b>	<b>738,070</b>
<b>Management of liquid resources</b>			
Movement in money market and other deposits	17,198	(7,892,613)	(2,108,135)
<b>Financing</b>			
Purchase of own shares	(167,592)	(181,089)	(97,708)
Share capital raised	–	8,648,486	–
<b>Net cash (outflow)/inflow from financing</b>	<b>(167,592)</b>	<b>8,467,397</b>	<b>(97,708)</b>
<b>(Decrease)/increase in cash</b>	<b>(642,498)</b>	<b>988,109</b>	<b>(1,467,773)</b>

# Notes to the unaudited financial statements

## 1. Principal accounting policies

Full details of principal accounting policies will be disclosed in the Annual Report.

### a) Basis of accounting

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

### b) Investments

Investments are stated at fair value, in accordance with applicable accounting standards and with reference to the International Private Equity and Venture Capital Valuation (IPEVVCV) guidelines published in 2005, which are similar to the BVCA (British Venture Capital Association) guidelines followed in previous years.

The fair value of quoted investments is the bid value of those investments at the close of business on 31 October 2006.

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

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

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve – realised and unrealised respectively, and shown in the Profit and Loss Account.

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

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

# Notes to the unaudited financial statements

## 4. Earnings and return per share

	Six months ended 31 October 2006 (unaudited)			Year ended 30 April 2006 (audited)		
	Ordinary Share Fund £	C Share Fund £	Total £	Ordinary Share Fund £	C Share Fund £	Total £
Total earnings after taxation Basic earnings per share (note a)	1,850,902 14.87p	55,359 0.61p	1,906,261	875,976 6.91p	(22,191) (0.56)p	853,785
Net revenue from ordinary activities after taxation Revenue return per share (note b)	103,459 0.83p	83,219 0.91p	186,678	(64,212) (0.49)p	2,090 0.05p	(62,122) (0.32)p
Net realised capital (losses)/gains	(204,938)	–	(204,938)	2,588,791	–	2,588,791
Net unrealised capital gains/(losses)	2,025,772	33,870	2,059,642	(1,458,362)	–	(1,458,362)
Capital expenses	(73,391)	(61,730)	(135,121)	(192,041)	(24,281)	(216,322)
Total capital return Capital return per share (note c)	1,747,443 14.04p	(27,860) (0.30)p	1,719,583	938,388 7.40p	(24,281) (0.61)p	914,107
Weighted average number of shares in issue in the year	12,445,223	9,145,990		12,679,005	3,939,573	

### Notes

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

5. The net asset value per Ordinary Share is based upon total net assets at 31 October 2006 of £12,622,286 (30 April 2006: £10,938,976; 31 October 2005: £11,075,033) and on 12,341,147 Ordinary Shares (30 April 2006 12,566,147; 31 October 2005: 12,686,147) being the number of Ordinary Shares in issue at that date.

The net asset value per C Share is based upon total net assets at 31 October 2006 of £8,681,654 (30 April 2006: £8,626,295; 31 October 2005: nil) and on 9,145,990 C Shares (30 April 2006 9,145,990; 31 October 2005: nil) being the number of C Shares in issue at that date.

## 6. Dividends

	Six months to 31 October 2006 (unaudited) £	Year to 30 April 2006 (audited) £	Six months to 31 October 2005 (unaudited) £
Dividends paid in period - nil pence per share (30 April 2006: 12 pence; 31 October 2005: 6 pence)	–	1,536,123	769,254

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



			Six months ended 31 October 2005 (unaudited)			
					Total £	
			161,783			
			1.26p			
			(40,533)			
			(0.32)p			
			5,838			
			295,647			
			(99,169)			
			202,316			
			1.58p			
			12,806,277			

# Notes to the unaudited financial statements

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

	Traded on AIM £	Unlisted or traded on PLUS £	Preference shares £	Qualifying loans £	Overseas quoted shares £	Total £
Cost/valuation at 1 May 2006	633,725	1,530,858	284,556	2,820,459	373,961	5,643,559
Purchases at cost	201,987	411,537	2,314	1,052,493	-	1,668,331
Sale proceeds	-	-	-	-	(169,023)	(169,023)
Increase in unrealised gains	28,962	2,030,680	-	-	-	2,059,642
Increase in realised losses	-	-	-	-	(204,938)	(204,938)
<b>Cost/valuation at 31 October 2006</b>	<b>864,674</b>	<b>3,973,075</b>	<b>286,870</b>	<b>3,872,952</b>	<b>-</b>	<b>8,997,571</b>
Book cost at 31 October 2006	1,367,125	2,726,751	286,870	4,251,523	-	8,632,269
Reclassification	(250,000)	250,000	-	-	-	-
Unrealised (losses)/gains at 31 October 2006	(252,451)	996,324	-	(378,571)	-	365,302
<b>Valuation at 31 October 2006</b>	<b>864,674</b>	<b>3,973,075</b>	<b>286,870</b>	<b>3,872,952</b>	<b>-</b>	<b>8,997,571</b>
Unrealised (losses)/gains at 1 May 2006	(531,413)	815,639	650,000	(378,571)	(1,596,829)	(1,041,174)
Reclassification	250,000	(250,000)	-	-	-	-
Net movement in unrealised appreciation in the period	28,962	2,030,680	-	-	-	2,059,642
Realisation of previously unrealised losses	-	-	-	-	1,596,829	1,596,829
Permanent impairment at 31 October 2006	-	(1,599,995)	(650,000)	-	-	(2,249,995)
<b>(Losses)/gains on investments at 31 October 2006</b>	<b>(252,451)</b>	<b>996,324</b>	<b>-</b>	<b>(378,571)</b>	<b>-</b>	<b>365,302</b>

## 8. Monies held pending investment

These comprise investments in three Dublin based OEIC money market funds, managed by Barclays Global Investors, Royal Bank of Scotland and Blackrock (formerly Merrill Lynch). £9,698,320 (30 April 2006: £9,716,179; 31 October 2005: £3,436,162) of this sum is subject to same day access, while £35,918 (30 April 2006: £35,257; 31 October 2005: £530,796) is subject to two day access.

## 9. Capital and reserves for the six months ended 31 October 2006

	Called up share capital £	Capital redemption reserve £	Share Premium Account £	Cancelled share premium account - distributable reserve £	Capital reserve (unrealised) £	Profit and Loss Account £	Total £
At 1 May 2006	217,121	6,145	8,557,026	8,034,754	(1,041,174)	3,791,399	19,565,271
Shares bought back	(2,250)	2,250	-	(167,592)	-	-	(167,592)
Cancellation of the share premium account	-	-	(8,557,026)	8,557,026	-	-	-
Realisation of previously unrealised losses	-	-	-	-	1,596,829	(1,596,829)	-
Transfer of realised capital losses from cancelled share premium account (see note below)	-	-	-	(1,961,867)	-	1,961,867	-
Gain for the year	-	-	-	-	2,059,642	(153,381)	1,906,261
<b>At 31 October 2006</b>	<b>214,871</b>	<b>8,395</b>	<b>-</b>	<b>14,462,321</b>	<b>2,615,297</b>	<b>4,003,056</b>	<b>21,303,940</b>

Note: the transfer of £1,961,867 to the cancelled share premium account from the Profit and Loss Account is the total of realised losses incurred by the Company in the period, plus £24,281 of losses incurred by the C Share Fund in the year ended 30 April 2006.

The cancellation of the share premium account attributable to the C Shares was registered at Companies House on 14 September 2006. The share premium account attributable to the Ordinary Shares had been cancelled previously. The cancelled Share Premium Account for each Fund provides the Company with a special reserve out of which it can fund buy-backs of each Fund's shares as and when it is considered by the Board to be in the interests of the Shareholders, and to absorb any existing and future realised losses. Under Resolution 7 of the Annual General Meeting held on 5 September 2006, each class of Shareholders authorised the Company to purchase its own shares pursuant to section 166 of the Companies Act 1985. The authority is limited to a maximum of 14.99 per cent of the issued Ordinary Share Capital of the Company or, as the case maybe, 14.99% of the issued C Share capital, and will unless previously revoked or renewed expire on the conclusion of the Annual General Meeting of the Company to be held in 2007.

The maximum price that may be paid for Ordinary Shares and C Shares will be an amount equal to 105 per cent of the average of the middle market quotation as taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which that Ordinary Share or, as the case maybe, C Share, is purchased. The minimum price that may be paid for Ordinary Shares and C Shares is 1 penny per share. The authority provides that the Company may make a contract to purchase Ordinary Shares or, as the case maybe, C Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares or C Shares pursuant to such contract.

10. The financial information set out in this report has not been audited and does not comprise full financial statements within the meaning of section 240 of the Companies Act 1985. The audited accounts for the Company for the year ended 30 April 2006, on which the auditors gave an unqualified report, have been delivered to the Registrar of Companies.
11. Copies of this statement are being sent to all Shareholders. Further copies are available free of charge from the Company's registered office, One Jermyn Street, London, SW1Y 4UH or can be downloaded via the Company Secretary's web site at [www.matrixgroup.co.uk](http://www.matrixgroup.co.uk).

# Shareholder Information

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

The Company circulates a bi-annual newsletter to Shareholders in the quarters in which it does not publish annual or interim accounts. The next edition will be distributed in March 2007.

## **Net asset value per share**

The Company's NAV per share as at 31 October 2006 was 102.28 pence per Ordinary Share and 94.92 pence per C Share. The Company announces its unaudited NAV on a quarterly basis.

## **Dividend**

The Board is not recommending the payment of an interim dividend in respect of the six months ended 31 October 2006 to either Ordinary Shareholders or C Shareholders. The Directors will consider the payment of final dividends in respect of the year ending 30 April 2007 when they review the full year results.

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

## **Shareholder enquires**

For enquiries concerning the investment portfolio, please contact the Investment Manager, Matrix Private Equity Partners LLP, on 020 7925 3300 or by e-mail to [info@matrixpep.co.uk](mailto:info@matrixpep.co.uk).

For information on your holding, to notify the Company of a change of address or to request a dividend mandate form (should you wish to have future dividends paid directly into your bank account) please contact the Company's Registrars, Capita Registrars, on 0870 162 3300 or write to them at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA. Alternatively you can contact them via their web site at [www.capitaregistrars.com](http://www.capitaregistrars.com).

# Corporate Information

## Directors

Nigel Melville  
Adam Kingdon (appointed 29 September 2006)  
Kenneth Vere Nicoll  
Michael Cumming (resigned 5 September 2006)  
Fredrik Adams (resigned 5 September 2006)

## Company's registered office and head office

One Jermyn Street  
London  
SW1Y 4UH

## Company Registration Number

3946235

## Website

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

### Secretary

Matrix-Securities Limited  
One Jermyn Street  
London  
SW1Y 4UH

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

### Investment Manager

Matrix Private Equity Partners LLP\*  
One Jermyn Street  
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SW1Y 4UH

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

### Promoter and Company Accountants

Matrix-Securities Limited  
One Jermyn Street  
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SW1Y 4UH

### Auditors and Tax Advisers

MRI Moores Rowland LLP  
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Paddington  
London  
W2 6PS

### VCT Tax Adviser

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### Solicitors

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*Also at*

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### Sponsors and Stockbrokers

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### Registrar

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\* Formerly Matrix Private Equity Partners Limited

