# MATRIX INCOME & GROWTH VCT PLC

## ANNUAL REPORT AND ACCOUNTS


Annual Report and Accounts
for the year ended 31 December 2006

## Matrix Income & Growth VCT plc

### Amendments to the Annual Report & Accounts for the year ended 31 December 2006

**Page 1, Financial Highlights**
Delete 'Total expense 'ration' and replace with 'Total expense ratio'.

**Page 30, Reconciliation of Movements in Shareholders' Funds**
Under 'Year ended 31 December 2006':

- for 'At 31 December 2005 (as originally stated)' delete '0' and replace with '20,728,204'
- for 'As at 1 January 2006 (restated)' delete'155,005' and replace with '20,883,209'
- for 'Closing Shareholders' funds' delete'1,516,698' and replace with '22,244,902'

Amended table to read:

**Reconciliation of Movements in Shareholders' Funds**

| **for the year ended 31 December 2006** | **Notes** | **Year ended 31 December 2006 £** | **Fifteen months ended 31 December 2005 £** |
|---|---|---|---|
| At 31 December 2005 (as originally stated) | **4(a)** | 20,728,204 | 46,771 |
| Prior year adjustment arising from the introduction of FRS 21 | **4(a)** | 155,005 | - |
| As at 1 January 2006 (restated) | **4(a)** | 20,883,209 | 46,771 |
| Issues of Ordinary Shares | | - | 22,093,621 |
| Expenses of issues | | - | (1,210,499) |
| Purchase of own shares | | (35,581) | - |
| Return for the year | | 1,729,428 | 19,747 |
| Dividends paid in year | **10** | (332,154) | (221,436) |
| **Closing Shareholders' funds** | | 22,244,902 | 20,728,204 |

**Page 34, Notes to the Accounts**

6 **Investment manager's fees**
In the table contained within this Note, in 'capital' column in respect of '15 months ended 31 December 2005', delete '332,33' and replace with '332,337'. Amended table to read:

| | **Year ended 31 December 2006** | | | **15 months ended 31 December 2005** | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
| Matrix Private Equity | £ | £ | £ | £ | £ | £ |
| Partners LLP | 123,960 | 371,881 | 495,841 | 110,779 | 332,337 | 443,116 |

**Page 38, Notes to the Accounts**

12 **Investments at fair value**
In the table contained within this Note, insert '4,518,723' in the 'Purchases at cost' row under 'Loan Stock'. Amended table to read:

| | **Traded on AIM** | **Unquoted equity Shares** | **Unquoted preference Shares** | **Loan stock** | **Total** |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Cost at 31 December 2005 | 150,000 | 266,193 | 20,162 | 1,926,538 | 2,362,893 |
| Purchases at cost | 382,219 | 1,527,934 | 18,746 | 4,518,723 | 6,447,622 |
| Increase in unrealised appreciation | 247,301 | 1,484,605 | - | - | 1,731,906 |
| Impairment | - | (44,242) | (998) | (167,653) | (212,893) |
| Closing valuation at 31 December 2006 | 779,520 | 3,234,490 | 37,910 | 6,277,608 | 10,329,528 |
| | | | | | |
| Book cost at 31 December 2006 | 532,219 | 1,794,127 | 38,908 | 6,445,261 | 8,810,515 |
| Unrealised gains/(losses) at 31 December 2006 | 247,301 | 1,440,363 | (998) | (167,653) | 1,519,013 |
| | 779,520 | 3,234,490 | 37,910 | 6,277,608 | 10,329,528 |

## Investment Objective

Matrix Income & Growth 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 income stream, by way of tax free dividends, and to generate capital growth through portfolio realisations, which can be distributed by way of additional tax free dividends.

## Contents

# Financial Highlights

**Ordinary Shares** (listed on 8 October 2004)

| | |
|---|---|
| Initial net asset value per share | 94.5 pence |
| Initial net assets | £20,933,124 |

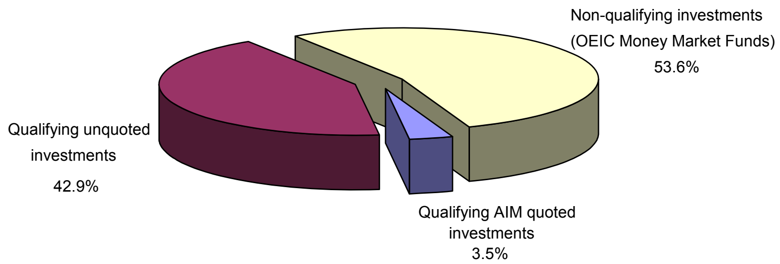
| | 31 December 2006 | 31 December 2005 (restated) |
|---|---|---|
| Net assets | £22,244,902 | £20,883,209 |
| Net asset value per share | 100.6 p | 94.3 p |
| Net cumulative dividends paid* | 1.8 p | 0.3 p |
| Total return per share to Shareholders since launch** | 102.4 p | 94.6 p |
| Share price (mid-market price) | 88.5 p | 99.0 p |
| Total expense ratio | 3.7% | 3.1% |

* For a breakdown of dividends paid, please see 'Dividends and other appropriations' in note 10 to the financial statements on page 37.

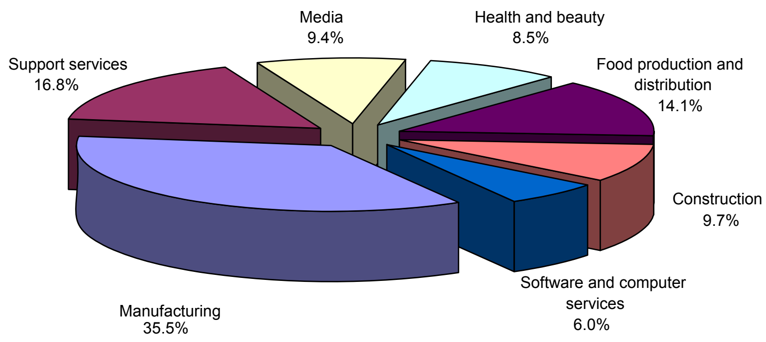
** Net asset value per share plus cumulative dividends paid per share. This compares with an original investment cost of 60 pence per share after allowing for income tax relief of 40 pence per share.

A final dividend of 1.4 pence per share will be recommended to Shareholders at the AGM on 26 April 2007 to be paid on 18 May 2007, thereby increasing net cumulative dividends paid since launch to 3.2 pence per share.

**Investments by asset class**




**Investments by market sector**



## Chairman's Statement

**Overview**

I am pleased to present to Shareholders the annual results of Matrix Income & Growth VCT plc for the year to 31 December 2006 and to report continuing progress.

Further headway has been made in constructing a broadly based portfolio, predominantly of management buy out ("MBO") investments, with the aim of combining a regular and growing income with the potential for future capital gain. This approach has helped to generate sufficient income to enable the Board to recommend a final dividend of 1.4 pence per share, making a total of 2.2 pence for the year.

Despite the relatively early stage in the Company's life, the investment portfolio is currently valued above cost, resulting in a net asset value ("NAV") per share at 31 December 2006 of 100.6 pence (2005: 94.3 pence (restated)), and a total return per share of 102.4 pence (2005: 94.6 pence (restated)), compared with the initial NAV per share of 94.5 pence This represents an increase in total return over the initial NAV of 8.4% (2005: 0.1%).

**Investment portfolio**

Over the year the Company invested £6.45 million into nine companies across a range of industrial and commercial sectors, bringing total investment to £8.81 million at cost; eight of these investments are MBOs, reflecting the Investment Manager's focus on this type of investment.

The level of income from the portfolio is growing as qualifying investments are made. Income from the Company's loan stock investments was running at an annualised rate of 8.9% at 31 December 2006. The annualised running yield on the qualifying investment portfolio as a whole was 5.4%, while upon all investments it was 5.2%.

**Results and dividend**

The revenue account generated a net revenue return (after tax) for the year of £468,957 (2005 (15 months): £288,940) and your Directors will be recommending a final dividend of 1.4 pence per share to Shareholders at the Annual General Meeting to be held on 26 April 2007. The dividend will be paid on 18 May 2007 to Shareholders on the Register on 20 April 2007 making a total of 2.2 pence per share for the year ended 31 December 2006.

**Investment in qualifying holdings**

The Investment Manager remains confident of meeting the target set by HM Revenue & Customs of investing 70% of the funds raised in qualifying unquoted and AIM quoted companies ("the 70% test") by 31 December 2007. At 31 December 2006, the Company was 43.4% (based upon the tax values, which differ from accounting values) invested in qualifying companies. In respect of the shares allotted between 5 October and 31 December 2004 the Company was required to comply with the qualifying tests by 31 December 2006. This target was achieved with 76% being invested in qualifying holdings by 31 December 2006.

**Communication with shareholders**

The Company intends to communicate regularly with Shareholders. The April 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 Investment Manager.

The fourth and latest newsletter providing further information on the progress of the Company was sent out in January 2007.

**Summary Annual Report**

You will have received an earlier letter from me proposing to distribute a Summary of the Annual Report to Shareholders rather than the full version (unless you opted to receive the latter). Companies' Annual Reports and Accounts have become longer and more complex, principally due to the requirements of new statutory, corporate governance and other reporting regulations. As a result, we have decided to follow the example of a number of other companies and produce a Summary Annual Report for the year to 31 December 2006.

**Changes to UK accounting rules**

Shareholders may be aware that there have been some recent changes to UK accounting standards, which have affected the reporting basis of this year's results. Principally, quoted investments are now valued on a bid price basis (last year, a mid market basis was used), while dividends to shareholders are no longer recognised in the financial statements until they are paid (last year, a proposed dividend was recognised in the financial statements). Last year's figures have been restated to reflect these changes. Further details are contained within Notes 1-4 to the Financial Statements.

**Share buy-backs**

40,000 Ordinary Shares came onto the market during the year under review and the Company bought these back at a price of 88.5 pence per share, which represented a 10% discount to the then published NAV. These shares, representing 0.18% of the issued share capital of the Company at the beginning of the year, were subsequently cancelled by the Company.

**Outlook**

The Board's short-term aim is to continue to build a broadly based investment portfolio. Because of the weight of funds raised there is increased competition for deals and, therefore, the danger that purchase prices will be inflated. However the Investment Manager believes that this is less of a problem for the size of deals it is addressing, and remains confident that it will be able to identify good quality investment opportunities which can be completed at attractive valuations. Based on this the Board believes that the Company should achieve the 70% test by 31 December 2007 and at least maintain this level of investment in qualifying companies going forward. As more investments are completed, an increasing proportion of the Investment Manager's time will be spent on preparing investee companies for attractive exits.

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

**Keith Niven**
**Chairman**

14 March 2007

## Investment Manager's Review

The Company's strategy is to invest primarily in established profitable unquoted companies. Typically these investee companies are cash-generative and therefore capable of producing dividend income as soon as the investment is made, as well as capital returns to Shareholders on their ultimate sale or flotation. The Company focuses principally on investments in MBOs.

The two most recent investments were completed in December. The first was the MBO of PXP Holdings (Pinewood Structures), a leading supplier of timber frame sections to the UK building sector, in which the Company invested £1,000,000. This was followed by an investment of £874,199 into the MBO of Castlegate 435 (Racoon International), the UK's largest supplier of hair extensions and related products.

The investment portfolio now totals thirteen companies and overall progress is encouraging. Several investments are already showing strong potential to generate future capital gains from trade sales of the underlying companies.

Youngman Group has enjoyed an outstanding year, achieving profitability well in excess of that anticipated at investment. Blaze Signs Holdings has also exceeded expectations, benefiting from strong demand from a number of retail clients. BBI Holdings plc has made a number of acquisitions during the year and its share price growth has been strong. SectorGuard plc also made a significant acquisition, an intruder alarm systems maintenance business, and was admitted to its industry regulatory body's Approved Contractor Scheme on the first possible date for accreditation.

The portfolio contains two investments involved in the food industry. Ministry of Cake (Holdings) has continued to grow sales and stands to benefit from the recent receivership of a competitor. PastaKing Holdings has performed particularly well since investment; sales and profitability are running at levels well above plan with good cash generation.

British International Holdings has made a solid start since its MBO, and is trading in line with plan. Passenger numbers on the Penzance to Scilly Isles route were down on prior year, but other contracts compensated for the revenue shortfall. Campden Media had a successful year with a number of new publication launches and there are plans to expand its US wealth management conferencing business during 2007.

VSI also performed well despite the effect of the weak US$ on its software revenues, and a number of growth initiatives are under consideration for the current year. Vectair Holdings has reinforced its strong UK market position and results for the year to date are materially ahead of last year's performance; export markets, both in Europe and the US, offer real growth prospects over the next few years.

Only one relatively small investment, FH Ingredients, has proved very disappointing. Poor implementation of a major capital expenditure programme soon after the investment led to cash pressures and efforts to re-finance the company proved unsuccessful; the company entered into administration on 26 January 2007.

Notwithstanding this, the overall portfolio is already showing a valuation uplift of 17.2% over cost at the year-end. When combined with its annualised running yield of 5.4%, this is a pleasing performance at this stage of its construction.

We continue to attract a good flow of attractive new investment opportunities, but we remain wary of some extremely high valuations being placed on businesses in the current market. We are confident that the Company will meet the relevant VCT regulations by its deadline of 31 December 2007.

Further details of the investments in the current portfolio are outlined below.

### Youngman Group Limited

| | **Total** | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £1,000,052 | £100,052 | £14,286 | £885,714 |
| **Valuation** | £2,494,042 | £1,594,042 | £14,286 | £885,714 |

**Basis of valuation:** Earnings multiple
**Equity % held and voting rights:** 8.6%
**Business:** Manufacturer of ladders and access towers,
**Location:** Maldon, Essex
**History:** Management buy in/buy out from SGB Group
**Income receivable in year:** £70,073

**Audited financial information:**

| Period ended | Turnover | Operating profit | Net assets |
|---|---|---|---|
| 30 June 2006 | £30,858,000 | £2,720,000 | £1,698,000 |

### British International Holdings Limited

| | **Total** | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £1,000,000 | £225,000 | £1,000 | £774,000 |
| **Valuation** | £1,000,000 | £225,000 | £1,000 | £774,000 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 10.0%
**Business:** Helicopter service operator
**Location:** Sherborne, Dorset
**History:** MBO
**Income receivable in year:** £37,837
**Audited financial information:** First audited accounts will be for the period ended 31 December 2006

### PXP Holdings Limited (Pinewood Structures)

| | **Total** | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £1,000,000 | £288,000 | £1,829 | £710,171 |
| **Valuation** | £1,000,000 | £288,000 | £1,829 | £710,171 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 8.5%
**Business:** Designer, manufacturer and supplier of timber frames for buildings
**Location:** Sandy, Bedfordshire
**History:** MBO
**Income receivable in year:** £1,985
**Audited financial information:** First audited accounts will be for the period ending 31 December 2007

### Ministry of Cake (Holdings) Limited

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £1,000,000 | £121,951 | £4,878 | £873,171 |
| **Valuation** | £990,615 | £112,566 | £4,878 | £873,171 |

| | |
|---|---|
| **Basis of valuation:** | Earnings multiple |
| **Equity % held and voting rights:** | 17.1% |
| **Business:** | Manufacturer of frozen cakes and desserts for the foodservice industry |
| **Location:** | Taunton, Somerset |
| **History:** | Management buy in/buy out from private ownership |
| **Income receivable in year:** | £61,122 |
| **Audited financial information:** | First audited accounts will be for the period ended 31 August 2006 |

### Campden Media Limited

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £975,000 | £195,000 | £2,437 | £777,563 |
| **Valuation** | £975,000 | £195,000 | £2,437 | £777,563 |

| | |
|---|---|
| **Basis of valuation:** | Cost |
| **Equity % held and voting rights:** | 11.0% |
| **Business:** | Magazine publisher and conference organiser |
| **Location:** | London |
| **History:** | MBO |
| **Income receivable in year:** | £65,005 |
| **Audited financial information:** | First audited accounts will be for the year ended 31 December 2006 |

### Castlegate 435 Limited (Racoon International)

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £874,199 | £262,258 | £1,249 | £610,692 |
| **Valuation** | £874,199 | £262,258 | £1,249 | £610,692 |

| | |
|---|---|
| **Basis of valuation:** | Cost |
| **Equity % held and voting rights:** | 12.2% |
| **Business:** | Supplier of hair extensions, hair care products and training |
| **Location:** | Leamington Spa, Warwickshire |
| **History:** | MBO |
| **Income receivable in year:** | £1,807 |
| **Audited financial information:** | First audited accounts will be for the year ending 31 March 2007 |

### VSI Limited

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £618,053 | £61,806 | £3,252 | £552,995 |
| **Valuation** | £618,053 | £61,806 | £3,252 | £552,995 |

| | |
|---|---|
| **Basis of valuation:** | Cost |
| **Equity % held and voting rights:** | 15.9% |
| **Business:** | Provider of software for CAD and CAM vendors |
| **Location:** | Sheffield |
| **History:** | MBO |
| **Income receivable in year:** | £40,982 |
| **Audited financial information:** | First audited accounts will be for the year ended 31 December 2006 |

### BBI Holdings PLC

| | Total | Ordinary shares |
|---|---|---|
| **Cost** | £382,113 | £382,113 |
| **Valuation** | £607,991 | £607,991 |

**Basis of valuation:** Bid price (AIM quoted)
**Equity % held and voting rights:** 1.5%
**Business:** Developer and manufacturer of rapid test diagnostic products
**Location:** Cardiff
**History:** AiM flotation
**Income receivable in year:** £2,053

**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets | EPS |
|---|---|---|---|---|
| 31 March 2006 | £6,351,000 | £1,118,000 | £7,203,000 | 3.7p |

### Blaze Signs Holdings Limited

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £573,750 | £172,125 | £7,172 | £394,453 |
| **Valuation** | £573,750 | £172,125 | £7,172 | £394,453 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 16.1%
**Business:** Manufacturer and installer of signs
**Location:** Broadstairs, Kent
**History:** MBO
**Income receivable in year:** £26,800
**Audited financial information:** First audited accounts will be for the year ending 31 March 2007

### Vectair Holdings Limited

| | Total | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £560,302 | £138,074 | £500 | £421,728 |
| **Valuation** | £560,302 | £138,074 | £500 | £421,728 |

**Basis of valuation:** Cost
**Equity % held and voting rights:** 12.0%
**Business:** Designer and distributor of washroom products
**Location:** Basingstoke, Hampshire
**History:** MBO
**Income receivable in year:** £36,500
**Audited financial information:** First audited accounts will be for the year ending 30 June 2007

## PastaKing Holdings Limited

| | **Total** | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £464,047 | £185,619 | £1,307 | £277,121 |
| **Valuation** | £464,047 | £185,619 | £1,307 | £277,121 |

| | |
|---|---|
| **Basis of valuation:** | Cost |
| **Equity % held and voting rights:** | 7.2% |
| **Business:** | Manufacturer and supplier of fresh pasta meals |
| **Location:** | Newton Abbot, Devon |
| **History:** | MBO |
| **Income receivable in year:** | £21,766 |
| **Audited financial information:** | First audited accounts will be for the period ending 30 June 2007 |

## SectorGuard plc

| | **Total** | Ordinary shares |
|---|---|---|
| **Cost** | £150,106 | £150,106 |
| **Valuation** | £171,529 | £171,529 |

| | |
|---|---|
| **Basis of valuation:** | Bid price (AIM quoted) |
| **Equity % held and voting rights:** | 1.4% |
| **Business:** | Provider of manned guarding, mobile patrolling, and alarm response services |
| **Location:** | Waltham Cross, Essex |
| **History:** | Expansion finance as part of a £3 million capital raising |
| **Income receivable in year:** | £4,286 |

**Audited financial information:**

| Year ended | Turnover | Operating profit | Net assets | EPS |
|---|---|---|---|---|
| 30 Sept 2006 | £17,782,000 | £1,070,000 | £8,886,000 | 0.22p |

## FH Ingredients Limited

| | **Total** | Ordinary shares | Preference shares | Loan stock |
|---|---|---|---|---|
| **Cost** | £212,893 | £44,242 | £998 | £167,653 |
| **Valuation** | £0 | £0 | £0 | £0 |

| | |
|---|---|
| **Basis of valuation:** | Cost less impairment |
| **Equity % held and voting rights:** | 9.3% |
| **Business:** | Processor and distributor of frozen herbs to the food processing industry |
| **Location:** | Eye, Suffolk |
| **History:** | Management buy in/buy out from Harrington Food Group |
| **Income receivable in year:** | Nil |
| **Audited financial information:** | Audited accounts for the year ended 31 March 2006 are not yet available |

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

## Investment Portfolio Summary
### as at 31 December 2006

| | Date of initial investment | Total book cost | Valuation | % value of investment portfolio | % of equity held by funds managed by MPEP* |
|---|---|---|---|---|---|
| | | *£'000* | *£'000* | | |
| **Qualifying investments** | | | | | |
| **AIM quoted investments** | | | | | |
| **BBI Holdings plc** | May 2006 | 382 | 608 | 2.73% | 11.20% |
| Developer and manufacturer of rapid test diagnostic products | | | | | |
| **SectorGuard plc** | August 2005 | 150 | 171 | 0.77% | 10.77% |
| Provider of manned guarding, mobile patrolling, and alarm response services | | | | | |
| | | 532 | 779 | 3.50% | |
| **Unquoted investments** | | | | | |
| **Youngman Group Limited** | October 2005 | 1,000 | 2,493 | 11.21% | 30.00% |
| Manufacturer of ladders and access towers | | | | | |
| **British International Holdings Limited** | June 2006 | 1,000 | 1,000 | 4.50% | 34.93% |
| Helicopter service operator | | | | | |
| **PXP Holdings Limited (Pinewood Structures)** | December 2006 | 1,000 | 1,000 | 4.50% | 37.33% |
| Designer, manufacturer, and supplier of timber frames for buildings | | | | | |
| **Ministry of Cake (Holdings) Limited** | September 2005 | 1,000 | 991 | 4.46% | 35.00% |
| Manufacturer of frozen cakes and desserts for the foodservice industry | | | | | |
| **Campden Media Limited** | January 2006 | 975 | 975 | 4.38% | 27.59% |
| Magazine publisher and conference organiser | | | | | |
| **Castlegate 435 Limited (Racoon International)** | December 2006 | 874 | 874 | 3.93% | 49.00% |
| Supplier of hair extensions, hair care products and training | | | | | |
| **VSI Limited** | April 2006 | 618 | 618 | 2.78% | 48.91% |
| Provider of software for CAD and CAM vendors | | | | | |
| **Blaze Signs Holdings Limited** | April 2006 | 574 | 574 | 2.58% | 45.00% |
| Manufacturer and installer of signs | | | | | |
| **Vectair Holdings Limited** | January 2006 | 560 | 560 | 2.52% | 24.00% |
| Designer and distributor of washroom products | | | | | |
| **PastaKing Holdings Limited** | June 2006 | 464 | 464 | 2.09% | 27.50% |
| Manufacturer and supplier of fresh pasta meals | | | | | |
| **FH Ingredients Limited** | February 2005 | 213 | - | 0.00% | 35.00% |
| Processor and distributor of frozen herbs to the food processing industry | | | | | |
| | | 8,278 | 9,549 | 42.95% | |
| **Total qualifying investments** | | 8,810 | 10,328 | 46.45% | |
| **Non-qualifying investments** | | | | | |
| Barclays Global Investors Cash Selection Funds plc** | | 2,026 | 2,026 | 9.11% | |
| GS Funds plc (Goldman Sachs)** | | 1,998 | 1,998 | 8.99% | |
| Global Treasury Funds plc (Royal Bank of Scotland)** | | 1,992 | 1,992 | 8.96% | |
| Fidelity Institutional Cash Fund plc** | | 1,986 | 1,986 | 8.93% | |
| SWIP Global Liquidity Fund plc (Scottish Widows)** | | 1,884 | 1,884 | 8.47% | |
| Insight Liquidity Funds plc (HBOS)** | | 1,101 | 1,101 | 4.95% | |
| Institutional Cash Series plc (BlackRock)** | | 919 | 919 | 4.14% | |
| Unquoted investments | | 0 | 1 | 0.00% | |
| **Total non-qualifying investments** | | 11,906 | 11,907 | 53.55% | |
| **Total investments** | | 20,716 | 22,235 | 100.00% | |

*The other funds managed by MPEP include Matrix Income & Growth 2 VCT plc (MIG2), Matrix Income & Growth 3 VCT plc (MIG3), Matrix Income & Growth 4 VCT plc (MIG4) and TriVest VCT plc (TriVest). All of these funds have co-invested in the quoted and unquoted investments alongside the Company with the exceptions that MIG2 and MIG3 did not invest in Ministry of Cake (Holdings) Limited and FH Ingredients Limited, and MIG3 did not invest in Youngman Group Limited.

**Disclosed as current investments in the Balance Sheet.

## Board of Directors

**Keith Niven**

***Status:*** Independent non-executive Chairman

***Age:*** 58

***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 non-executive Chairman of Matrix Income & Growth 3 VCT plc and a non-executive director of four other trusts, Schroder UK Growth Fund plc, Schroder Income Growth Fund plc, Impax Environmental Markets plc and Advance UK Trust plc. He is a trustee of the Charities Aid Foundation ("CAF"), Chairman of CAF's Investment Advisory Committee and a non-executive director of CAF BANK Limited. Keith is an investment adviser to the Rolls-Royce Pension Fund.

*Length of Service as at 31 December 2006:* 2.5 years

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

*Number of Board and Committee meetings attended 2006:* 12/12

*Relevant relationships with the Investment Manager or other service providers:* Chairman of Matrix Income & Growth 3 VCT plc which is also managed by Matrix Private Equity Partners LLP.

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 21,100 Ordinary shares

**Bridget Guérin**

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

***Age:*** 45

***Experience:*** Bridget is a director of Matrix Group Limited and of its subsidiary Matrix-Securities Limited. Matrix Group Limited is a specialist financial services company and has a market leading role as a promoter of VCTs. Prior to joining Matrix Group Limited, Bridget accumulated 16 years' of retail investment fund experience at Schroder Unit Trusts Limited, Ivory & Sime and County NatWest. Bridget sits on the Boards of Matrix Income & Growth 3 VCT plc, Matrix Alternative Investment Strategies Fund Limited, an open ended fund of hedge funds and Matrix Structured Products Limited, a closed ended fund based in Bermuda.

*Length of Service as at 31 December 2006:* 2.5 years

*Committee Memberships:* Investment Committee

*Number of Board and Committee meetings attended 2006:* 6/8

*Relevant relationships with the Investment Manager or other service providers:* Director of Matrix-Securities Limited, Promoter, Company Secretary and Administrator to the Company, which is a wholly owned subsidiary of Matrix Group Limited of which Bridget is a director and shareholder. Matrix Group Limited also owns 100% of the equity of MPE Partners Limited which has a 50% interest in Matrix Private Equity Partners LLP, the Company's Investment Manager. Bridget is a Director of Matrix Income & Growth 3 VCT plc which is also managed by Matrix Private Equity Partners LLP.

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 10,550 Ordinary shares

**Christopher Moore**

***Status:*** Independent non-executive Director

***Age:*** 62

***Experience:*** Christopher has considerable experience of the venture capital industry. After a law degree and qualifying as an accountant with Price Waterhouse he worked for Robert Fleming Inc., Lazards, Jardine Fleming and then Robert Fleming, latterly as a main board director from 1986 to 1995. During this period he was involved in various unquoted and venture capital investments and remained chairman of Fleming Ventures Limited, an international venture capital fund, until the fund's final distribution in 2003. His recent roles have included acting as senior adviser to the chairman of Lloyds and chairing the successful turn-around of a public industrial group. Christopher is currently on the Boards of Matrix Income & Growth 3 VCT plc, Matrix Income & Growth 4 VCT plc and TriVest VCT plc and is executive chairman of Oxonica plc.

*Length of Service as at 31 December 2006:* 2.5 years

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

*Number of Board and Committee meetings attended 2006:* 11/12

*Relevant relationships with the Investment Manager or other service providers:* Director of Matrix Income & Growth 3 VCT plc, Matrix Income & Growth 4 VCT plc and TriVest VCT plc who are also managed by Matrix Private Equity Partners LLP

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 42,200 Ordinary shares

**Tom Sooke**

***Status:*** Senior independent non-executive Director

***Age:*** 62

***Experience:*** Tom is an experienced venture capitalist who is currently on the boards of Matrix Income & Growth 3 VCT plc and Quester VCT plc. 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 & Touche, 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 also one of the co-founding members of the British Venture Capital Association.

*Length of Service as at 31 December 2006:* 2.5 years

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

*Number of Board and Committee meetings attended 2006:* 12/12

*Relevant relationships with the Investment Manager or other service providers:* Director of Matrix Income & Growth 3 VCT plc which is also managed by Matrix Private Equity Partners LLP.

*Relevant relationships with investee companies:* None

*Shareholding in the Company:* 7,912 Ordinary shares

## Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 31 December 2006.

**Business and principal activities**

The principal activity of the Company during the year under review was investment in a diverse selection of established unquoted companies in the United Kingdom. Details of the principal investments made by the Company are given in the Investment Manager's Review and Investment Portfolio Summary on pages 4-9 of this Report. A review of the Company's business during the year is also contained within the Chairman's Statement on pages 2-3.

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

The Company is an investment company as defined in section 266 of the Companies Act 1985 and has satisfied the requirements for provisional approval as a Venture Capital Trust under section 842AA of the Income and Corporation Taxes Act 1988 (ICTA). It is the Directors' intention to continue to manage the Company's affairs in such a manner as to comply with section 842AA of the ICTA.

**Future developments**

The Company will continue to pursue its investment objective as set out at the beginning 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 2-3 and the Investment Manager's Review and Investment Portfolio Summary on pages 4-9 of this Report. The Financial Highlights on page 1 provides 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**
  The total return per share is the key measure of performance for the Company which comprises NAV plus cumulative dividends paid per share. The Company's NAV is calculated quarterly in accordance with the IPEVCV guidelines. Net assets increased during the year under review resulting in a 6.7% increase in NAV per share and an 8.2% increase in total return per share.

- **Total expense ratio (TER)**
  The TER of the Company for the year under review was 3.7%. Under the terms of the management agreement, the total management and administration expenses of the Company, excluding any irrecoverable VAT and any management performance incentive fee, are limited to a maximum of 3.6% of the value of the Company's closing net assets. Any excess will either be paid by the Investment Manager, or refunded by way of a reduction of management fees. Excluding irrecoverable VAT the TER was 3.1% and is therefore below this 3.6% threshold.

**Share capital**

The Company's application to cancel the share premium account was approved by the High Court on 24 August 2006 and registered with Companies House on 29 August 2006.

The cancellation of the share premium account has created a special reserve that can be used, amongst other things, to fund buy-backs of the Company's shares when the Directors consider that it is in the best interests of Shareholders to do so.

During the year under review the Company bought back 40,000 Ordinary Shares (being 0.18% of the opening issued share capital) at a total cost of £35,581. The issued Ordinary Share Capital of the Company as at 31 December 2006 was £221,038 (2005: £221,438). The number of Ordinary Shares in issue at this date was 22,103,821 (2005: 22,143,821).

**Results and dividend**

The revenue return after taxation attributable to Ordinary Shareholders for the year was £468,957, an increase of £180,017 over the revenue return for the period ended 31 December 2005. The Directors will be recommending a final dividend of 1.4 pence per share to Shareholders at the Annual General Meeting to be held on 26 April 2007, payable on 18 May 2007 to Shareholders who are on the Register on 20 April 2007.

The capital return has increased from a deficit of £269,193 for the period ended 31 December 2005 to a positive return of £1,260,471 for the year ended 31 December 2006.

**Directors**

The names of the Directors appear below and brief biographical details on each of the Directors are given on pages 10-11 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 2003 FRC Combined Code of Corporate Governance ("the Combined Code"), Christopher Moore will retire by rotation at the Annual General Meeting of the Company to be held on 26 April 2007 and being eligible offers himself for re-election.

**Directors' share interests**

The Directors who held office throughout the year under review and their interests (including those of their connected persons) as at 31 December 2006 were:

| | **Ordinary Shares held on:** | | |
|---|---|---|---|
| | ***31 December 2006*** | | ***31 December 2005*** |
| Keith Niven | 21,100 | | 21,100 |
| Bridget Guérin | 10,550 | | 10,550 |
| Christopher Moore | 42,200 | | 42,200 |
| Tom Sooke | 7,912 | | 7,912 |

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

No options over the share capital of the Company have been granted to the Directors. No Director has a service contract with the Company. The Company does not have any employees.

**Management**

Matrix Private Equity Partners Limited was appointed as Investment Manager to the Company on 9 July 2004. On 23 October 2006 Matrix Private Equity Partners Limited transferred its business to Matrix Private Equity Partners LLP and the Company novated the existing Investment Adviser's Agreement and Incentive Agreement to Matrix Private Equity Partners LLP. For further information please see note 6 to the accounts on page 34.

Matrix-Securities Limited acts as both Company Administrator and Company Secretary to the Company for which they received a fee of £80,857 (2005: £68,794) in respect of the year covered by this report.

**VCT status monitoring**

The Company appointed PricewaterhouseCoopers LLP to advise 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.

**Auditors**

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

**Auditors' right to information**

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

**Financial instruments**

The main risks arising from the Company's financial instruments are due to fluctuations in the market price and interest rates, credit risk and liquidity risk. The Board regularly reviews and agrees policies for managing these risks and full details can be found in note 22 on pages 41 and 42.

**Substantial interests**

As at 14 March 2007 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 2006 the average credit period for trade creditors was 11 days.

**Annual General Meeting**

Notice of the Annual General Meeting of the Company to be held at 2.00 pm on 26 April 2007 at One Jermyn Street, London SW1Y 4UH is set out on pages 46-48 of this Annual Report. Personalised Proxy Forms have been included with Shareholders' copies of this Annual Report.

The Notice of the meeting includes a resolution to re-appoint Christopher Moore as a Director and brief biographical details of Christopher Moore are published on page 11 of this Annual Report.

**Authorities for the Directors to allot shares (Resolution 7) and disapply pre-emption rights of Members (Resolution 8) under sections 80 and 95 of the Companies Act 1985 ("the 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 in accordance with section 89 of the Act.

Resolution 7 will enable the Directors to allot up to an aggregate nominal amount not exceeding £77,363 representing approximately 35% of the issued Ordinary Share capital of the Company immediately following the passing of this resolution. This resolution is proposed as an ordinary resolution. This authority, unless previously renewed or revoked, will expire on the fifth anniversary of the date of the passing of this resolution.

Under section 89 of the Act, if the Directors wish to allot any of the unissued share capital for cash they must first offer such shares to existing shareholders in proportion to their current holdings. Resolution 8 will enable this requirement to be disapplied in the specific circumstances named in the Resolution. These are in relation to a rights issue, any dividend investment scheme that may be introduced by the Company in the future, to fund a purchase of shares and also pursuant to any future five per cent. "top-up" offer. This resolution is proposed as a special resolution.

This authority, unless previously renewed or revoked, will expire on the earlier of the Annual General Meeting of the Company to be held in 2008 and the date which is fifteen months after the date on which the resolution is passed except that the Directors may allot securities after this date in pursuance of offers or agreements made prior to the expiration of the authority.

Both resolutions generally renew previous authorities approved on 27 April 2006. The Directors have no immediate intention of exercising these powers.

**Authority to purchase the Company's own shares (Resolution 9)**
This resolution authorises the Company to purchase its own shares pursuant to section 166 of the Companies Act 1985. The authority is limited to a maximum number of Ordinary Shares equal to 14.99% of the issued share capital at the date of the resolution and will expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2008 and the date which is fifteen months after the date on which this resolution is passed. The maximum price (exclusive of expenses) which may be paid for an Ordinary Share will be the amount equal to 105% of the average of the middle market quotations for the Company's Ordinary Shares as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the purchase. The minimum price which may be paid is one penny per share, ie the nominal value of the shares.

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 will not 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 is proposed as a special resolution.

**By order of the Board**

**Matrix-Securities Limited**
*Secretary*

14 March 2007

## Directors' Remuneration Report

This Report has been prepared by the Directors in accordance with the requirements of Schedule 7A of the Companies Act 1985. A resolution to approve the Report will be proposed at the Annual General Meeting to be held on 26 April 2007. The Company's auditors are required to give their opinion on the specified information provided on Directors' emoluments and this is explained further in their report to Shareholders on pages 26 and 27.

**Remuneration Committee**

The remuneration of individual Directors is determined by the Nominations and Remuneration Committee. The Committee comprises three Directors, Keith Niven (Chairman), Christopher Moore and Tom Sooke all of whom the Board considers to be independent from the Investment 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. However, no such advice was taken during the period under review.

**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 VCT 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. 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 Investment 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 6 and 24 respectively of the Notes to the Accounts on pages 34 and 42. 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. The Company's Articles of Association limit the total amount that can be paid to the Directors in fees to £100,000 per annum. Details of the Directors' remuneration are disclosed below and in the Notes to the Accounts.

It is intended that this policy will continue for the year ended 31 December 2007 and subsequent years.

**Terms of appointment**

The Articles of Association provide that Directors may be appointed either by an ordinary resolution of the Company or by the Board provided that a person appointed by the Board shall be subject to re-election at the first Annual General Meeting following their appointment. Subject to the provisions of the Companies Act 1985, 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.

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

Appointment letters for new Directors will in future contain an assessment of the anticipated time commitment of the appointment 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' emoluments** ***(audited information)***

The total emoluments in respect of qualifying services of each person who served as a Director during the period 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 2006** | **15 month period ended 31 December 2005** |
|---|---|---|
| | **£** | **£** |
| Keith Niven | 20,000 | 30,000 |
| Bridget Guérin | 15,000 | 22,500 |
| Christopher Moore | 17,500 | 26,250 |
| Tom Sooke | 17,500 | 26,250 |
| **Total** | 70,000 | 105,000 |

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 (fifteen months to 31 December 2005: £105,000). Fees paid to Christopher Moore and Tom Sooke include an additional £2,500 for Chairmanship of the Investment Committee and Audit Committee respectively.

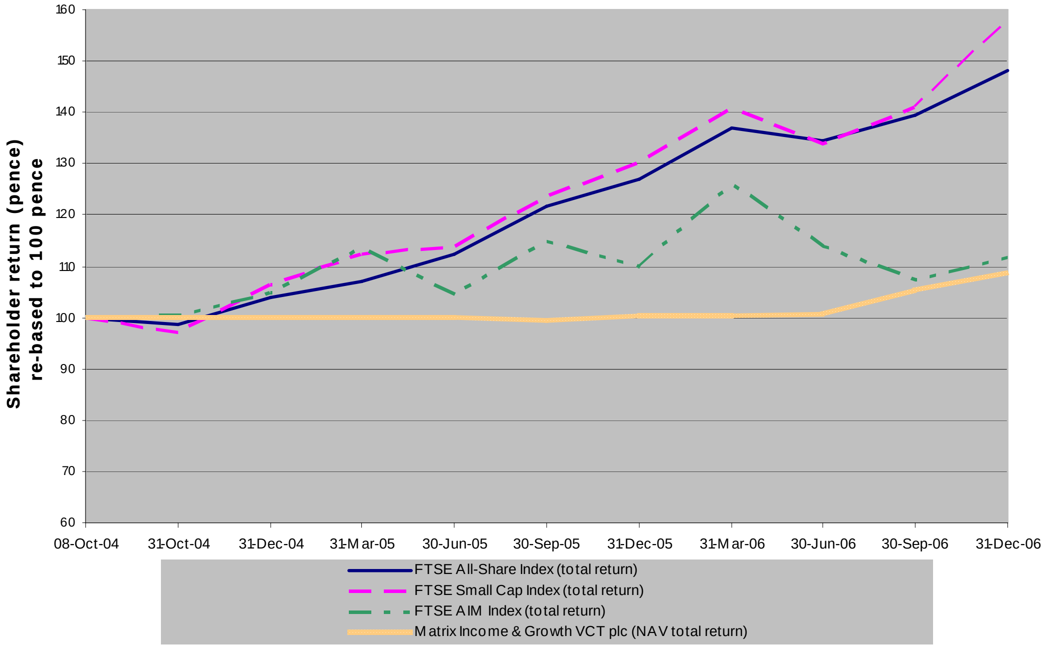
**Total shareholder return**

The following graph charts the total cumulative shareholder return of the Company since the Ordinary Shares were first admitted to the Official List of the UK Listing Authority on 8 October 2004 (assuming all dividends are re-invested) compared with the total cumulative shareholder return of the FTSE All-Share, the FTSE SmallCap and the FTSE 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 shareholder return has been re-based to 100 pence.

The total shareholder return shown for the Company is based on NAV per share because the Directors believe that for a very long term investment such as a VCT, this represents a more consistent measure of the Company's value than the share price.

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

**Total cumulative shareholder return since launch compared with the total return of the FTSE All-Share, FTSE Small Cap and FTSE AIM indices**




Source : Teather & Greenwood Limited

By order of the Board

**Matrix-Securities Limited**
*Secretary*

14 March 2007

## Corporate Governance Statement

The Directors of Matrix Income & Growth VCT have adopted the FRC Combined Code on Corporate Governance (2003) ("the Combined Code") in respect of the year ended 31 December 2006. They have considered the principles detailed in the Combined Code and have in place systems and procedures to enable the Company to comply with the provisions of the Combined Code insofar as they are relevant to the Company's business, and except as disclosed below.

**The Board**

The Board comprises four non-executive Directors. Each brings a range of relevant expertise, experience and judgement to the Board. Tom Sooke has been appointed as the Senior Independent Director. He is available to Shareholders if they have concerns which they have been unable to resolve through the normal channels of communication with the Chairman or the Investment Manager or for which such contact is inappropriate.

The Chairman's other significant time commitments are disclosed on page 10.

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 the Board's 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.

At least four formal Board meetings are scheduled every year and other meetings are held as necessary. Matters specifically reserved for decision by the Board have been defined. These include compliance with the requirements of the Companies Act, the UK Listing Authority and the London Stock Exchange; changes relating to the Company's capital structure or its status as a plc; Board and committee appointments as recommended by the Nominations and Remuneration Committee and terms of reference of committees; 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 is a matter for the Board as a whole. Where Directors have concerns, which cannot be resolved about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in the Board minutes. On resignation, a Director who has any such concerns should provide a written statement to the Chairman, for circulation to the Board. The Board has satisfied itself that each of its Committees has sufficient resources to undertake its duties.

All of the Directors were subject to election by Shareholders at the first Annual General Meeting following their appointment. Subject to the provisions of the Companies Act 1985, 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. No more than one Director is therefore permitted to retire at each Annual General Meeting under the Articles of Association of the Company. This means that when the Company has four Directors each Director will retire once every four years, rather than once every three years as specified in the Combined Code. The Director retiring at each AGM shall be the Director who has been longest in office since their last re-election.

| | Date of appointment | Last retirement by rotation | Next retirement by rotation/re-election due |
|---|---|---|---|
| Keith Niven | 30 June 2004 | AGM 21 April 2005 | AGM April 2008 |
| Bridget Guérin | 30 June 2004 | AGM 27 April 2006 | AGM April 2010 |
| Christopher Moore | 30 June 2004 | AGM 21 April 2005 | AGM 26 April 2007 |
| Tom Sooke | 30 June 2004 | AGM 21 April 2005 | AGM April 2009 |

The Board has considered whether each Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Directors' judgement and has concluded that all of the Directors are independent of the Investment Manager with the exception of Bridget Guérin. In particular, it has concluded that Christopher Moore's directorships of Matrix Income & Growth VCT 3 plc, Matrix Income & Growth 4 VCT plc and TriVest VCT plc, Keith Niven's Chairmanship of Matrix Income & Growth 3 VCT plc and Tom Sooke's directorship of Matrix Income & Growth 3 VCT plc, all of which are also managed by Matrix Private Equity Partners LLP, do not materially prejudice the independence of the Directors concerned in respect of paragraph A.3.1 of the Combined Code. Bridget Guérin's interest in the agreements for the provision of investment management services and administration services are detailed in full in Note 24 of the Notes to the Accounts on page 42 on related party transactions. 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.

The Board aims to include a balance of skills and experience that the Directors believe to be appropriate to the management of the Company. No new appointments have been made to the Board during the year under review. The Board has plans to review and implement an induction procedure when such an appointment is made. The effectiveness of the Board and the Chairman is regularly reviewed as part of the internal control process. The Board intends to introduce a more formal system of performance evaluation of the Board and the Chairman in the current financial year.

The Company does not have a Chief Executive.

**Board committees**

The Audit Committee comprises three Directors, Tom Sooke (Chairman), Christopher Moore and Keith Niven. It meets at least twice a year to review the internal financial and non-financial controls, accounting policies and contents of the Interim and Annual Reports to Shareholders. It has primary responsibility for making recommendations on the appointment and removal of the external auditors. The Company's external auditors are invited to attend meetings as appropriate. The Board is satisfied that Tom Sooke has recent and relevant financial experience.

The Investment Committee comprises all four Directors, Christopher Moore (Chairman), Bridget Guérin, Keith Niven and Tom Sooke. The Committee meets as necessary to discuss and where appropriate approve investment recommendations from the Investment Manager. The Committee ensures that the investments recommended by the Investment Manager fall within the investment policy set out in the prospectus.

The Management Engagement Committee comprises three Directors, Keith Niven (Chairman), Christopher Moore and Tom Sooke. The Committee meets at least annually to review the Company's contracts with its services providers and at other times as and when necessary.

The Nominations and Remuneration Committee comprises three Directors, Keith Niven (Chairman), Christopher Moore and Tom Sooke. The Chairman of the Board is Chairman of the Nominations and Remuneration Committee which is not in compliance with the Combined Code. However, as the Board is comprised solely of non-executive directors and given the nature of its business, the Board believes this to be the most appropriate structure at the present time. The Committee meets at least once a year to review the remuneration of Directors and is also responsible for proposing candidates for appointment to the Board. No vacancies have arisen during the period and the Committee has not advised on any new Board appointments.

The Board members who comprise the above committees of the Board, with the exception of Bridget Guérin (see note 24), are all considered to be independent from the Investment Manager. All of the above Committees have written terms of reference, which deal with their responsibilities and duties. Shareholders may obtain copies of these by writing to the Company Secretary at the address given on page 49 or by visiting its website, www.matrixgroup.co.uk under the link to 'VCT Services'.

**The Investment Manager**

Under the terms of the Company's Investment Adviser's Agreement with Matrix Private Equity Partners LLP, the Investment Manager primarily focuses on unquoted investment opportunities which originate from its extensive network of contacts.

The continued appointment of MPEP as Investment Manager to the Company on the existing terms was approved by the Board on 31 October 2006. The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis and a formal review is carried out annually. As part of this review, the Board considered the quality and reputation of the management team; the investment management skills of the team; the commitment of the Investment Manager; and its level of engagement with Shareholder relations.

For a summary of the performance of investments, please see the Investment Manager's Review and the Investment Portfolio Summary on pages 4-9 and the Financial Highlights on page 1. Details of the management fee and incentive fee payable to the Investment Manager are set out in Note 6 to the accounts on page 34.

**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 reviewing the effectiveness of the internal control systems of the Company. These aim to ensure the maintenance of proper accounting records, the reliability of published financial information and the information used for making business decisions and that the assets of the Company are safeguarded.

The Board has put in place ongoing 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 internal control. The annual review of control systems includes a consideration of the key business, operational, compliance and financial risks facing the Company. Each risk is considered with regard to: the controls exercised at Board level; reporting by service providers and controls relied upon by the Board; exceptions for consideration by the Board; responsibilities for each risk and its review period; and risk rating.

The Board has delegated contractually to third parties the management of the investment portfolio, 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. The annual review of control systems includes a consideration of the risks associated with the Company's contractual arrangements with third party suppliers.

This procedure for the review of control systems has been in place and operational throughout the year under review. The last review took place on 7 March 2007. The Board has identified no significant problems with the Company's internal control mechanisms that warrant disclosure in the Annual Report.

**Directors' remuneration**

Under Listing Rule 16.3.5 of the UK Listing Authority, where a VCT has no executive directors the Combined Code's principles relating to directors' remuneration do not apply. The remuneration of the Directors is determined by the Nominations and Remuneration Committee, in accordance with the Company's Articles of Association.

**Relations with Shareholders**

Communication with Shareholders is given a high priority. There is an opportunity to question the Directors and the Chairmen of the Committees of the Board at the Annual General Meeting to which all Shareholders are invited. All Shareholders receive a copy of the Summary Annual and Interim Reports. Shareholders who wish to receive a copy of the full Annual Report can elect to do so by informing the Company's Registrars, Computershare Investor Services plc, in writing at the address given on page 49. Alternatively a copy of the full Annual Report can be downloaded at any time from the Company Secretary's web site at www.matrixgroup.co.uk. Shareholders also receive a Newsletter in respect of the quarters in which they do not receive either the Annual or the Interim Reports.

The Board as a whole approves the contents of the Chairman's Statement and Investment Manager's Review which form part of the Annual and Interim Reports to Shareholders in order to ensure that they present a balanced and understandable assessment of the Company's position and future prospects.

The Company counts all proxy votes and indicates to Shareholders at each General Meeting the balance for and against each resolution and the number of abstentions, after it has been dealt with on a show of hands. The proxy results of each General Meeting will be published on the Company Secretary's website, www.matrixgroup.co.uk, following the close of each meeting. The Company provides a vote withheld option on the proxy form to enable Shareholders to indicate if they have reservations on a specific resolution but do not wish to vote against that resolution.

The Notice of the Annual General Meeting is included in this Annual Report and it is intended that this will be sent to Shareholders at least 20 working days before the meeting.

**Going concern**

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Accountability and audit**

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 25 of this report.

The Report of the Auditors is set out on pages 26 and 27 of this report.

**Internal audit**

The Board has reviewed the need for an internal audit function. It has concluded that the systems and procedures employed by Matrix Private Equity Partners LLP and Matrix-Securities Limited provide sufficient assurance that a sound system of internal financial control, which safeguards Shareholders' investment and Company assets, is maintained. An internal audit function, specific to the Company, is therefore considered uneconomic given the relatively small size of the Company's operations.

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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). The financial statements are required to 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 estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the 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 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors will be responsible for the maintenance and integrity of the corporate and financial information included on any website that may be established by the Company in the future.

The financial statements may be published on a website that is managed by an organisation other than the Investment Manager, the Company Secretary or the Board of Directors. The Auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of such websites and accordingly the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved.

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.

## Independent Auditors' 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 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referenced from the business and principal activities section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Review (including the Investment Portfolio Summary) and the Corporate Governance

Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

**Opinion**

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the Financial Statements.

**PKF (UK) LLP**

*Registered Auditors, London, UK.*

14 March 2007

## Income Statement
**for the year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 Revenue £ | Capital £ | Total £ | Fifteen months ended 31 December 2005 (restated) Revenue £ | Capital £ | Total £ |
|---|---|---|---|---|---|---|---|
| Realised losses on investments | **12** | - | (212,975) | (212,975) | - | - | - |
| Unrealised gains on investments | **12** | - | 1,731,906 | 1,731,906 | - | - | - |
| Income | **5** | 1,071,415 | - | 1,071,415 | 842,724 | - | 842,724 |
| Investment manager's fees | **6** | (123,960) | (371,881) | (495,841) | (110,779) | (332,337) | (443,116) |
| Other expenses | **7** | (317,372) | - | (317,372) | (375,313) | - | (375,313) |
| **Return on ordinary activities before taxation** | | 630,083 | 1,147,050 | 1,777,133 | 356,632 | (332,337) | 24,295 |
| Tax on ordinary activities | **9** | (161,126) | 113,421 | (47,705) | (67,692) | 63,144 | (4,548) |
| **Return attributable to equity shareholders** | | 468,957 | 1,260,471 | 1,729,428 | 288,940 | (269,193) | 19,747 |
| **Return per Ordinary Share** | **11** | 2.12p | 5.69p | 7.81p | 1.86p | (1.73)p | 0.13p |

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

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year. There were no other recognised gains or losses in the year.

The notes on pages 31 to 42 form part of these financial statements.

## Balance Sheet

**as at 31 December 2006**

| | Notes | as at 31 December 2006 £ | as at 31 December 2005 (restated) £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments at fair value | **12** | 10,329,528 | 2,362,893 |
| **Current assets** | | | |
| Debtors and prepayments | **14** | 142,515 | 1,657,859 |
| Current investments | **15** | 11,906,321 | 17,109,025 |
| Cash at bank | **21** | 58,250 | 19,090 |
| | | 12,107,086 | 18,785,974 |
| **Creditors: amounts falling due within one year** | **16** | (191,712) | (265,658) |
| **Net current assets** | | 11,915,374 | 18,520,316 |
| **Net assets** | | **22,244,902** | **20,883,209** |
| **Capital and reserves** | | | |
| Called up share capital | **17** | 221,038 | 221,438 |
| Capital redemption reserve | **18** | 400 | - |
| Share premium account | **18** | - | 20,711,686 |
| Capital reserve - unrealised | **18** | 1,731,906 | - |
| Capital reserve - realised | **18** | (740,628) | (269,193) |
| Special distributable reserve | **18** | 20,676,105 | |
| Revenue reserve | **18** | 356,081 | 219,278 |
| **Equity shareholders' funds** | | **22,244,902** | **20,883,209** |
| **Net asset value per Ordinary Share** | **19** | **100.64p** | **94.31p** |

The notes on pages 31 to 42 form part of these financial statements.

The financial statements on pages 28 to 30 were approved and authorised for issue by the Board of Directors on 14 March 2007 and were signed on its behalf by:

**Keith Niven**

Chairman

## Reconciliation of Movements in Shareholders' Funds

**for the year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 £ | Fifteen months ended 31 December 2005 £ |
|---|---|---|---|
| At 31 December 2005 (as originally stated) | **4(a)** | 20,728,204 | 46,771 |
| Prior year adjustment arising from the introduction of FRS 21 | **4(a)** | 155,005 | - |
| As at 1 January 2006 (restated) | **4(a)** | 20,883,209 | 46,771 |
| Issues of Ordinary Shares | | - | 22,093,621 |
| Expenses of issues | | - | (1,210,499) |
| Purchase of own shares | | (35,581) | - |
| Return for the year | | 1,729,428 | 19,747 |
| Dividends paid in year | **10** | (332,154) | (221,436) |
| **Closing Shareholders' funds** | | 22,244,902 | 20,728,204 |

## Cash Flow Statement

**for the year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 £ | £ | Fifteen months ended 31 December 2005 £ | £ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Investment income received | | 1,023,128 | | 758,659 | |
| Investment management fees paid | | (619,414) | | (319,543) | |
| Other cash payments | | (312,203) | | (254,499) | |
| **Net cash inflow from operating activities** | **20** | | 91,511 | | 184,617 |
| **Investing activities** | | | | | |
| Acquisitions of investments | **12** | (6,447,622) | | (2,362,893) | |
| **Net cash outflow from investing activities** | | | (6,447,622) | | (2,362,893) |
| **Equity dividends** | | | | | |
| Payment of dividends | | | (332,154) | | (66,431) |
| **Cash outflow before financing and liquid resource management** | | | (6,688,265) | | (2,244,707) |
| **Management of liquid resources** | | | | | |
| Decrease/(increase) in current investments | **21** | | 6,763,006 | | (18,669,327) |
| **Financing** | | | | | |
| Share capital raised | | - | | 22,131,121 | |
| Issue costs of Ordinary Shares | | - | | (1,210,497) | |
| Purchase of own Ordinary Shares | | (35,581) | | | |
| | | | (35,581) | | 20,920,624 |
| **Increase in cash for the year** | **21** | | 39,160 | | 6,590 |

The notes on pages 31 to 42 form part of these financial statements.

## 1 Accounting policies

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

### a) Basis of accounting

The accounts have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and, to the extent that it does not conflict with the fair value rules of the Companies Act 1985, the 2003 Statement of Recommended Practice, ‘Financial Statements of Investment Trust Companies’, revised December 2005.

### b) 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 Net revenue is the measure the Directors believe appropriate in assessing the Company’s compliance with certain requirements set out in Section 842 AA Income and Corporation Taxes Act 1988.

### c) Investments

Investments are recognised on a trade date basis. All investments held by the Company are classified as "fair value through profit and loss", in accordance with the International Private Equity Venture Capital Valuation (IPEVCV) guidelines published in 2005, which are similar to the British Venture Capital Association (BVCA) guidelines followed last year. For investments actively traded in 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. Previously all quoted investments were valued using closing mid-market prices at the balance sheet date, adjusted for a marketability discount where appropriate.

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

(i) 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 been held for more than 12 months or have gone beyond the stage in their development in (i) or (ii) above, the shares may be valued 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, 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 fair value cannot be reliably measured under notes 1 b) i-iv above, an investment is held at the most recent carrying value, reduced where there is evidence of impairment by the estimated extent of impairment.

### d) Changes in accounting policies

With effect from 1 January 2006, the Company has adopted the following Financial Reporting Standards (FRS):

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

**FRS 25 (Financial Instruments: Disclosure and Presentation) and FRS 26 (Financial Instruments: Measurement)** - The Company has designated its investment assets as being measured at "fair value through profit and loss". The fair value of quoted investments is deemed to be the bid value of these investments at the close of business on the relevant date.

Non-current asset investments which are not quoted are stated at Directors' best estimate of fair value, in accordance with IPEVCV guidelines

The corresponding amounts in these financial statements have been restated in accordance with these new policies. Note 4(a) below provides further detail of the change

e) **Income**

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

f) **Expenses**

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are written off to the capital column of the Income Statement, and with the further exception that 75% of the fees payable to the investment managers are charged against capital. This is in line with the Board's expected long-term split of returns from the investment portfolio of the Company. IFA trail commission is expensed in the year in which it is incurred.

g) **Taxation**

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

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

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

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.

h) **Liquid resources**

Liquid resources are the current investments disclosed in Note 15 (2005: current investments in note 15, and are also part of period-end debtors disclosed in Note 14). Such funds are regarded as mainly available for investment, unless required to fund any shortfall between income and running expenses. The current investments are valued at the year-end closing fund prices.

i) **Comparatives**

These are for the fifteen months ended 31 December 2005.

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

The financial information for the year ended 31 December 2006 has been prepared in accordance with Financial Reporting Standards 21, 25 and 26. The introduction of these new standards has had the following impacts:

**Valuation:**

The quoted assets held at fair value through profit and loss by the Company are valued at bid price rather than mid-market as in prior periods. As at 30 September 2004 no quoted assets were held.

As at 31 December 2005, the Company held shares in Sectorguard which is quoted on AIM. The bid price for these shares as at 31 December 2005 was 3.5p. Previously, these shares were valued at a mid-market price adjusted for a marketability discount also giving a valuation of 3.5p per share. Consequently, no adjustment is required to the investment valuation despite the change in valuation method.

**Transaction costs:**
The transaction costs incurred when purchasing or selling an asset are now written off to the capital column of the Income Statement in the year they occur.

The opening balances as at 1 January 2006 for investment cost do not include any transaction costs.

**Dividends:**
Under FRS 21, dividends are only recorded in the Financial Statements of the Company on payment or approval by the shareholders and dividends paid are no longer shown in the Income Statement but are disclosed as part of the movements on reserves. Consequently, the final dividend proposed for the period ended 31 December 2005 has been added back to the opening balances as at 1 January 2006 as in note 4(a) and is shown as a deduction in this year in the Reconciliation of Movements in Shareholders' Funds.

**3 Restatement of opening balances as at 30 September 2004**
At 1 January 2006 the Company adopted Financial Reporting Standards 21, 25 and 26.

The accounts for the period ending 30 September 2004 are not subject to restatement as at that time, the company did not hold investments and had not paid any dividends.

**4(a) Restatement of balances at 31 December 2005**
At 1 January 2006 the Company adopted Financial Reporting Standards 21, 25 and 26.

The following is a reconciliation of the figures at 31 December 2005 previously reported under the applicable UK accounting standards and Statement of Recommended Practice.

| | **Previously reported as at 31 December 2005** | **Adjustments** | **Restated as at 31 December 2005** |
|---|---|---|---|
| | £ | £ | £ |
| Non-current assets | 2,362,893 | | 2,362,893 |
| Current assets | 18,785,974 | | 18,785,974 |
| Creditors: amounts falling due within one year | (420,663) | 155,005 | (265,658) |
| **Net assets** | 20,728,204 | 155,005 | 20,883,209 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 221,438 | | 221,438 |
| Share premium account | 20,711,686 | | 20,711,686 |
| Capital reserve - realised | (269,193) | | (269,193) |
| Revenue reserves | 64,273 | 155,005 | 219,278 |
| **Equity shareholders' funds** | 20,728,204 | 155,005 | 20,883,209 |
| | | | |
| **Net asset value per share** | 93.6p | 0.7p | 94.3p |

**Note to reconcilitation:** No provision has been made for the final dividend on ordinary shares for the year ended 31 December 2005 of £155,005. Under FRS 21 this is not recognised until they are declared and approved by the shareholders. This is therefore added back to revenue reserves and creditors.

**4(b) Reconciliation of the Income Statement as previously reported to the return attributable to equity shareholders now shown for the fifteen months ended 31 December 2005**

| | £ |
|---|---|
| Total return attributable to equity shareholders as previously reported | (201,689) |
| Add back dividends paid and proposed | 221,436 |
| Total return attributable to equity shareholders as restated | 19,747 |

## 5 Income

| | Year ended 31 December 2006 £ | 15 months ended 31 December 2005 £ |
|---|---|---|
| Income from bank deposits | 12,154 | 28,652 |
| | 12,154 | 28,652 |
| Income from investments | | |
| from equities | 15,279 | 356 |
| from overseas based OEICs | 673,420 | 764,054 |
| from loan stock | 354,937 | 49,662 |
| other income | 15,625 | - |
| | 1,059,261 | 814,072 |
| Total income | 1,071,415 | 842,724 |
| **Total income comprises:** | | |
| Dividends | 688,699 | 764,410 |
| Interest | 367,091 | 78,314 |
| Other | 15,625 | - |
| | 1,071,415 | 842,724 |
| **Income from investments comprises:** | | |
| Listed Overseas securities | 673,420 | 764,054 |
| Unlisted UK securities | 30,904 | 356 |
| Loan stock interest | 354,937 | 49,662 |
| | 1,059,261 | 814,072 |

## 6 Investment manager's fees

| | Year ended 31 December 2006 | | | 15 months ended 31 December 2005 | | |
|---|---|---|---|---|---|---|
| | Revenue £ | Capital £ | Total £ | Revenue £ | Capital £ | Total £ |
| Matrix Private Equity Partners LLP | 123,960 | 371,881 | 495,841 | 110,779 | 332,337 | 443,116 |

Matrix Private Equity Partners Limited was 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 agreement is for an initial period of three years and thereafter until their appointment is terminated by not less than one year's notice in writing to expire at any time after the initial period. Fees are 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.

Included in the above is irrecoverable VAT of £73,849 (2005: £65,996).

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

## 7 Other expenses

| | Year ended 31 December 2006 | 15 months ended 31 December 2005 |
|---|---|---|
| | £ | £ |
| Directors' remuneration (including NIC and VAT) (see note 8) | 77,595 | 116,146 |
| IFA trail commission | 66,095 | 78,375 |
| Administration fees | 80,857 | 68,794 |
| Broker's fees | 11,750 | 13,708 |
| Auditors' fees – audit | 15,569 | 12,014 |
| – other services | 6,145 | 4,407 |
| Registrar's fees | 9,014 | 15,247 |
| Printing | 3,720 | 15,313 |
| Legal and professional fees | 11,783 | 588 |
| VCT monitoring fees | 8,813 | 5,875 |
| Directors' insurance | 11,025 | 27,562 |
| Listing and regulatory fees | 13,562 | 13,901 |
| Sundry | 1,444 | 3,383 |
| | 317,372 | 375,313 |

Charges for non audit services provided by the auditors for the year ended 31 December 2006 relate to the provision of tax compliance work for £3,501 (2005:£2,938) and a review of the interim financial statements for £2,644 (2005:£1,469). The Directors consider the auditors were best placed to provide these services. The Audit Committee reviews the nature and extent of non audit services to ensure that auditor independence is maintained.

## 8 Directors' remuneration

| | Year ended 31 December 2006 | 15 months ended 31 December 2005 |
|---|---|---|
| Directors' emoluments | £ | £ |
| Keith Niven | 20,000 | 30,000 |
| Bridget Guérin | 15,000 | 22,500 |
| Christopher Moore | 17,500 | 26,250 |
| Tom Sooke | 17,500 | 26,250 |
| | 70,000 | 105,000 |
| Employer's NIC and VAT | 7,595 | 11,146 |
| | 77,595 | 116,146 |

Annual fees for the Directors are £70,000 per annum. The fees for the period ending 31 December 2005 represent emoluments for an eighteen month period from 1 July 2004. This is because fees for the quarter ended 30 September 2004 became due once the first allotment of shares was made on 5 October 2004.

No pension scheme contributions or retirement benefit contributions were paid during the year. 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 does not have any employees.

## 9 Taxation on ordinary activities

| | Year ended 31 December 2006 | 15 months ended 31 December 2005 (restated) |
|---|---|---|
| | £ | £ |
| a) **Analysis of tax charge:** | | |
| -revenue charge | 161,126 | 67,692 |
| -credited to capital return | (113,421) | (63,144) |
| -current and total tax charge (note 9b) | 47,705 | 4,548 |
| | | |
| **b) Factors affecting tax charge for the year:** | | |
| Total return on ordinary activities before tax | 1,777,133 | 24,295 |
| Less: unrealised gains | (1,731,906) | - |
| Add: non-taxable realised losses | 212,975 | - |
| Add: transaction costs and investment management expense charged to capital | 371,881 | 332,337 |
| Revenue return on ordinary activities before taxation | 630,083 | 356,632 |
| | | |
| Corporation tax @ 19 % | 119,716 | 67,760 |
| Non-taxable UK dividends | (2,919) | (68) |
| Non-allowable expenditure | 2,179 | - |
| Income not yet taxable | 1,906 | - |
| Effect of marginal relief | 42,764 | - |
| Losses carried forward | (4,828) | - |
| -overprovision in prior period | (4,548) | - |
| -deferred tax | 6,856 | - |
| Taxation on revenue return | 161,126 | 67,692 |
| | | |
| Taxation on allowable expenditure charged to capital return | (70,657) | (63,144) |
| Effect of marginal relief | (42,764) | - |
| Credited to capital return | (113,421) | (63,144) |
| | | |
| Tax charge for year (note 9a) | 47,705 | 4,548 |

Tax relief relating to investment management fees is allocated between Revenue and Capital in the same proportion as such fees.

There is no taxation in relation to capital gains or losses.

Investment Trust companies are exempt from tax on capital gains if they meet the HM Revenue & Customs criteria set out in section 842 Income and Corporation Taxes Act 1988 (“the ICTA”) for a given period.

**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 842AA of the ICTA and the Directors’ intention to maintain that status.

There is no potential liability to deferred tax (2005: £nil). There is no unrecognised deferred tax asset, as all allowable expenditure has been utilised.

## 10 Dividends and other appropriations

| | Year ended 31 December 2006 | 15 months ended 31 December 2005 (restated) |
|---|---|---|
| | £ | £ |
| **Amounts recognised as distributions to equity holders in the year:** | | |
| Interim dividend for the period ended 31 December 2005 of 0.3p per Ordinary Share paid 22 September 2005 | - | 66,431 |
| Final dividend for the period ended 31 December 2005 of 0.7p per Ordinary Share paid 12 May 2006 | 155,005 | - |
| Interim dividend for the year ended 31 December 2006 of 0.8p per Ordinary Share paid 14 September 2006 | 177,149 | - |
| | 332,154 | 66,431 |
| **Proposed distributions to equity holders at the year-end:** | | |
| Final dividend for the period ended 31 December 2005 of 0.7p per Ordinary Share | - | 155,005 |
| Final dividend for the year ended 31 December 2006 of 1.4p per Ordinary Share | 309,451 | - |
| | 309,451 | 155,005 |

The 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 842 of the ICTA are considered.

| | 2006 | 2005 (restated) |
|---|---|---|
| | £ | £ |
| Revenue available for distribution by way of dividends for the year | 468,957 | 288,940 |
| Interim revenue dividend paid during the year | 177,149 | 66,431 |
| Proposed final revenue dividend for the year ended 31 December 2006 | 309,451 | 155,005 |
| | 486,600 | 221,436 |

## 11 Return per share

| | 2006 | 2005 (restated) |
|---|---|---|
| | £ | £ |
| Total return on ordinary activities after taxation | £1,729,428 | £19,747 |
| Total return per Ordinary Share (note a): | 7.81p | 0.13p |
| Revenue return on ordinary activities after taxation | £468,957 | £288,940 |
| Revenue return per Ordinary Share (note b): | 2.12p | 1.86p |
| Capital return | £1,260,471 | £(269,193) |
| Capital return per Ordinary Share (note c) | 5.69p | (1.73)p |
| Weighted average number of Ordinary Shares in issue in the year | 22,138,232 | 15,498,387 |

**Notes:**

a) The total return per Ordinary Share is based on the return from ordinary activities after taxation, divided by the weighted average number of Ordinary Shares in issue.

b) The revenue return per Ordinary Share is based on the return from ordinary activities after taxation, divided by the weighted average number of Ordinary Shares in issue.

c) The capital return per Ordinary Share is based on the capital return after taxation, divided by the weighted average number of Ordinary Shares in issue.

There are no instruments in place that will increase the number of shares in issue in future. Accordingly, the above figures represent both basic and diluted returns.

## 12 Investments at fair value

Movements in investments during the year are summarised as follows:

| | Traded on AIM | Unquoted equity Shares | Unquoted preference Shares | Loan stock | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Cost at 31 December 2005 | 150,000 | 266,193 | 20,162 | 1,926,538 | 2,362,893 |
| Purchases at cost | 382,219 | 1,527,934 | 18,746 | 4,518,723 | 6,447,622 |
| Increase in unrealised appreciation | 247,301 | 1,484,605 | - | - | 1,731,906 |
| Impairment | - | (44,242) | (998) | (167,653) | (212,893) |
| Closing valuation at 31 December 2006 | 779,520 | 3,234,490 | 37,910 | 6,277,608 | 10,329,528 |
| Book cost at 31 December 2006 | 532,219 | 1,794,127 | 38,908 | 6,445,261 | 8,810,515 |
| Unrealised gains/(losses) at 31 December 2006 | 247,301 | 1,440,363 | (998) | (167,653) | 1,519,013 |
| | 779,520 | 3,234,490 | 37,910 | 6,277,608 | 10,329,528 |

A full list of the portfolio holdings by their aggregate market value is shown in the Investment Portfolio Summary on page 9.

The impairment of £212,893 above, and transaction costs of £82 incurred on purchases of investments in the year, are the realised losses of £212,975 for the year as disclosed in the Income Statement.

The amounts provided at the end of the year or written off against unlisted investments were as follows:

| Financial year | Total provisions at end of year | Write-offs in year |
|---|---|---|
| | £ | £ |
| 2006 | 222,278 | 212,893 |
| 2005 | - | - |

No individual provisions or write-offs for the year exceeded 5% of the gross assets of the Company.

## 13 Significant interests

At 31 December 2006 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

| Company | Equity investment (Ordinary Shares) | Investment in loan stock and preference shares | Total investment (at cost) | Percentage of investee company's total equity |
|---|---|---|---|---|
| | £ | £ | £ | |
| Ministry of Cake (Holdings) Limited | 121,951 | 878,049 | 1,000,000 | 17.1% |
| Blaze Signs Holdings Limited | 172,125 | 401,625 | 573,750 | 16.1% |
| VSI Limited | 61,806 | 556,247 | 618,053 | 15.9% |
| Castlegate 435 Limited | 262,258 | 611,941 | 874,199 | 12.2% |
| Vectair Holdings Limited | 138,074 | 422,228 | 560,302 | 12.0% |
| Campden Media Limited | 195,000 | 780,000 | 975,000 | 11.0% |
| British International Holdings Limited | 226,000 | 774,000 | 1,000,000 | 10.0% |
| FH Ingredients Limited | 44,242 | 168,651 | 212,893 | 9.3% |
| Youngman Group Limited | 100,052 | 900,000 | 1,000,052 | 8.6% |
| PXP Holdings Limited | 288,000 | 712,000 | 1,000,000 | 8.5% |
| PastaKing Holdings Limited | 185,619 | 278,428 | 464,047 | 7.2% |

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.

## 14 Debtors and prepayments

| | 2006 | 2005 |
|---|---|---|
| | £ | £ |
| **Amounts due within one year:** | | |
| Accrued income | 132,352 | 84,065 |
| Prepayments | 10,163 | 13,492 |
| Other debtors | - | 1,560,302 |
| | 142,515 | 1,657,859 |

Other debtors of £1,560,302 in 2005 were funds held with solicitors pending the completion of investments, which occurred after the period end. This amount was treated as part of liquid resources in the cash flow statement, and in note 21.

## 15 Current investments

| | 2006 | 2005 |
|---|---|---|
| | £ | £ |
| Monies held pending investment | 11,906,321 | 17,109,025 |

These comprise investments in seven Dublin based OEIC money market funds. £10,253,611 (2005: £14,700,696) of this sum is subject to same day access while £1,652,710 (2005: £2,408,329) is subject to two day access. These sums are treated as liquid resources in the cash flow statement, and in Note 21.

## 16 Creditors: amounts falling due within one year

| | 2006 | 2005 (restated) |
|---|---|---|
| | £ | £ |
| UK corporation tax | 52,253 | 4,548 |
| Trade creditors | 26,174 | 22,848 |
| Other creditors | 8,117 | 8,368 |
| Accruals | 105,168 | 229,894 |
| | 191,712 | 265,658 |

## 17 Called up share capital

| | 2006 | 2005 |
|---|---|---|
| | £ | £ |
| Authorised: | | |
| Ordinary Shares of 1p each: 50,000,000 (2005: 50,000,000) | 500,000 | 500,000 |
| | 500,000 | 500,000 |
| | | |
| Allotted, called-up and fully paid: | | |
| Ordinary Shares of 1p each: 22,103,821 (2005: 22,143,821) | 221,038 | 221,438 |
| | 221,038 | 221,438 |

During the year the Company purchased 40,000 - £400 nominal value (2005: nil - £nil nominal value) of its own Ordinary Shares for cash at the prevailing market price for a total cost of £35,581.

## 18 Reserves

| | Called up share capital £ | Capital redemption reserve £ | Share premium account £ | Capital reserve unrealised £ | Capital reserve realised £ | Special distributable reserve £ | Revenue reserve £ | Total £ |
|---|---|---|---|---|---|---|---|---|
| Restated as at 1 January 2006 (note 4a) | 221,438 | - | 20,711,686 | - | (269,193) | - | 219,278 | 20,883,209 |
| Cancellation of share premium account (see note) | - | - | (20,711,686) | - | - | 20,711,686 | - | - |
| Share buybacks | (400) | 400 | - | - | - | (35,581) | - | (35,581) |
| Increase in unrealised appreciation | - | - | - | 1,519,013 | - | - | - | 1,519,013 |
| Impairment in investment treated as realised loss | - | - | - | 212,893 | (212,893) | - | - | - |
| Capitalised management fees less tax credit | - | - | - | - | (258,460) | - | - | (258,460) |
| Costs of investment transactions | - | - | - | - | (82) | - | - | (82) |
| Dividends paid | - | - | - | - | - | - | (332,154) | (332,154) |
| Net revenue for the year | - | - | - | - | - | - | 468,957 | 468,957 |
| **As at 31 December 2006** | **221,038** | **400** | **-** | **1,731,906** | **(740,628)** | **20,676,105** | **356,081** | **22,244,902** |

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 losses, should the Company revoke its investment company status and be obliged to take into account capital losses in determining distributable reserves.

**19 Net asset value per share**

Net asset value per Ordinary Share is based on net assets at the end of the year, and on 22,103,821 (2005: 22,143,821) Ordinary Shares, being the number of Ordinary Shares in issue on that date.

**20 Reconciliation of net revenue before taxation to net cash inflow from operating activities**

| | 31 December 2006 | 15 months ended 31 December 2005 |
|---|---|---|
| | £ | £ |
| Net revenue before taxation | 630,083 | 356,632 |
| Investment management fees charged to capital | (371,881) | (332,337) |
| Transaction costs charged to capital | (82) | - |
| Increase in debtors | (44,958) | (97,557) |
| (Decrease)/increase in creditors and accruals | (121,651) | 257,879 |
| Net cash inflow from operating activities | 91,511 | 184,617 |

**21 Analysis of changes in net funds**

| | Cash | Liquid Resources | Total |
|---|---|---|---|
| | £ | £ | £ |
| At beginning of year | 19,090 | 18,669,327 | 18,688,417 |
| Cash flows | 39,160 | (6,763,006) | (6,723,846) |
| At 31 December 2006 | 58,250 | 11,906,321 | 11,964,571 |

**22 Financial Instruments**

The Company's financial instruments in both periods comprise:

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

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

The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates. 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 periods.

**Risk**

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

Market price risk: Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are thinly traded and as such the prices are more volatile than those of more widely traded securities. In addition, 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 ability of the Company to purchase or sell investments is also constrained by the requirements set down for VCTs.

Interest rate risk: The Company's fixed and floating rate interest securities, its equity and non-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.

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

**Management of Risk**

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

Market price risk: The Board manages the market price risk inherent in the Company's portfolio by maintaining an appropriate spread of market risk, and by ensuring full and timely access to relevant information from the Investment Manager. The Investment Committee meets regularly and reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Board seeks to ensure that an appropriate proportion of the Company's portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise. The Company does not use derivative instruments to hedge against market risk.

Interest rate risk: The Company's assets include fixed and floating rate interest stocks, the values of which are regularly reviewed by the Board, as referred to above.

**Financial Assets**
The interest rate profile of the Company's financial assets at 31 December 2006 was:

| | **Financial assets on which no interest paid** | **Fixed rate financial assets** | **Floating rate financial assets** | **Total** | **Weighted average interest rate** | **Average period to maturity** |
|---|---|---|---|---|---|---|
| | **£** | **£** | **£** | **£** | **%** | **(years)** |
| Equity shares | 4,014,010 | - | - | 4,014,010 | | |
| Preference shares | - | 37,910 | - | 37,910 | 3.67 | 4.05 |
| Loan stocks | - | 6,277,608 | - | 6,277,608 | 8.87 | 4.26 |
| OEIC money market funds | - | - | 11,906,321 | 11,906,321 | 5.02 | |
| Cash | - | - | 58,250 | 58,250 | | |
| Debtors | - | - | 142,515 | 142,515 | | |
| Creditors | - | - | (191,712) | (191,712) | | |
| Total | 4,014,010 | 6,315,518 | 11,915,374 | 22,244,902 | | |

The interest rate profile of the Company's financial assets at 31 December 2005 (as restated) was:

| | **Financial assets on which no interest paid** | **Fixed rate financial assets** | **Floating rate financial assets** | **Total** | **Weighted average interest rate** | **Average period to maturity** |
|---|---|---|---|---|---|---|
| | **£** | **£** | **£** | **£** | **%** | **(years)** |
| Equity shares | 416,193 | - | - | 416,193 | | |
| Preference shares | - | 20,162 | - | 20,162 | 7.09 | 4.72 |
| Loan stocks | - | 1,926,538 | - | 1,926,538 | 7.78 | 4.70 |
| OEIC money market funds | - | - | 17,109,025 | 17,109,025 | 4.44 | |
| Cash | - | - | 19,090 | 19,090 | | |
| Debtors | - | - | 1,657,859 | 1,657,859 | | |
| Creditors | - | - | (265,658) | (265,658) | | |
| Total | 416,193 | 1,946,700 | 18,520,316 | 20,883,209 | | |

Floating rate cash earns interest based on LIBOR rates.

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

**23 Segmental analysis**
The operations of the Company are wholly in the United Kingdom.

**24 Related party transactions**
Bridget Guérin is a director and shareholder (2.0%) of Matrix Group Limited, which owns 100% of the equity of MPE Partners Limited. MPE Partners Limited has a 50% interest in Matrix Private Equity Partners LLP, the Company's Investment Manager. The fee arrangements and the fees payable are set out in Note 6. Bridget Guérin is also a director of Matrix-Securities Limited, who acted as Promoter to the Company for a fee of £nil (2005: £1,210,497) and also provided Company Secretarial and Accountancy Services to the Company under agreements dated 9 July 2004, disclosed in note 7 to these accounts as administration fees. The agreements with MPEP and with Matrix-Securities Limited became effective from 5 October 2004. The interests of the Directors in the shares of the Company are set out on page 13.

## Shareholder Information

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

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

**Net asset value per share**

The Company's NAV per share as at 31 December 2006 was 100.6 pence per Ordinary Share. The Company announces its unaudited NAV on a quarterly basis.

**Dividend**

The Directors will be proposing a final dividend of 1.4 pence per share at the Annual General Meeting to be held on 26 April 2007. The dividends will be paid on 18 May 2007 to Shareholders on the Register on 20 April 2007.

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 2007 | Annual Report for the year ended 31 December 2006 to be circulated to Shareholders |
| 20 April 2007 | Record date for Shareholders to be eligible for a final dividend |
| 26 April 2007 | Annual General Meeting |
| 18 May 2007 | Final dividend for the year ended 31 December 2005 to be paid to Shareholders. |
| Early August 2007 | Preliminary Announcement of Interim Results |
| Late August 2007 | Interim Report for the six months ended 30 June 2007 to be circulated to Shareholders |
| 31 December 2007 | Year-end |

**Annual General Meeting**

The next Annual General Meeting of the Company will be held on 26 April 2007 at 2.00 pm at One Jermyn Street, London SW1Y 4UH. The meeting will take place on the sixth floor at the offices of Matrix Group Limited. Please try to arrive 10 minutes before the meeting starts when tea and coffee will be served to Shareholders. A short presentation will be given by the Investment Manager during the AGM. The Notice of the meeting is included on pages 46-48 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 2.00 pm on 24 April 2007.

**Shareholder enquires:**
For enquiries concerning the Fund, please contact the Investment Manager, Matrix Private Equity Partners LLP, on 020 7925 3300 or by e-mail to info@matrixpep.co.uk.

For information on your holding, to notify the Company of a change of address or to request a dividend mandate form (should you wish to have future dividends paid directly into your bank account) please contact the Company's Registrars, 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.

**Unsolicited investment advice - warning to Shareholders**
The Institute of Chartered Secretaries and Administrators and the Financial Services Authority (FSA) have published a joint warning to shareholders:

Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the FSA has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml
- Inform the Company Secretary of Matrix Income & Growth VCT plc, Matrix-Securities Limited, tel: 020 7925 3300 or email mig@matrixgroup.co.uk.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/consumer/

A new multi-agency operation was launched in January 2007 to target boiler room scams and to gather information from consumers who have been approached by, or been a victim of, boiler room operators. Operation Archway, an initiative by the City of London police, combines resources from the FSA, the Serious Fraud Office, the Serious Organised Crime Agency and every police force in the country.

**To report any approaches made by suspected boiler rooms to the FSA consumer helpline please e-mail operationarchway@cityoflondon.pnn.police.uk or ring 0845 606 1234.**

# MATRIX INCOME & GROWTH VCT PLC

**(Registered in England and Wales No. 5153931)**

## NOTICE of the ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN that the third Annual General Meeting of the Company will be held at 2.00 pm on 26 April 2007 at Matrix Group Limited, Sixth Floor, One Jermyn Street, London, SW1Y 4UH for the purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:-**

### ORDINARY BUSINESS

1. To receive and adopt the report of the Directors and the audited accounts of the Company for the year ended 31 December 2006, together with the Auditors' report thereon.

2. To approve the Directors' Remuneration Report as set out in the Annual Report and Accounts of the Company for the year ended 31 December 2006.

3. To re-appoint PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP as Auditors.

4. To authorise the Directors to determine the remuneration of the Auditors.

5. To re-elect Christopher Moore as a Director of the Company.

6. To declare a final dividend for the year ended 31 December 2006 of 1.4 pence per share, payable on 18 May 2007 to Shareholders registered at close of business on 20 April 2007.

7. THAT in substitution for any existing authorities pursuant to section 80 of the Companies Act 1985 ("the Act"):

    (i) The Directors shall have unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in section 80(2) of the Act) of the Company to such persons, at such time and generally on such terms and conditions as the Directors may determine. The authority hereby conferred shall expire on the fifth anniversary of the date of the passing of this resolution, unless previously renewed, varied or revoked by the Company in general meeting and the maximum nominal value of such relevant securities as aforesaid which may be allotted pursuant to such authority shall be £77,363 being approximately 35 per cent of the issued share capital of the Company immediately following the passing of this resolution.

    (ii) The Directors shall be entitled under the authority conferred or under the renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly as if the authority conferred thereby had not expired.

*To consider and, if thought fit, to pass the following as a Special Resolution:*

8. THAT subject to the passing of resolution 7 above and in substitution for any existing authorities pursuant to section 95 of the Act the Directors be and they are hereby empowered to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred upon them by resolution 7 above as if Section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to the allotment of equity securities in connection with:

   (i) the allotment of equity securities with an aggregate nominal value of up to but not exceeding 10 per cent of the issued Ordinary Share Capital of the Company immediately following the passing of this resolution in connection with a rights issue where the Ordinary Shares offered to all Shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or directions from any holders of Ordinary Shares to deal in some other manner with their respective entitlements, or the requirements of any recognised regulatory body or any stock exchange in any territory;

   (ii) the allotment of equity securities with an aggregate nominal value of up to but not exceeding 10 per cent of the issued Ordinary Share Capital of the Company immediately following the passing of this resolution in connection with any dividend investment or similar scheme as may be introduced by the Company from time to time;

   (iii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of 10 per cent of the issued Ordinary Share capital of the Company immediately following the passing of this resolution where the proceeds of the allotment may be used in whole or in part to purchase the Company's Ordinary Shares in the market;

   (iv) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) above) from time to time with an aggregate nominal value of up to five per cent of the issued Ordinary Share capital of the Company immediately following the passing of this resolution

   and shall expire on the earlier of the Annual General Meeting of the Company to be held in 2008 or the date which is fifteen months after the date on which this resolution is passed (unless previously renewed, varied or revoked by the Company in General Meeting), except that the Company may, before such expiry, make an offer or agreement 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.

## SPECIAL BUSINESS

*To consider and, if thought fit, to pass the following as a Special Resolution:*

9. The Company be authorised to make one or more market purchases (within the meaning of Section 163 of the Act) of the Company's own Ordinary Shares provided that:

   (i) the maximum aggregate number of Ordinary Shares authorised to be purchased is an amount equal to 14.99% of the issued Ordinary Share capital of the Company immediately following the passing of this resolution;

   (ii) the minimum price which may be paid for Ordinary Shares is 1 penny per share , the nominal value thereof;

   (iii) the maximum price which may be paid for an Ordinary Share is 105 per cent of the average of the middle market prices as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that Ordinary Share is purchased;

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

BY ORDER OF THE BOARD
*Matrix-Securities Limited*
Secretary

*Registered Office*
One Jermyn Street
London SW1Y 4UH

14 March 2007

**NOTES:**

(i) A person entitled to receive notice of, attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll, vote in his place. A proxy need not be a member of the Company.

(ii) To be valid the enclosed form of proxy for the Annual General Meeting together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited no less than 48 hours prior to the time fixed for the holding of the meeting or any adjournment of the said meeting at the offices of the Company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.

(iii) Completion and return of the form of proxy will not prevent a Shareholder from attending and voting in person at the Annual General Meeting.

(iv) The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those Shareholders registered in the Register of Members of the Company as at midnight on 24 April 2007 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the Register of Members after midnight on 24 April 2007 or, in the event that the meeting is adjourned, in the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(v) The Register of Directors' Interests shall be available for inspection at the place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting.

## Corporate Information

**Directors**
Keith Niven (Chairman)
Bridget Guérin
Christopher Moore
Tom Sooke

*All of whom are non-executive and of:*
One Jermyn Street
London SW1Y 4UH

**Solicitors**
Dundas & Wilson LLP
5th Floor, Northwest Wing
Bush House
Aldwych
London WC2B 4EZ

**Sponsor and Stockbroker**
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

**Secretary and Administrator**
Matrix-Securities Limited
One Jermyn Street
London SW1Y 4UH

**Registrar**
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

**Investment Manager**
Matrix Private Equity Partners LLP
One Jermyn Street
London SW1Y 4UH

**Receiving Agent**
Matrix Registrars Limited
One Jermyn Street
London SW1Y 4UH

**Auditors**
PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

**VCT Tax Adviser**
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RN

**Promoter**
Matrix-Securities Limited
One Jermyn Street
London SW1Y 4UH

**Bankers**
National Westminster Bank Plc
City of London Office
PO Box 12264
3rd Floor
1 Princes Street
London EC2R 8PB

Website: www.matrixgroup.co.uk
E-mail: info@matrixpep.co.uk

**Company No: 5153931**