Close Income & Growth VCT PLC

Interim Report

for the period from 19 May 2004 to 31 March 2005

CONTENTS

DIRECTORS AND ADMINISTRATION

Directors	Friedrich Rudolf Ludwig Ternofsky, Chairman Mary Anne Cordeiro John Michael Bryan Leslie Kerr Patrick Harold Reeve David Jones Watkins
Secretary and registered office	Catherine Kinnear 10 Crown Place London, EC2A 4FT
Company number	05132495
Investment manager	Close Venture Management Limited 4 Crown Place London, EC2A 4BT Tel: 020-7422-7830 www.closeventures.co.uk enquiries@closeventures.co.uk
Registrar	Capita Registrars Limited Northern House Penistone Road Fenay Bridge Huddersfield, HD8 0LA Tel: 0870-162-3100
Independent auditors	Deloitte & Touche LLP London
Taxation adviser	Ernst & Young LLP London
Legal adviser	Berwin Leighton Paisner Adelaide House London Bridge London, EC4R 9HA

FINANCIAL HIGHLIGHTS

	31 March 2005
Dividends per ordinary share	0.65 pence
Revenue return per ordinary share	0.83 pence
Capital loss per ordinary share	(0.84) pence
Net asset value per ordinary share	94.11 pence

Shareholder value per share since launch:	Pence
Total dividends for the period ended 31 March 2005 (i) & (iii)	0.65
Net asset value (ii) & (iv)	94.11
Total (v)	94.76

Notes

(i) Based on subscription by 31 December 2004. Investors subscribing thereafter are not entitled to the first interim dividend.

(ii) Excludes tax benefits upon subscription of 40% income tax relief.

(iii) All dividends paid by the Company are free of income tax. It is an Inland Revenue requirement that dividend vouchers indicate the tax element should dividends have been subject to income tax. Investors should ignore this figure on their dividend voucher and need not disclose any income they receive from a VCT on their tax return.

(iv) The initial net asset value per share, after taking account of issue costs of 5.5 pence was 94.5 pence.

(v) The net asset value of the Company is not its share price as quoted on the official list of the London Stock Exchange. The share price of the Company can be found in the Investment Companies section of the Financial Times on a daily basis. Investors are reminded that it is common for shares in VCTs to trade at a discount to their net asset value, primarily as a result of the initial tax relief which are non-transferable.

FINANCIAL CALENDAR

Payment of the interim dividend	20 July 2005
Year end of the Company	30 September 2005
Announcement of the year end results	December 2005
Payment of final dividend	January 2006

Note

The dates regarding the announcement of the year end results and payment of any final dividend are included as a guide only and may be subject to alteration by the Directors.

CHAIRMAN'S STATEMENT

Introduction

Close Income & Growth VCT PLC ("the Company") raised £45 million under the Offer for subscription which closed at the end of March 2005 and was fully subscribed. The Company allows investors the opportunity to participate in a balanced portfolio of high growth businesses and lower risk asset-based companies. It is intended in time that the Company's investment portfolio will be split approximately as follows:

- 35% to be invested in higher growth unquoted businesses
- 10% will be invested in spin-out companies from Brunel University
- 45% to be invested in unquoted asset-based businesses in the leisure sector
- 10% to be held in floating rate securities and cash deposits

This document covers both the interim results of the Company for the period from 19 May 2004 to 31 March 2005 presented to the Company's shareholders and the initial accounts which need to be drawn up and filed with the Registrar since the Company is paying out an interim dividend.

Investment progress

I am pleased to report that investment progress is proceeding according to plan. By 31 March 2005 a total of £2.6 million had been invested, or reserved for investment, in four businesses, while by 31 May 2005, the figure had grown to £7.1 million in eight businesses. The portfolio is broadly evenly split between asset based businesses in the leisure sector and higher growth companies. The former comprises investments in four pub operating companies secured on freeholds, while after the half year, an investment in a health and fitness club on a 30 acre freehold site in Weybridge was completed.

Investments in the higher growth portfolio comprise Evolutions Television, a post production house operating from its own freehold premises off Oxford Street in London. In addition, after the half year, an investment was made in Xceleron Limited, a spin out from the University of York providing analytical services to the pharmaceutical industry, and also in Grosvenor Healthcare Limited, an existing Close investee company providing occupational healthcare services to large UK corporate customers.

Future prospects

The build up of the investment portfolio is encouraging, and it is pleasing that two healthcare-related investments have now been made to counter-balance the leisure related investments. Close Venture Management Limited ("the Manager") has an excellent relationship with Brunel University, and is looking at a variety of industry spin-out opportunities. Overall, your Board is positive about the prospects for the VCT.

Results and dividend

As at 31 March 2005 the net asset value of the Company was £21.8 million, equivalent to 94.11 pence per share. When the final subscription for the applications under the Offer were allotted on 4 April 2005, total net assets were increased to £42.8 million. Net revenue income attributable to shareholders was £150,000 for the period enabling the Board to declare a net interim dividend of 0.65 pence per share to those shareholders who invested prior to 31 December 2004. Shareholders subscribing thereafter are not entitled to the inaugural dividend but will be entitled to any dividends thereafter. Interim dividends will be paid on 20 July 2005 to those eligible shareholders who invested prior to 31 December 2004 and who continue to remain on the register at the close of business on 1 July 2005.

Friedrich Ternofsky
Chairman
22 June 2005

PORTFOLIO SUMMARY

Sector and Investment	Equity held	Investment at cost (£)	Revaluation (£)	Investment at valuation (£)	Reserved for investment (£)
Qualifying investments as at 31 March 2005					
Leisure businesses					
The Bold Pub Company Limited Owns and operates a portfolio of public houses in the North of England.	2.9%	350,000	–	350,000	–
Churchill Taverns VCT Limited Is in the process of acquiring public houses in larger village locations in Central England.	7.6%	100,000	–	100,000	–
Total investment in the leisure sector		450,000	–	450,000	–
Higher Growth					
Evolutions Television Limited Provides post production services to a variety of television production companies.	9.9%	1,000,000	20,576	1,020,576	1,000,000
Total investment in higher growth businesses		1,000,000	20,576	1,020,576	1,000,000
Total investment in qualifying investments		1,450,000	20,576	1,470,576	1,000,000
Non-qualifying investments as at 31 March 2005					
The Independent Pub Company (VCT) Limited Is in the process of acquiring a portfolio of public houses, which it will own and operate in the South East of England.	6.3%	150,000	–	150,000	–
Total investment in non-qualifying investments		150,000	–	150,000	–
Total investments		1,600,000	20,576	1,620,576	1,000,000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and
- 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 which disclose with reasonable accuracy at any time the financial position of the Company and which 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, for the system of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that applicable accounting standards have been followed in the financial statements which accompany this report.

INDEPENDENT AUDITORS' REPORT
to Close Income & Growth VCT PLC

We have audited the financial statements of Close Income & Growth VCT PLC ('the Company') for the period from 19 May 2004 to 31 March 2005 which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether these have been properly prepared in accordance with section 273 of the Companies Act 1985. We also report to you if the Company has not kept proper accounting records and/or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2005 and of its total return for the period from 19 May 2004 to 31 March 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants
London

22 June 2005

STATEMENT OF TOTAL RETURN
for the period from 19 May 2004 to 31 March 2005

	Note	Revenue £'000	Capital £'000	Total £'000
Losses on investments	4	–	(9)	(9)
Investment income	5	345	–	345
Investment management fees	6	(62)	(186)	(248)
Administrative expenses	7	(91)	–	(91)
Return on ordinary activities before tax		192	(195)	(3)
Tax on ordinary activities	8	(42)	42	–
Return attributable to shareholders		150	(153)	(3)
Dividends	9	(87)	–	(87)
Transfer to/(from) reserves		63	(153)	(90)
Return/(loss) per share	10	0.83	(0.84)	(0.01)

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

The accompanying notes on pages 11 to 16 form an integral part of these financial statements.

No operations were acquired nor discontinued during the period.

There are no comparative year figures, since this is the first period of trading of the Company.

BALANCE SHEET
at 31 March 2005

	Note	31 March 2005 £'000	Proforma (See Note 2) 4 April 2005 £'000
Investments			
Qualifying investments		1,471	1,471
Non-qualifying investments		150	150
Total investments	11	1,621	1,621
Current assets			
Debtors	12	109	21,110
Cash at banks		20,366	20,366
		20,475	41,476
Creditors: due within one year	13	(319)	(319)
Net current assets		20,156	41,157
Total assets		21,777	42,778
Shareholders' funds			
Ordinary share capital	14	11,570	22,681
Share premium	15	10,297	20,187
Capital reserves	15		
realised		(144)	(144)
unrealised		(9)	(9)
Revenue reserve	15	63	63
Total shareholders' funds		21,777	42,778
Net asset value (pence per share)	16	94.11	94.30

The interim report and initial accounts were approved by the Board of Directors on 22 June 2005.

Signed on behalf of the Board of Directors by

Friedrich Ternofsky
Chairman

CASH FLOW STATEMENT
for the period from 19 May 2004 to 31 March 2005

	Note	31 March 2005 £'000
Operating activities		
Investment income		27
Deposit interest received		198
Investment management fees paid		(73)
Administrative expenses paid		(46)
Net cash inflow from operating activities	17	106
Taxation		
UK corporation tax paid		–
Capital expenditure and financial investment		
Purchase of qualifying investments		(1,450)
Purchase of non-qualifying investments		(150)
Disposal of qualifying investments		–
Net cash outflow from investing activities	11	(1,600)
Equity dividends paid		
Dividends paid on ordinary shares		–
Financing		
Issue of equity net of expenses		21,860
Net cash inflow from financing		21,860
Increase in cash		20,366

NOTES TO THE INITIAL ACCOUNTS

1. Principal activity

The principal activity of the Company is that of a Venture Capital Trust. The Company has been given notice that it satisfies the conditions for provisional approval as a Venture Capital Trust in accordance with Section 842AA of the Income and Corporation Taxes Act. The Company conducts its affairs so as to enable it to continue to retain such status and will file its first results for the year ended 30 September 2005 with the Inland Revenue. The Company is not a close company for taxation purposes. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the period is contained in the Chairman's statement.

The Company is an investment company as defined in Section 266 of the Companies Act 1985.

2. Proforma balance sheet and post balance sheet events

On 31 March 2005 the offer for subscription in the Company was fully subscribed and an announcement made to the London Stock Exchange that the offer had closed. On 4 April 2005 the Company allotted 22,223,335 shares to fulfil this offer, taking the total number of shares in issue to 45,362,709. The proforma figures in the balance sheet on page 9 reflect this allotment but no other events between 31 March and 4 April 2005. Since 31 March 2005, the Company has invested and reserved for investment a further £4.5 million in qualifying investments.

3. Accounting policies

The principal accounting policies of the Company, all of which have been applied consistently throughout the period in the preparation of its accounts are set out below.

Accounting convention

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain investments. The financial statements are prepared in accordance with applicable United Kingdom generally accepted accounting principles and standards, and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ('SORP') issued by the AITC in January 2003, in all material aspects. The particular accounting policies adopted are described below.

Investments

Investments listed on recognised exchanges are stated at market value based upon middle market prices at the end of the accounting period. Unquoted investments are stated at a valuation determined by the directors in accordance with the British Venture Capital Association guidelines. Accrued redemption premium on secured loan stock is dealt with in the valuation of investments. The unrealised movement in the valuation of investments including gains and losses arising on the disposal of investments is dealt with in the capital reserve.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore the results of these companies are not incorporated into the revenue account except to the extent of any income accrued.

Income and expenses

All income and expenses are treated on the accruals basis and dividend income is included in revenue when an investment is quoted ex-dividend. Any fixed returns on non-equity shares or debt securities are recognised on a time apportionment basis.

Management fees

75 per cent. of management fees are charged to realised capital reserves, net of corporation tax. This represents the proportion which the Directors have determined is attributable to the enhancement in the value of the investments of the Company. The balance of management fees and all other expenses are charged to the revenue account.

Performance incentive

In the event that a performance fee crystallises, the fee will be allocated between revenue and realised capital reserves (net of corporation tax) based upon the proportion to which the calculation of the fee is attributable to revenue and capital returns.

Issue costs

Issue costs associated with the allotment of Ordinary Share capital have been deducted from the share premium account in accordance with Financial Reporting Standard ('FRS') No. 4.

NOTES TO THE INITIAL ACCOUNTS
(continued)

Taxation
Taxation is applied on a current basis in accordance with Financial Reporting Standard No.16. Taxation associated with capitalised management fees is applied in accordance with the SORP. In accordance with FRS 19, deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Reserves

Realised capital reserves
The following are taken to this reserve:

(i) Gains and losses on the realisation of investments.

(ii) Management fees, together with the related taxation effect, charged in accordance with the above policies.

(iii) Performance fees, together with the related taxation effect, charged in accordance with the above policies.

Unrealised capital reserves
The following is taken to this reserve:

(i) Movement in the valuation of investments held at the period end.

4. Losses on investments

	19 May 2004 to 31 March 2005 £'000
Unrealised losses	(9)
Total	(9)

5. Investment income

	19 May 2004 to 31 March 2005 £'000
Income from qualifying shares and securities	60
Bank deposit interest	285
Total	345

6. Investment management fees

	19 May 2004 to 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000
Investment management fee	62	186	248
Total	62	186	248

NOTES TO THE INITIAL ACCOUNTS
(continued)

7. Administrative expenses

	19 May 2004 to 31 March 2005 £'000
Directors' fees	44
Auditors' remuneration - audit fees	4
Other administrative expenses	43
Total	91

8. Tax on ordinary activities

	19 May 2004 to 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000
Return/(loss) before taxation	192	(195)	(3)
UK corporation tax at 30%	57	(58)	(1)
Factors affecting the tax charge:			
Capital items not subject to taxation	–	1	1
Marginal relief	(15)	15	–
Total tax charge	42	(42)	–

(i) Venture Capital Trusts are not subject to corporation tax upon any capital gains.

(ii) Tax relief on management fees charged to capital have been determined by allocating tax relief by reference to the applicable corporation tax rate of 30% and allocating the relief between revenue and capital in accordance with the SORP.

(iii) The directors do not envisage there being any deferred tax, thus no deferred tax asset or liability has been provided for.

(iv) Tax is provided at the current rate of 30%.

9. Dividends

The interim dividend of 0.65 pence per share will be paid on 20 July 2005 to those eligible shareholders who invested prior to 31 December 2004 and who continue to remain on the register at the close of business on 1 July 2005.

10. Equity return per share

	19 May 2004 to 31 March 2005		
	Revenue £'000	Capital £'000	Total £'000
Return/(loss) attributable to equity shares	150	(153)	(3)
Weighted average shares in issue	18,081,861	18,081,861	18,081,861
Return attributable per equity share	0.83	(0.84)	(0.01)

The returns per share are based on the net shareholder returns after taxation but before deduction of dividends in respect of the weighted average number of shares in issue over the period.

NOTES TO THE INITIAL ACCOUNTS
(continued)

11. Investments

	Qualifying High Growth £'000	Qualifying BUEL £'000	Qualifying Leisure £'000	Non-qualifying Investments £'000	Total Investments £'000
Valuation basis					
Opening valuation	–	–	–	–	–
Additions at cost	1,000	–	450	150	1,600
Unrealised movement	21	–	–	–	21
Current valuation at 31 March 2005	1,021	–	450	150	1,621
Opening unrealised gains/(losses)	–	–	–	–	–
Unrealised movement	21	–	–	–	21
Closing unrealised gains/(losses)	21	–	–	–	21
Historic cost basis					
Opening book cost	–	–	–	–	–
Additions at cost	1,000	–	450	150	1,600
Closing book cost	1,000	–	450	150	1,600

12. Debtors

	31 March 2005 £'000
Prepayments and accrued income	46
Other debtors	63
Total	109

13. Creditors: due within one year

	31 March 2005 £'000
Operating creditors and accruals	232
Proposed dividend	87
Total	319

14. Called up share capital

	31 March 2005 £'000
Authorised	
50,000,000 shares of 50p each	25,000
Allotted, called up and fully paid	
23,139,374 shares of 50p each	11,570

Following the allotment of the additional 22,223,335 shares on 4 April 2005, the share capital increased by £11,111,668 to £22,681,355.

NOTES TO THE INITIAL ACCOUNTS
(continued)

15. Reserves

	Share premium £'000	Capital realised £'000	Capital unrealised £'000	Revenue reserve £'000	Total reserves £'000
Opening reserves	–	–	–	–	–
Issue of equity	11,570	–	–	–	11,570
Issue costs of equity	(1,273)	–	–	–	(1,273)
Management fees	–	(186)	–	(62)	(248)
Tax effect of management fees	–	42	–	(42)	–
Movement in valuations	–	–	(9)	–	(9)
Distributions	–	–	–	(87)	(87)
Shareholder return before management fees and taxation	–	–	–	254	254
Closing reserves at 31 March 2005	10,297	(144)	(9)	63	10,207

Following the allotment of the additional 22,223,335 shares on 4 April 2005, the share premium account increased by £9,889,384 to £20,186,406 after deducting issue costs of £1,222,283.

16. Net asset value per share

	31 March 2005 £'000
Net assets attributable to shareholders	21,777
Ordinary shares of 50p in issue	23,139,374
Net asset value per share (pence)	94.11
Movement attributable to the net asset value	
Opening net assets	–
Capital subscribed net of issue costs	21,867
Total return/(loss) for the period	(3)
Dividends appropriated	(87)
Closing net assets attributable to shareholders	21,777

17. Reconciliation of net revenue before finance costs and taxation to net cash flow from operating activities

	19 May 2004 to 31 March 2005 £'000
Net revenue before taxation	192
Investment management fees charged to capital	(186)
Decrease in operating debtors	(132)
Increase in operating creditors	232
Net cash inflow from operating activities	106

NOTES TO THE INITIAL ACCOUNTS
(continued)

18. Financial instruments and risk management

The Company's financial instruments comprise investments in unquoted companies, cash and liquid resources. The main purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. Investments in unquoted companies comprise equity and fixed rate loan stock.

The principal risks arising from the Company's operations are:
- interest rate risk; and
- investment risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the financial year.

Interest rate risk

The Company's policy is to accept a degree of interest rate risk on non-qualifying investments. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced profit before tax to 31 March 2005 by approximately 3 per cent.

Investment risk

As a venture capital trust, it is the Company's specific business to evaluate and control the investment risk in its portfolio of unquoted companies, the results of which are detailed in the Chairman's statement.

Financial assets

The Company's interest rate risk on its financial assets is as follows:

	31 March 2005			
	Fixed rate £'000	Floating rate £'000	No interest £'000	Total £'000
Sterling	1,119	20,366	292	21,777

- Fixed rate assets bear interest at rates based on predetermined yield targets. The weighted average interest rate at 31 March 2005 was 14%.
- Floating rate assets bear interest at rates based predominantly on base rates.
- The weighted average period to maturity for the fixed rate assets is approximately 5 years.

Financial liabilities

The Company's financial liabilities comprise the guarantees detailed in note 19 below.

Currency exposure

As at 31 March 2005, the Company has no foreign currency exposures.

Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 31 March 2005 are stated in accordance with the revised BVCA guidelines which in the Directors' opinion represent a fair value. See note 3 to the financial statements.

19. Contingencies, guarantees and financial commitments

There are no contingencies, guarantees and financial commitments of the Company as at 31 March 2005 which have not been accrued for, except those funds scheduled for investment as detailed in the portfolio summary on page 5. There is a guarantee to The Royal Bank of Scotland plc relating to Evolutions Television Limited. As at 31 March 2005 this amounted to £1 million.

20. Publication

The interim report and initial accounts are being sent to shareholders and copies will be made available to the public at the registered office of the Company.

Close Income & Growth VCT PLC