



# Close Income & Growth VCT PLC



**Report & Financial Statements**  
for the period from 19 May 2004 to 30 September 2005



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**DIRECTORS AND ADMINISTRATION**

**Directors**

Friedrich Rudolf Ludwig Ternofsky, Chairman  
Mary Anne Cordeiro  
John Michael Bryan Leslie Kerr  
Patrick Harold Reeve  
David Jones Watkins (US citizen)

**Investment Manager**

Close Venture Management Limited  
4 Crown Place  
London EC2A 4BT  
Tel: 020 7422 7830

**Secretary and Registered Office**

Close Venture Management Limited  
10 Crown Place  
London EC2A 4FT

**Registrar**

Capita Registrars Limited  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA  
Tel: 0870 162 3100

**Auditors**

Deloitte & Touche LLP  
Chartered Accountants  
London

**Taxation advisers**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**Custodian**

Capita Trust Company Ltd  
Guildhall House  
81-87 Gresham Street  
London EC2V 7QE

**Company number** 05132495



## INVESTMENT OBJECTIVES

Close Income & Growth VCT PLC (“the Company”) is a Venture Capital Trust which raised £45 million under the Offer for Subscription which closed at the end of March 2005 and which was fully subscribed. The Company intends to provide investors with a regular and predictable source of income combined with the prospect of long term capital growth.

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 that in time that the Company’s investment portfolio will be split approximately as follows:

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

## FINANCIAL HIGHLIGHTS

	<b>19 May 2004 to 30 September 2005</b>
	<b>pence</b>
Interim dividend per Ordinary share (i)	0.65
Final dividend per Ordinary share	1.35
Revenue return per Ordinary share	2.64
Capital loss per Ordinary share	(1.22)
Net asset value per Ordinary share	93.86
<b>Shareholder value per share since launch:</b>	
Total dividends for the period ended 30 September 2005 (i) & (iii)	2.00
Net asset value (ii), (iv) & (v)	93.86
Total	<u>95.86</u>

### Notes

- (i) Investors subscribing by 31 December 2004 and remaining on the register on 1 July 2005 were entitled to a dividend of 0.65p per share. Investors subscribing thereafter were 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 reliefs which are non-transferable.



**FINANCIAL CALENDAR**

Ex date for final dividend	28 December 2005
Record date for final dividend	30 December 2005
Annual General Meeting	31 January 2006
Payment of final dividend	7 February 2006



## CHAIRMAN'S STATEMENT

### Investment progress

Since the successful launch of your VCT last year, the Manager has made good progress in building up your Company's investment portfolio. At the end of the period, investments had been made in 12 companies to a total value, including sums reserved for investment, of £9.32 million. These range from Xceleron Limited, a spin-out from York University providing world-leading analytical services to the pharmaceutical industry, with £1 million invested, to our largest investment, The Weybridge Health Club Limited, which, including sums reserved for investment in future periods, will amount to an investment of over £2.6 million, as part of a total fundraising of over £7 million, to develop and operate a new health and fitness club on a 30 acre freehold site near the centre of Weybridge in Surrey. As is common with our investments, the company has no external borrowings.

In this early period of its development, the portfolio as a whole is looking healthy, with a particularly strong performance from Evolutions, the Oxford Street based TV post-production company, where new customer wins from the likes of "Top Gear" have led to a strong increase in profitability. This has resulted in an increase in our carrying value. At the period end, including amounts reserved for investment, freehold-based businesses in the leisure sector accounted for 55% of the qualifying portfolio while higher growth businesses accounted for 45%. We are also investigating a number of potential spin-out opportunities from Brunel University and we hope to make our first investment in this area early in 2006.

### Results and dividend

As at 30 September 2005, the net asset value of the Company was £42,577,000, equivalent to 93.9 pence per share. Net revenue income attributable to shareholders was £759,000 for the period enabling the Board to propose a final dividend of 1.35 pence per share for shareholders to approve at the annual general meeting on 31 January 2006.

Subject to shareholders approval, this dividend will be paid on 7 February 2006 to shareholders on the register on 30 December 2005.

This is in addition to the interim dividend paid on 20 July 2005 to those eligible shareholders who invested prior to 31 December 2004 and who remained on the register at the close of business on 1 July 2005.

### Future prospects

We are pleased with the progress in building up the portfolio and are happy with the balance across different sectors. It is also pleasing to note that the investee companies are generally performing to plan. Since the period end we have invested a further £2.1 million in five companies, taking the total investments made or committed, to £11.42 million.

The final dividend of 1.35 pence brings the total dividends declared for the period to 2.0 pence, and we are well on our way to providing shareholders with the target yield of 3.5 pence per annum once the portfolio is fully invested.

**Friedrich Ternofsky**

Chairman

20 December 2005



## THE BOARD OF DIRECTORS

The following are the Directors of the Company, all of whom operate in a non-executive capacity:

### **Friedrich Ternofsky (62)**

An Austrian National, he has spent much of his career in the hotel and leisure industry. He was the Chief Executive of Marriott Hotels UK from 1981 to 1993 before becoming Chief Executive of the UK and Scandinavian operations of Compass Group plc, a post he held until 2000. He is currently a non-executive director of Excel PLC, Care UK PLC, and Punch Taverns PLC, as well as a number of private companies.

### **Mary Ann Cordeiro (44) MA**

She worked at Goldman Sachs International Limited, first in the mergers and acquisitions department and subsequently in the Financial Institutions Group from 1986 to 1992. She worked in similar roles in Bankers Trust Company and Paribas, and was also co-head of Paribas' Financial Institutions Group, before leaving to found her own business in the insurance sector in 1998. She was executive director for Creative Industries at London First from 2001 to 2003, and is now the strategy and finance consultant to Brunel University Enterprises Limited ('BUEL') to identify and fund potential spin out opportunities.

### **John Kerr (63) ACMA**

He has worked as a venture capitalist and also in manufacturing and service industries. He held a number of finance and general management posts in the UK and USA, before joining SUMIT Equity Ventures, an independent Midlands based venture capital company, where he was managing director from 1985 to 1992. Following a period as Chief Executive of the forestry products company, Price and Pierce Limited, he became finance director of Ambion Brick, a building material company bought out from Istock PLC. After retiring in 2002, he now works as a consultant. He is a non-executive director of Close Brothers Venture Capital Trust PLC, a VCT which is also managed by Close Venture Management Limited.

### **Patrick Reeve (45) MA**

See under Investment Management below, he is Managing Director of Close Venture Management Limited. He is also a Director of Close Brothers Protected VCT PLC and Close Technology & General VCT PLC which are VCTs also managed by Close Venture Management Limited.

### **David Watkins (61) MBA (Harvard)**

From 1972 until 1991, he worked for Goldman Sachs, where he was head of Euromarkets Syndication and Head of European Real Estate. He subsequently joined Mountleigh Group PLC where he worked as a director on the restructuring of the business prior to the Group being placed into administration. Until late 1995, he worked at Baring Securities Limited as Head of Equity Capital Markets – London, before leaving ultimately to become Chief Financial Officer and one of the principal shareholders of his current company, The Distinguished Programs Group LLC, an insurance distribution and underwriting group. From 1986 to 1990 he was a member of the Council of the London Stock Exchange. He is currently Chairman of Close Brothers Venture Capital Trust PLC, which is managed by Close Venture Management Limited, and is a director of a number of private UK companies.



## THE MANAGER

Close Venture Management Limited, which is authorised and regulated by the Financial Services Authority, is the Manager of Close Income & Growth VCT PLC. In addition to Close Income & Growth VCT PLC, it manages a further seven VCTs: Close Brothers Venture Capital Trust PLC which raised a total of £39.7 million in Ordinary shares in 1996 and through an issue of 'C' shares the following year; Close Brothers Protected VCT PLC, which raised £27.9 million in 1997, and co-invests alongside Close Brothers Venture Capital Trust PLC; Close Brothers Development VCT PLC, which raised £14.6 million in 1999, a further £11.5 million in 2002/3 and £7.0 million in 2003/4 to provide development capital to unquoted companies; Close Technology & General VCT which has raised £14.3 million in 2001 and which is currently raising up to £35 million through the issue of 'C' shares; and three Murray VCTs (formerly managed by Murray Johnstone Limited), soon to be merged and renamed Crown Place VCT PLC.

Close Venture Management Limited also acts as investment adviser to Bamboo Investments (Isle of Man) PLC, which specialises in technology investments, and the Healthcare and Leisure Property Fund PLC, which co-invests in asset-based businesses alongside Close Brothers Venture Capital Trust PLC. Close Venture Management Limited won the "Best VCT Provider" category in the Professional Adviser Awards 2005 and 'VCT Manager of the Year' at the 2005 Growth Company Awards.

The Manager's ultimate parent company is Close Brothers Group plc, a substantial independent merchant banking group incorporated in the United Kingdom and listed on the London Stock Exchange.

The following are specifically responsible for the management and administration of the VCTs managed by Close Venture Management Limited:

**Patrick Reeve, (45), MA, ACA**, qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined the Close Brothers Group in 1989, initially in the development capital subsidiary, where he was a director specialising in the financing of smaller unquoted companies. He joined the corporate finance division in 1991, where he was also a director. He established Close Venture Management Limited with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

**Henry Stanford, (40), MA, ACA**, qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group in 1992. He became an assistant director in 1996 and transferred to Close Venture Management Limited in 1998 to concentrate on VCT investment.

**Will Fraser-Allen (35), BA (Hons), ACA**, qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Venture Management Limited in 2001.

**Emil Gigov, (35), BA (Hons), ACA**, qualified as a chartered accountant with KPMG in 1997 and subsequently worked in KPMG's corporate finance division working on the media, marketing and leisure sectors. He joined Close Venture Management Limited in 2000.

**David Gudgin, (32), BSc (Hons), ACMA**, after working for ICL from 1993 to 1999 where he qualified as an accountant, he joined 3i plc as an investment manager based in London and Amsterdam. In 2002 he joined Foursome Investments, the venture capital arm of the Englehorn family, responsible for investing an evergreen fund of US\$80 million, before joining Close Venture Management Limited in 2005.



**THE MANAGER**

(continued)

**Robert Whitby-Smith, (30), BA (Hons), MSI, ACA**, qualified as a chartered accountant with KPMG in their corporate finance division. From 2000 to early 2005 he worked in the UK corporate finance departments of Credit Suisse First Boston and subsequently ING Barings, where he was a vice president. He joined Close Venture Management Limited in 2005.

**Ed Lascelles, (30), BA (Hons)**, joined the corporate broking department of Charterhouse Securities in 1998 focusing on primary and secondary equity fundraisings. He then moved to the corporate finance department of ING Barings in 2000, retaining his focus on smaller UK companies. He joined Close Venture Management Limited in 2004.

**Dr Andrew Elder (35), MA, FRCS**, after qualifying as a surgeon he practiced for six years, specialising in neurosurgery before joining the Boston Consulting Group as a consultant in 2001 specialising in healthcare strategy. He joined Close Venture Management Limited in 2005.

**Mark Toomey, (28), BA (Hons)**, after graduating from The London School of Economics with a degree in Geography and Economics, he joined Lee & Allen Consulting focusing on forensic accounting. He joined Close Venture Management Limited in 2001.



## PORTFOLIO OF INVESTMENTS

The following is a summary of investments at 30 September 2005:

Investee company	Equity owned %	Investment at cost £'000	Unrealised revaluation/ (devaluation)* £'000	Carrying value £'000	Reserved for further investment £'000
<b>Asset based leisure investments</b>					
Churchill Taverns VCT Limited	7.6%	100	–	100	–
The Bold Pub Company Limited	2.9%	690	(4)	686	–
The Weybridge Club Limited	10.5%	1,000	–	1,000	1,600
G B Pub Company VCT Limited	16.0%	500	–	500	–
The Independent Beer Company Limited	16.5%	380	–	380	–
CS (Brixton) Limited	16.7%	650	–	650	–
CS (Exeter) Limited	16.6%	250	–	250	–
<b>Total asset based leisure investments</b>		<b>3,570</b>	<b>(4)</b>	<b>3,566</b>	<b>1,600</b>
<b>High growth unquoted investments</b>					
Evolutions Television Limited	15.9%	2,000	201	2,201	–
Xceleron Limited	20.6%	1,000	22	1,022	–
Grosvenor Health Limited	2.8%	440	12	452	–
Lowcostbeds.com Limited	5.9%	560	1	561	–
<b>Total high growth unquoted investments</b>		<b>4,000</b>	<b>236</b>	<b>4,236</b>	<b>–</b>
<b>Total qualifying investments</b>		<b>7,570</b>	<b>232</b>	<b>7,802</b>	<b>1,600</b>
<b>Non-qualifying investment</b>					
The Independent Pub Company (VCT) Limited	6.3%	150	(26)	124	–
<b>Total non-qualifying investments</b>		<b>150</b>	<b>(26)</b>	<b>124</b>	<b>–</b>
<b>Total investments</b>		<b>7,720</b>	<b>206</b>	<b>7,926</b>	<b>1,600</b>

\* The movement in unrealised revaluation and the carrying value at the period end include capitalised interest and redemption premium, which are treated as revenue rather than capital appreciation in the Statement of Total Return.



## PORTFOLIO OF INVESTMENTS

(continued)

### QUALIFYING ASSET BASED LEISURE INVESTMENTS

#### Churchill Taverns VCT Limited

The company was formed to acquire 'Ye Three Fyshes' public house in the village of Turvey, in Bedfordshire, which had previously ceased trading. The site has been extensively refurbished and reopened in June 2005. The company has recently purchased a second site.

<b>Date of initial investment:</b>	January 2005
<b>Amount invested at 30 September 2005:</b>	£100,000
<b>Value at 30 September 2005:</b>	£100,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	7.6%

As a newly incorporated company, Churchill Taverns VCT Limited has not yet filed audited accounts.

The investment is valued at cost in view of the recent nature of the investment.

#### The Bold Pub Company Limited

The company was formed to acquire a group of 10 freehold and long leasehold pubs in the North West of England. It has subsequently acquired a further 18 public houses in the region, taking the total in the portfolio to 28, with three more acquisitions in progress.

<b>Date of initial investment:</b>	November 2004
<b>Amount invested at 30 September 2005:</b>	£690,000
<b>Value at 30 September 2005:</b>	£686,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	2.86%

<b>Latest audited financial information:</b>	<b>31 March 2005</b>
	<b>£'000</b>
Turnover for the year	4,402
Profit before tax for the year	114
Accumulated retained profits	8
Net assets	1,661

The decrease in valuation from cost is a reflection of the decrease in net asset value of the company through the recent payment of a dividend.

#### The Weybridge Club Limited

The company has bought a 30 acre freehold site near to the centre of Weybridge, Surrey, which it is developing into a premium health and fitness club.

<b>Date of initial investment:</b>	April 2005
<b>Amount invested at 30 September 2005:</b>	£1,000,000
<b>Value at 30 September 2005:</b>	£1,000,000
<b>Further amount reserved for investment:</b>	£1,600,000
<b>Proportion of equity share capital and voting rights held:</b>	10.5%

<b>Latest (unaudited) financial information:</b>	<b>31 August 2004</b>
	<b>£'000</b>
Turnover for the year	Nil
Loss before tax for the year	(13)
Accumulated retained losses	(61)
Net assets	(20)

The investment is valued at cost in view of the recent nature of the investment.



## PORTFOLIO OF INVESTMENTS

(continued)

### G B Pub Company VCT Limited

The company was formed to acquire two freehold pubs in Bideford, Devon and, in October 2005, acquired a further site in Newton Abbot.

<b>Date of initial investment:</b>	June 2005
<b>Amount invested at 30 September 2005:</b>	£500,000
<b>Value at 30 September 2005:</b>	£500,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	16%

As a newly incorporated company, G B Pub Company VCT Limited has not yet filed audited accounts.

The investment is valued at cost in view of the recent nature of the investment.

### The Independent Beer Company Limited

The company was formed to acquire the Ring O'Bells pub near Maidenhead, Berkshire.

<b>Date of initial investment:</b>	July 2005
<b>Amount invested at 30 September 2005:</b>	£380,000
<b>Value at 30 September 2005:</b>	£380,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	16.5%

As a newly incorporated company, The Independent Beer Company Limited has not yet filed audited accounts.

The investment is valued at cost in view of the recent nature of the investment.

### CS (Brixton) Limited

The company acquired the Ritzy Cinema in Brixton, London, in August 2005.

<b>Date of initial investment:</b>	August 2005
<b>Amount invested at 30 September 2005:</b>	£650,000
<b>Value at 30 September 2005:</b>	£650,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	16.71%

As a newly incorporated company CS (Brixton) Limited has not yet filed audited accounts.

The investment is valued at cost in view of the recent nature of the investment.

### CS (Exeter) Limited

The company owns the freehold of the Picturehouse cinema in Exeter.

<b>Date of initial investment:</b>	September 2005
<b>Amount invested at 30 September 2005:</b>	£250,000
<b>Value at 30 September 2005:</b>	£250,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	16.56%

As a newly incorporated company CS (Exeter) Limited has not yet filed audited accounts.

The investment is valued at cost in view of the recent nature of the investment.



## PORTFOLIO OF INVESTMENTS

(continued)

### QUALIFYING HIGH GROWTH UNQUOTED INVESTMENTS

#### Evolutions Television Limited

The company is a television post production business providing post production services, including video and sound editing and automation, to a broad range of production companies. It operates from a freehold building in Oxford Street, west London.

<b>Date of initial investment:</b>	December 2004
<b>Amount invested at 30 September 2005:</b>	£2,000,000
<b>Value at 30 September 2005:</b>	£2,201,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	15.9%

<b>Latest audited financial information:</b>	<b>31 March 2004</b>
	£'000
Turnover for the year	3,554
Loss before tax for the year	(353)
Accumulated retained losses	(1,111)
Net assets	1,209

The investment is valued on the basis of prospective earnings and property value.

#### Xceleron Limited

The company is a spin out from York University using accelerator mass spectrometry to provide bio-analytical services to the drug development industry.

<b>Date of initial investment:</b>	April 2005
<b>Amount invested at 30 September 2005:</b>	£1,000,000
<b>Value at 30 September 2005:</b>	£1,022,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	20.6%

<b>Latest audited financial information:</b>	<b>31 July 2005</b>
	£'000
Turnover for the year	1,784
Loss before tax for the year	(317)
Accumulated retained losses	(1,195)
Net assets	1,068

The investment is valued at cost plus capitalised interest and redemption premium in view of the recent nature of the investment.

#### Grosvenor Health Limited

The company is a provider of occupational healthcare services to large corporates such as BAA plc and Qinetiq.

<b>Date of initial investment:</b>	May 2005
<b>Amount invested at 30 September 2005:</b>	£440,000
<b>Value at 30 September 2005:</b>	£452,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	2.8%

<b>Latest audited financial information: Period ended 31 December 2004</b>	
	£'000
Turnover for the period	3,531
Profit before tax for the period	338
Accumulated retained profits	258
Net assets	1,287

The investment is valued on an earnings basis and includes accrued redemption premium.



## PORTFOLIO OF INVESTMENTS

(continued)

### Lowcostbeds.com Limited

The company is an on line travel business, specialising in flexible flight and bed packages.

<b>Date of initial investment:</b>	September 2005
<b>Amount invested at 30 September 2005:</b>	£560,000
<b>Value at 30 September 2005:</b>	£561,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	5.94%

Latest (unaudited) financial information	31 October 2004
	£'000
Turnover for the year	Nil
Loss before tax for the year	(178)
Accumulated retained losses	(178)
Net assets	173

The investment is valued at cost plus capitalised interest and redemption premium in view of the recent nature of the investment.

### NON QUALIFYING ASSET BASED LEISURE INVESTMENT

#### The Independent Pub Company (VCT) Limited

The company was formed to acquire the 'Pelican' public house outside Hungerford.

<b>Date of initial investment:</b>	December 2004
<b>Amount invested at 30 September 2005:</b>	£150,000
<b>Value at 30 September 2005:</b>	£124,000
<b>Further amount reserved for investment:</b>	Nil
<b>Proportion of equity share capital and voting rights held:</b>	6.3%

As a newly incorporated company, The Independent Pub Company (VCT) Limited has not yet filed audited accounts.

The investment is valued at estimated market value.



## REPORT OF THE DIRECTORS

The Directors submit the Report and Financial Statements of the Company for the period from the date of incorporation, 19 May 2004 to 30 September 2005.

### First reporting period

The Company was incorporated in Great Britain on 19 May 2004. The Registrar of Companies issued the Company with a certificate under Section 117 of the Companies Act 1985, entitling it to commence business on 20 July 2004. The first reporting period for the Company is from 19 May 2004 to 30 September 2005.

### Review of business

A review of the Company's operations is given in the Chairman's statement on page 5.

### Results and dividends

The Revenue return after taxation for the period was £759,000, and the Capital loss after taxation for the period was £350,000. The Company paid an interim dividend of 0.65 pence per share to shareholders who had invested prior to 31 December 2004, and who were on the register as at the close of business on 1 July 2005. Subject to approval by shareholders, the Board intends to pay a final dividend of 1.35 pence per share on 7 February 2006, to shareholders on the register on 30 December 2005. A sum of £60,000 has been transferred to Revenue reserves.

### Principal activity and status

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 1988. The Company conducts its affairs so as to enable it to continue to retain such status and will file its first results for the period ended 30 September 2005 with H M Revenue & Customs.

The Company is not a close company for taxation purposes. Details of the principal investments made by the Company are given in 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.

### Issue of own shares

During the period, the Company issued Ordinary shares in accordance with the Offer for Subscription dated 3 August 2004. Details of the issue of these shares are shown in note 15 to the Report and Financial Statements.

### Purchase of own shares

As noted in the Offer for Subscription, the Directors consider that the Company should have the ability to purchase its shares in the market with the aim of providing a market for the shares, reducing any discount between the net asset value and the share price, and increasing the net asset value of the Company. Any purchases made at a discount to net asset value at the time of purchase would increase the net asset value per share of the remaining shares in issue.

On 2 July 2004, a special resolution was passed giving the Company the authority to make market purchases (within the meaning of S163 (3) of the Companies Act 1985), of Ordinary shares of 50 pence each in the capital of the Company.

During the financial period under review, and since the period end, the Company has not purchased any of its shares for cancellation.

At the annual general meeting on 31 January 2006, a special resolution giving the authority to purchase an aggregate 10% of Ordinary shares in issue (4,536,271 shares) will be proposed.

The purchases of shares will be made within guidelines established from time to time by the Board, but only if the purchase would be to the advantage of the Company and its shareholders taken as a whole. Purchases will be made in the market for cash only, at prices below the prevailing Net Asset Value per share. Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of this authority must not exceed the higher of (a) 105 per cent of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange. The minimum price that can be paid is 50 pence per share. In making purchases, the Company will only deal with member firms of the London Stock Exchange. Shares that are purchased will be cancelled. Purchases of Ordinary shares will be made from distributable reserves. To the extent that the Company purchases Ordinary shares at a discount to net asset value, the net asset value per share of the remaining shares in issue should increase.

Shares will not be purchased by the Company during the period from the end of the relevant interim or final accounting period, until the announcement of the relevant results.

### Cancellation of share premium account

On 2 July 2004, a special resolution was passed authorising the cancellation of the share premium account. This was approved by the High Court of Justice on 24 August 2005 and has enabled the establishment of a special reserve which may be treated as distributable profit, out of which the purchase of shares can be made in the future (details are shown in note 16 to the financial statements).



## REPORT OF THE DIRECTORS

(continued)

### Directors

The Directors who held office at the end of the period, and their interests in the shares of the Company (together with those of their immediate family) were:

	30 September 2005 Shares held
Friedrich Ternofsky (appointed 26 July 2004)	10,000
Mary Anne Cordeiro (appointed 26 July 2004)	4,000
John Kerr (appointed 26 July 2004)	6,000
Patrick Reeve (appointed 10 June 2004)	200,000
David Watkins (appointed 26 July 2004)	5,000

In addition, the following Directors held office during the period:

Mr Geraint Lloyd was appointed Director on 10 June 2004 and resigned on 2 July 2004;  
 Mr Benjamin Lee was appointed Director on 10 June 2004 and resigned on 2 July 2004;  
 Swift Incorporation Limited was appointed Director on 19 May 2004 and resigned on 10 June 2004; and  
 Instant Companies was appointed Director on 19 May 2004 and resigned on 10 June 2004.

The Directors do not have service contracts and the Company does not have any employees.

All Directors, with the exception of Patrick Reeve, are members of the Audit Committee.

At the annual general meeting on 31 January 2006 (the notice for which is included with this Report), the Chairman, Friedrich Ternofsky will resign, and offer himself for re-election. It is the opinion of the Board (with the exception of Friedrich Ternofsky) that his performance is highly effective and he continues to be committed to this role. On this basis, the Board recommends the re-election of Friedrich Ternofsky at the annual general meeting on 31 January 2006.

### Management agreement

Under the terms of an agreement dated 2 August 2004, the Company and Close Venture Management Limited entered into a management agreement for an initial two year period which may be terminated by either party on 12 months' notice. The Manager will provide investment management and secretarial and administrative services to the Company, for a fee payable quarterly in arrears on 1 January, 1 April, 1 July and 1 October in each year, of an amount equal to 2.5 per cent of the net asset value of the Company.

The management agreement is subject to earlier termination in the event of certain breaches, or on the insolvency of either party.

In addition, the Management agreement contains the Manager's incentive fee arrangement in the event that returns exceed a minimum target level of 8 per cent per annum (comprising dividends and net asset value); the Manager is entitled to 20 per cent of the excess. For the period from 19 May 2004 to 30 September 2005, no incentive fee became due to the Manager.

The Manager is also entitled to an arrangement fee, payable by each company in which the Company invests, in the region of two per cent on each investment made.

### Auditors

A resolution to re-appoint Deloitte & Touche LLP as auditors will be proposed at the annual general meeting on 31 January 2006.

### Substantial interests

As at 19 December 2005, Company has not been notified of any substantial interests in excess of 3% of the issued share capital of the Company.

### Going concern

After making reasonable 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, the Directors have adopted the going concern basis in preparing the accounts.

### Statement of Directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year 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.



**REPORT OF THE DIRECTORS**  
(continued)

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 the system of internal control, 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 confirm that applicable accounting standards have been followed in the financial statements accompanying this report.

**Annual general meeting**

Shareholders will have already seen the notice of meeting for the 2005 annual general meeting which is being held on 30 December 2005.

The 2006 annual general meeting will be held at 10 Crown Place, London EC2A 4FT at 2.30pm on 31 January 2006. The notice of the annual general meeting is at the end of this document. A resolution will be proposed as special business at the annual general meeting to renew the authority to purchase in the market and cancel up to 4,536,271 of the Company's issued shares (equivalent to 10 per cent of the share capital currently in issue).

**Supplier payment policy**

The Company's policy is to pay all supplier invoices within 30 days of the invoice date, or as otherwise agreed. There were no overdue trade creditors at 30 September 2005.

By Order of the Board

**Close Venture Management Limited**

Secretary

10 Crown Place  
London EC2A 4FT

20 December 2005



## STATEMENT OF CORPORATE GOVERNANCE

### Background

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code issued by the Financial Reporting Council (“FRC”) in July 2003 (“the Code”).

### Application of the Principles of the Code

The Board attaches importance to matters set out in the Code and applies its principles. However, as a venture capital trust company, most of the Company’s day-to-day responsibilities are delegated to third parties and the Directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

### Board of Directors

The Board consists solely of non-executive Directors. Friedrich Ternofsky is the Chairman. Mary Anne Cordeiro, John Kerr and David Watkins are considered independent directors. Patrick Reeve is not considered an independent director as he is the Managing Director of Close Venture Management Limited, the Manager. As all of the Directors are non-executives, and as a majority of the Directors are independent, the Board has decided not to appoint a senior independent director.

The Directors have a range of business and financial skills which are relevant to the Company; these are described in The Board of Directors section of this Report, on page 6. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the Combined Code, the Company has in place Directors’ and Officers insurance.

Following their appointment, the current Board met five times during the period ended 30 September 2005 as part of its regular programme of Board meetings. All of the Directors attended each of these meetings. In addition, there were eight Board meetings held specifically to deal with the allotment of Ordinary shares; Friedrich Ternofsky attended five meetings, David Watkins attended four meetings, Mary Anne Cordeiro attended three meetings, John Kerr attended five meetings and Patrick Reeve attended six meetings.

The Chairman ensures that all Directors receive in a timely manner all relevant management, regulatory and financial information. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and its Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought.

The Manager has authority over the management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price; and
- monitoring shareholder profile and considering shareholder communications.

### Directors’ performance evaluation

The Board takes corporate governance very seriously. Performance of the Board and the Directors is assessed on the following:

- attendance at Board and Committee meetings; and
- the contribution made by individual Directors at, and outside of, Board and Committee meetings.

Performance evaluation is conducted by the Board as a peer group and is monitored on a continuous ongoing basis.

### Remuneration Committee

Since the Company has no executive Directors, the detailed Directors’ remuneration disclosure requirements set out in Listing Rules 12.43A (a), 12.43A (b) and 12.43A (c) as they relate to Combined Code Provisions B.1 to B.2, B.1.1 to B.1.6, and B.2.1 to B.2.4 are not relevant.

### Audit Committee

The Audit Committee consists of all Directors, with the exception of Patrick Reeve. John Kerr is Chairman of the Audit Committee. In accordance with the Code, the members of the Audit Committee have recent and relevant financial experience. The Committee met once during the period ended 30 September 2005; all members attended each meeting.

Written terms of reference have been constituted for the Audit Committee, these are as follows:

- providing an overview of the Company’s accounting policies and financial reporting;
- considering and reviewing the effectiveness of the Company’s internal controls and risk management systems;



## STATEMENT OF CORPORATE GOVERNANCE (continued)

- monitoring the integrity of the financial statements of the Company;
- meeting the Company's external auditors twice yearly, approving their appointment, reappointment, remuneration, terms of engagement and providing an ongoing review of auditor independence and objectivity;
- meeting with the Head of Internal Audit of Close Brothers Group plc when appropriate;
- ensuring that all Directors of the Company, and staff of companies who provide services to the Company feel able to raise issues of serious concern with the Chairman of the Audit Committee; and
- undertaking the duties of the Engagement Committee, and therefore reviewing all matters arising under the management agreement.

During the period under review, the Committee discharged the responsibilities described above. Its activities included:

- formally reviewing the draft interim report and associated announcements, with particular focus on the main areas requiring judgement and critical accounting policies;
- reviewing the effectiveness of the internal controls system by examining the Internal Controls report produced by the Manager; and
- meeting with the external auditors and reviewing their findings.

### **Nomination Committee**

A nomination committee has not been formed as it is not currently considered warranted.

### **Internal control**

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the period and continues to be subject to regular review by the Board in accordance with the Internal Control Guidance for Directors in the Combined Code published in September 1999 ("the Turnbull guidance"). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertakes an annual review of the Company's business risks. The Board receives each year from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. Steps are, and continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which come to management's and the Board's attention.

The Company does not have an internal audit function but it does have access to the internal audit department of Close Brothers Group plc which reports on the Manager's activities. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

### **Going concern**

After making reasonable 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, the Directors have adopted the going concern basis in preparing the accounts.

### **Relations with shareholders**

The Company's annual general meeting on 31 January 2006 will be used as an opportunity to communicate with private investors. The Board and the Chairman of the Audit Committee will be available to answer questions at the annual general meeting. At the annual general meeting, the level of proxies lodged on each resolution, the balance for and against the resolution, and the number of votes withheld, are announced after the resolution has been voted on by a show of hands.

### **Statement of compliance**

With the exception of the requirements to have a Nomination Committee, a Remuneration Committee and a senior independent director, the Directors consider that the Company has complied throughout the period ended 30 September 2005 with all the relevant provisions set out in Section 1 of the Code. The Company continues to comply with the Code as at the date of this report.



## DIRECTORS' REMUNERATION REPORT

### Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the period from 19 May 2004 to 30 September 2005.

### Remuneration Committee

Since the Company has no executive Directors and consists solely of non-executive Directors, a Remuneration Committee is not considered necessary.

### Directors' remuneration policy

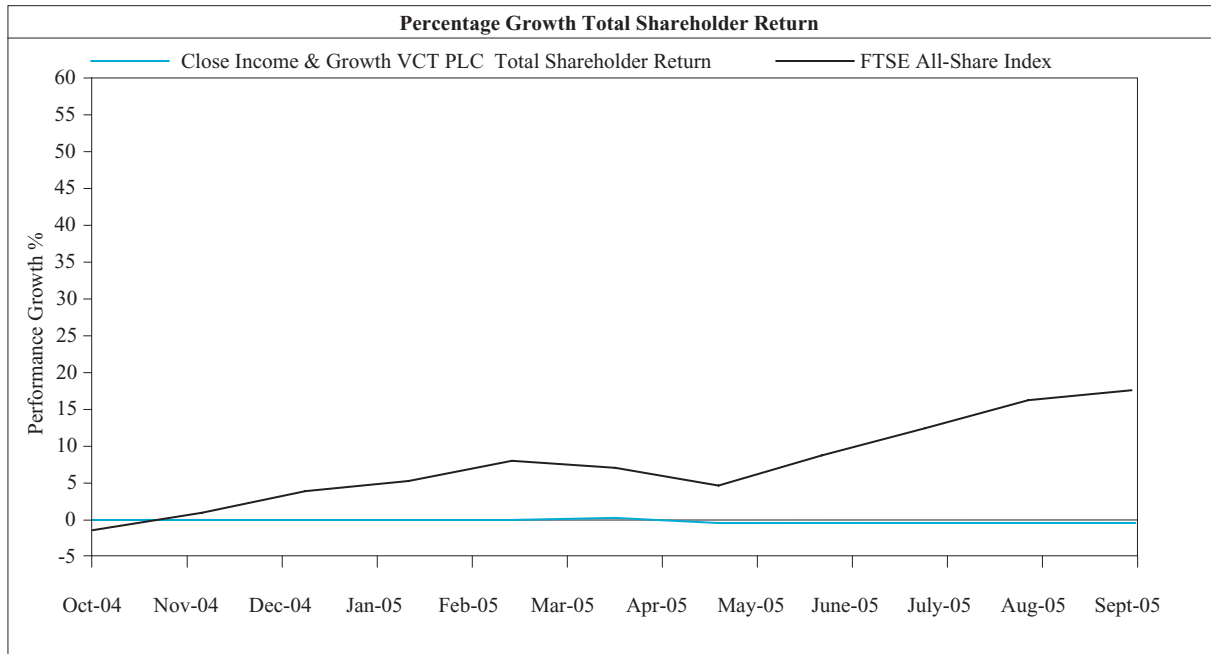
The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration market, equivalents are considered in comparison to the overall activities and size of the Company.

The maximum level of non-executive Directors' remuneration is fixed by the Company's Articles of Association, amendment to which is by way of a special resolution subject to ratification by shareholders. The Articles of Association provide for aggregate non-executive Directors' fees not to exceed £120,000 per annum.

### Performance graph

The graph below shows the performance of Close Income & Growth VCT PLC share price against the FTSE All-Share Index, in both instances with dividends reinvested, over the period. The Directors consider this to be the most appropriate benchmark.

There are no options, issued or exercisable, in the Company which would distort the graphical representation below.



### Service contracts

The Directors do not have service contracts with the Company. The Company's Articles provide for the resignation and, if approved, re-election of one third of the Directors at each annual general meeting.



**DIRECTORS' REMUNERATION REPORT**  
(continued)

**Directors' remuneration**

The following items have been audited:

The following table shows a breakdown of the remuneration of individual Directors, exclusive of National Insurance or VAT:

	Period ended 30 September 2005		
	Fees £'000	Expenses £'000	Total £'000
Friedrich Ternofsky	20	–	20
Mary Anne Cordeiro	17	–	17
John Kerr	17	–	17
Patrick Reeve	17	–	17
David Watkins	17	–	17
	<u>88</u>	<u>–</u>	<u>88</u>

The Company does not confer any share options, long term incentives or retirement benefits to any Director, nor does it make a contribution to any pension scheme on behalf of the Directors.

No Director has received any taxable expenses, compensation for loss of office or non-cash benefits for the period ended 30 September 2005.

Friedrich Ternofsky, Mary Anne Cordeiro, John Kerr and David Watkins are remunerated personally. Patrick Reeve's services were provided by Close Venture Management Limited.

In addition to Directors' remuneration, the Company purchases and maintains liability insurance covering the Directors and Officers of the Company.

By Order of the Board

**Close Venture Management Limited**  
Secretary

20 December 2005



## INDEPENDENT AUDITORS' REPORT to the Members of Close Income & Growth VCT PLC

We have audited the financial statements of Close Income & Growth VCT PLC for the period from the date of incorporation, 19 May 2004 to 30 September 2005 which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of 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 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 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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited 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 the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

We also report to you if, on our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC 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 the Directors' report and the other information contained in the annual report for the above period as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### 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 and the part of the Directors' remuneration report described as having been audited. 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 and the part of the Directors' remuneration report described as having been 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 described as having been audited.

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company from 19 May 2004 to 30 September 2005 and its total return for the period then ended; and
- the financial statements and part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

### Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London

20 December 2005

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



**STATEMENT OF TOTAL RETURN**  
for the period from 19 May 2004 to 30 September 2005

	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments	3	–	92	92
Investment income	4	1,475	–	1,475
Investment management fees	5	(218)	(657)	(875)
Administration expenses	6	(193)	–	(193)
<b>Return/(loss) on ordinary activities before tax</b>		<b>1,064</b>	<b>(565)</b>	<b>499</b>
Tax (charge)/credit on ordinary activities	8	(305)	215	(90)
<b>Return/(loss) attributable to equity shareholders</b>		<b>759</b>	<b>(350)</b>	<b>409</b>
Amounts recognised as distributions to equity holders in the period	9	(699)	–	(699)
<b>Transfer to/(from) reserves</b>		<b>60</b>	<b>(350)</b>	<b>(290)</b>
<b>Basic and diluted return/(loss) per share (pence)</b>		<b>2.6</b>	<b>(1.2)</b>	<b>1.4</b>

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

No operations were acquired or discontinued in the period.

The accompanying notes on pages 25 to 32 form an integral part of these financial statements.

The Company has no recognised gains and losses other than those disclosed above. Accordingly a statement of total recognised gains and losses is not required.



**BALANCE SHEET**  
as at 30 September 2005

	Note	£'000
<b>Fixed asset investments</b>		
Qualifying investments		7,802
Non-qualifying investments		124
		<hr/>
<b>Total investments</b>	11	7,926
<b>Current assets</b>		
Debtors and accrued income	13	170
Cash at bank and in hand		35,563
		<hr/>
		35,733
<b>Creditors: amounts falling due within one year</b>	14	(1,082)
		<hr/>
<b>Net current assets</b>		34,651
		<hr/>
<b>Total assets</b>		<b>42,577</b>
		<hr/>
<b>Capital and reserves</b>		
Called up share capital	15	22,681
Share premium	16, 17	–
Special reserve	17	20,186
Capital reserves		
<i>realised</i>	17	(442)
<i>unrealised</i>	17	92
Revenue reserve	17	60
		<hr/>
<b>Total shareholders' funds</b>		<b>42,577</b>
		<hr/>
<b>Net asset value (pence per share)</b>	18	<b>93.9</b>

The financial statements on pages 22 to 32 were approved by the Board of Directors on 20 December 2005.

Signed on behalf of the Board of Directors:

**F R L Ternofsky**  
Chairman



**CASH FLOW STATEMENT**  
for the period from 19 May 2004 to 30 September 2005

	Note	£'000
<b>Operating activities</b>		
Investment income received		138
Deposit interest received		1,066
Investment management fees paid		(563)
Administrative expenses paid		(138)
		<hr/>
<b>Net cash inflow from operating activities</b>	20	503
<b>Capital expenditure and financial investment</b>		
Purchase of qualifying investments		(7,570)
Purchase of non-qualifying investments		(150)
		<hr/>
<b>Net cash outflow from investing activities</b>		(7,720)
		<hr/>
<b>Equity dividends paid</b>		
Dividends paid on Ordinary shares		(87)
		<hr/>
<b>Financing</b>		
Issue of equity net of expenses		42,867
		<hr/>
<b>Net cash inflow from financing</b>		42,867
		<hr/>
<b>Increase in cash</b>	19	<b>35,563</b>



## NOTES TO THE FINANCIAL STATEMENTS for the period from 19 May 2004 to 30 September 2005

### 1. Accounting convention

The financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards and with the Statement of Recommended Practice: "Financial Statements of Investment Trust Companies" (SORP) issued by the Association of Investment Trust Companies in January 2003.

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain investments.

### 2. Accounting policies

The financial statements are prepared in accordance with UK applicable accounting standards. The particular accounting policies are described below.

#### Investment income

Dividend income (other than that on non-equity shares) is included in revenue when the investment is quoted ex-dividend. The fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis.

#### Management fees and expenses

All expenses have been accounted for on an accruals basis. Expenses are charged through the Revenue account except as follows:

- 75 per cent of management fees are charged to the Capital account, net of corporation tax (the balance of the management fee is charged to the Revenue account); 75 per cent represents the proportion of the investment management fee attributable to the enhancement of the value of the investments of the Company; and
- Expenses which are incidental to the purchase or disposal of an investment are charged to the Capital account.

#### Performance incentive fee

In the event that a performance incentive 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.

#### Taxation

Taxation is applied on a current basis in accordance with Financial Reporting Standard ('FRS') 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.

The specific nature of the taxation of VCTs means that it is unlikely any deferred tax will arise. The Directors have considered the requirements of FRS 19 and do not believe any provision should be made.

#### Investments

Unquoted investments are stated at a valuation determined by the Directors as supported, where appropriate, by independent professional valuations and in accordance with the revised British Venture Capital Association ('BVCA') guidelines.

Accrued redemption premium and capitalised interest on secured loan stock is dealt with in the valuation of investments. The movement in redemption premium and capitalised interest is dealt with in the Revenue account.

The unrealised depreciation or appreciation on the valuation of investments is dealt with in the unrealised capital reserve, and gains and losses arising on the disposal of investments are dealt with in the realised capital reserve.

It is not the Company's policy to exercise controlling or significant influence over investee companies. Therefore the results of these companies are not incorporated into the revenue account.

#### Capital reserves

##### *Realised reserves*

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- capitalised management fees and the related taxation effect, charged in accordance with the above policies; and
- performance fees, together with the related taxation effect, charged in accordance with the above policies.



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

2. Accounting policies (continued)

*Unrealised reserve*

The following is accounted for in this reserve:

- increases and decreases in the valuation of investments held at the period end.

*Special reserve*

This reserve is distributable and is primarily used for the cancellation of the Company's share capital.

*Issue costs*

Issue costs associated with the allotment of Ordinary share capital have been deducted from the share premium account in accordance with FRS 4.

3. Gains on investments

	19 May 2004 to 30 September 2005 £'000
Unrealised gains	92
<b>Total</b>	<b>92</b>

4. Investment income

	19 May 2004 to 30 September 2005 £'000
Income from qualifying shares and securities	299
Non qualifying income	7
Bank deposit interest	1,169
<b>Total</b>	<b>1,475</b>

5. Investment management fees

	19 May 2004 to 30 September 2005		
	Revenue £'000	Capital £'000	Total £'000
Investment management fee	218	657	875
<b>Total</b>	<b>218</b>	<b>657</b>	<b>875</b>

Further details of the management agreement under which the investment management fee is paid are given in the Report of the Directors.

6. Administrative expenses

	19 May 2004 to 30 September 2005 £'000
Directors' fees (including VAT and NIC)	95
Auditors' remuneration - audit fees	15
Tax services	10
Other administrative expenses	73
<b>Total</b>	<b>193</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**7. Directors' fees**

**19 May 2004 to  
30 September 2005  
£'000**

Directors' fees	88
National insurance and VAT	7
<b>Total</b>	<b>95</b>

The amounts represent those paid to, or on behalf of Directors during the period.

**8. Tax (charge)/credit on ordinary activities**

**19 May 2004 to 30 September 2005**

	<b>Revenue £'000</b>	<b>Capital £'000</b>	<b>Total £'000</b>
Return/(loss) before taxation	1,064	(565)	499
UK corporation tax at 30%	(319)	169	(150)
<b>Factors affecting the tax charge:</b>			
Non-taxable (gain)/loss on investments	–	28	28
Tax attributable to capital expenses	(215)	215	–
Expenses charged to capital	197	(197)	–
Non-taxable income	1	–	1
Marginal relief	31	–	31
<b>Total</b>	<b>(305)</b>	<b>215</b>	<b>(90)</b>

**Notes**

- (i) Venture Capital Trusts are not subject to corporation tax on capital gains.
- (ii) Tax relief on expenses charged to capital has been determined by allocating tax relief to all expenses proportionately by reference to the applicable corporation tax rate of 30% and allocating the relief in the same ratio as expenses between revenue and capital.
- (iii) No deferred tax asset or liability has arisen in the year.
- (iv) Tax is provided at the current rate of 30 per cent.

**9. Dividends**

**19 May 2004 to  
30 September 2005  
£'000**

<b>Revenue dividends</b>	
Interim dividend for the period to 31 March 2005 of 0.65 pence*	87
Final proposed dividend of 1.35 pence	612
<b>Total</b>	<b>699</b>

\* The interim dividend of 0.65 pence per share was paid to shareholders who invested prior to 31 December 2004 and remained on the register at close of business on 1 July 2005.

The Directors have proposed a final dividend of 1.35 pence per share which, subject to shareholders approval, will be payable on 7 February 2006 to shareholders on the register on 30 December 2005.



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

10. Basic and diluted return per share

	19 May 2004 to 30 September 2005		
	Revenue	Capital	Total
Return/(loss) attributable to equity shares (£'000)	759	(350)	409
Weighted average shares in issue (number)	28,746,716	28,746,716	28,746,716
Return attributable per equity share (pence)	2.6	(1.2)	1.4

Revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends and other appropriations, in respect of shares, being the weighted average number of shares in issue during the period.

Capital return per ordinary share is based on net capital loss after taxation but before the deduction of dividends and other appropriations, based on the same number of shares as for revenue return shown above.

There are no convertible instruments, derivatives or contingent share agreements in issue for Close Income & Growth VCT PLC and hence no dilution effecting the return per share. The basic return per share is therefore the same as the diluted return per share.

11. Fixed asset investments

	Qualifying investments £'000	Non-qualifying investments £'000	Total investments £'000
<b>Valuation basis</b>			
Opening valuation	–	–	–
Purchases at cost	7,570	150	7,720
Unrealised movement	232	(26)	206
<b>Closing valuation at 30 September 2005</b>	<b>7,802</b>	<b>124</b>	<b>7,926</b>
<b>Movement in carrying value</b>			
Redemption premium and capitalised interest	114	–	114
Unrealised change in value of investments	118	(26)	92
<b>Closing movement in carrying value</b>	<b>232</b>	<b>(26)</b>	<b>206</b>
<b>Historic cost basis</b>			
Opening book cost	–	–	–
Purchases at cost	7,570	150	7,720
<b>Closing book cost</b>	<b>7,570</b>	<b>150</b>	<b>7,720</b>

12. Significant interests

The Company has interests of greater than 20% of the nominal value of the allotted shares of any class of shares in the investee companies as at 30 September 2005 as described below:

Company	Country of incorporation	Principal activity	% class and share type	% voting rights
Xceleron Limited	United Kingdom	Bio-analytical services	50% A ordinary	20.6%
Evolutions Television Limited	United Kingdom	Television post production	33% A ordinary	15.9%
Lowcostbeds.com Limited	United Kingdom	On line travel	43% A ordinary	5.9%



NOTES TO THE FINANCIAL STATEMENTS  
(continued)

13. Debtors - amounts falling due within one year

	30 September 2005 £'000
Prepayments and accrued income	127
Other debtors	43
<b>Total</b>	<b>170</b>

14. Creditors: amounts falling due within one year

	30 September 2005 £'000
Corporation tax	90
Accruals and deferred income	380
Dividend payable	612
<b>Total</b>	<b>1,082</b>

15. Called up share capital

	30 September 2005 £'000
<b>Authorised</b>	
50,000,000 shares of 50p each	<b>25,000</b>
<b>Allotted, called up and fully paid</b>	
45,362,709 shares of 50p each	<b>22,681</b>

The Company was incorporated on 19 May 2004 under the name of Jetsword Public Limited Company, with an authorised share capital of £100,000 divided into 100,000 Ordinary shares of £1 each, of which two Ordinary shares were issued, £nil paid, to the subscribers to the Memorandum and Articles of Association.

The Company changed its name to Close Income & Growth VCT PLC by special resolution taking effect on 16 June 2004.

By ordinary and special resolutions passed on 2 July 2004, the share capital was sub-divided into shares of 50p each and the authorised share capital was increased to £25,000,000, by the creation of 49,700,000 shares.

Under the terms of the authority of the ordinary and special resolutions approved by the extraordinary general meeting on 2 July 2004, during the period, 45,362,709 shares of 50 pence each, with a total nominal value of £22,681,355 were allotted in accordance with the terms of the Offer for Subscription dated 3 August 2005. These were issued at a premium of 50 pence each. These shares were admitted to the Official List of the UK Listing Authority on allotment.

Schedule of allotment of Ordinary shares of nominal value 50 pence

Date of allotment	Number of shares allotted	Aggregate nominal value allotted £'000	Aggregate consideration received net of issue costs £'000
5 October 2004	3,218,268	1,609	3,041
3 November 2004	2,779,942	1,390	2,627
30 November 2004	2,706,021	1,353	2,557
30 December 2004	4,618,906	2,309	4,364
10 January 2005	2,000	1	2
31 January 2005	3,682,869	1,841	3,479
28 February 2005	6,131,368	3,066	5,795
4 April 2005	22,223,335	11,112	21,002
<b>Total</b>	<b>45,362,709</b>	<b>22,681</b>	<b>42,867</b>



## NOTES TO THE FINANCIAL STATEMENTS

(continued)

**16. Share premium account**

On 1 September 2005, the Company registered the Court Order dated 24 August 2005, which cancelled the whole of the share premium account amounting to £20,186,405 as at 24 August 2005. The purpose of the cancellation was to enable the Company to fund purchases of its own shares, to enable the Company to offset the effects of unrealised losses on future dividends, and subject, only to the Company revoking its status as an investment company, for any other purpose.

**17. Reserves**

	Share premium £'000	Special reserve £'000	Capital realised £'000	Capital unrealised £'000	Revenue reserve £'000	Total reserves £'000
<b>Opening reserves</b>	–	–	–	–	–	–
Issue of equity	22,681	–	–	–	–	22,681
Issue costs of equity	(2,495)	–	–	–	–	(2,495)
Management fees	–	–	(657)	–	(218)	(875)
Taxation	–	–	215	–	(305)	(90)
Movement in valuations	–	–	–	92	–	92
Distributions	–	–	–	–	(699)	(699)
Shareholder return before management fees and taxation	–	–	–	–	1,282	1,282
Cancellation of share premium account	(20,186)	20,186	–	–	–	–
<b>Closing reserves at 30 September 2005</b>	<b>–</b>	<b>20,186</b>	<b>(442)</b>	<b>92</b>	<b>60</b>	<b>19,896</b>

**18. Net asset value per share**

	<b>30 September 2005</b>
Net assets attributable to shareholders (£'000)	42,577
Ordinary shares of 50p in issue (number)	45,362,709
<b>Net asset value per Ordinary share (pence)</b>	<b>93.9</b>

**Movement attributable to the net asset value**

	<b>30 September 2005</b>
	<b>£'000</b>
Opening net assets	–
Capital subscribed net of issue costs	42,867
Total return/(loss) for the period	409
Dividends appropriated	(699)
<b>Closing net assets attributable to shareholders</b>	<b>42,577</b>

**19. Analysis of changes in cash during the year**

	<b>30 September 2005</b>
	<b>£'000</b>
Opening cash balances	–
Net cash inflow	35,563
<b>Closing cash balances</b>	<b>35,563</b>



## NOTES TO THE FINANCIAL STATEMENTS

(continued)

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

	19 May 2004 to 30 September 2005 £'000
Net revenue before taxation	1,064
Investment management fees charged to capital	(657)
Increase in operating debtors	(170)
Increase in operating creditors	380
Increase in redemption premium	(114)
<b>Net cash inflow from operating activities</b>	<b>503</b>

### 21. 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 or variable 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 period.

#### Interest rate risk

The Company's policy is to accept a degree of interest rate risk on investments and other assets. On the basis of the Company's analysis, it is estimated that a fall of one percentage point in interest rates would have reduced revenue return on ordinary activities before tax for the period to 30 September 2005 by approximately 34 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 (which are all denominated in sterling) is as follows:

Currency	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000	Total £'000
Equity	–	–	3,048	3,048
Loan stock	4,032	846	–	4,878
Debtors	–	–	170	170
Cash	–	35,563	–	35,563
<b>Total assets</b>	<b>4,032</b>	<b>36,409</b>	<b>3,218</b>	<b>43,659</b>

- Fixed rate assets bear interest at rates based on predetermined yield targets. The weighted average interest rate at 30 September 2005 was 13.9%.
- Floating rate assets bear interest at rates based predominantly on LIBOR rates.
- The weighted average period to maturity for the fixed rate assets is approximately 4.6 years.

#### Financial liabilities

The Company's financial liabilities comprise only non-interest bearing instruments.



**NOTES TO THE FINANCIAL STATEMENTS**  
(continued)

**21. Financial instruments and risk management (continued)**

**Currency exposure**

As at 30 September 2005, the Company has no foreign currency exposure.

**Borrowing facilities**

The Company has no borrowing facilities.

**Fair values of financial assets and financial liabilities**

All the Company's financial assets and liabilities as at 30 September 2005 are stated in accordance with the revised BVCA guidelines which, in the Directors' opinion, represent fair value. See note 2 to the financial statements.

**22. Contingencies, guarantees and financial commitments**

There are no contingencies, guarantees and financial commitments of the Company at the period end which have not been accrued for, except those funds scheduled for investment as detailed in note 23 below. There is a third party charge of deposit dated 31 January 2005, granted to The Royal Bank of Scotland plc relating to a loan facility advanced by the Bank to an investee company. As at 30 September 2005, as a result of a refinancing, the funds held within the specific account were £nil as was the sum owing with regard to this charge.

**23. Post balance sheet events**

The following investments have completed since 30 September 2005:

- 18 October 2005, a further investment of £175,000 was made in GB Pub Company VCT Limited;
- 20 October 2005, £1,000,000 was invested in Tower Bridge Health Club Limited;
- 21 November 2005 £270,000 was invested in The Rutland Pub Company Limited;
- 25 November 2005 £390,000 was invested in The Dunedin Pub Company VCT Limited; and
- 28 November 2005, a further investment of £220,000 was made in Churchill Taverns VCT Limited.



## NOTICE OF MEETING

Notice is hereby given that the annual general meeting of Close Income & Growth VCT PLC will be held at 2.30pm on 31 January 2006 at 10, Crown Place, London EC2A 4FT for the purpose of dealing with the following business, of which item 6 is special business.

### Ordinary Business

1. To receive and adopt the accounts and the reports of the Directors and Auditors for the period from 19 May 2004 to 30 September 2005.
2. To approve the Directors' remuneration report.
3. To reappoint Deloitte & Touche LLP as auditors for the ensuing year and to authorise the Directors to fix their remuneration.
4. To re-elect Friedrich Ternofsky as a Director of the Company.
5. To approve a final revenue dividend of 1.35 pence per share payable to Shareholders on the register at the close of business on 30 December 2005.

### Special Business

6. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 50p in the capital of the Company ("Shares") provided that:

- (a) the maximum aggregate number of Shares authorised to be purchased is 4,536,271 (representing approximately 10 per cent of the issued share capital);
- (b) the minimum price which may be paid for a Share is 50p;
- (c) the maximum price that may be paid on the exercise of this authority will not exceed the higher of (a) 105 per cent of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;
- (d) this authority expires at the conclusion of the next annual general meeting of the Company or eighteen months from the date of the passing of this resolution whichever is earlier; and
- (e) the Company may make a contract or contracts to purchase Shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Shares in pursuance of any such contract or contracts.

By order of the Board

### Close Venture Management Limited

Secretary

Registered Office:  
10 Crown Place  
London EC2A 4FT

Date: 20 December 2005



## NOTICE OF MEETING

(continued)

### Notes

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.
3. The register of interests of Directors kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open and available for inspection at the meeting.
4. No Director has a service contract or contract for services with the Company.
5. The Company pursuant to Regulation 34 of the Uncertified Securities Regulations 1995 specifies that only those shareholders registered in the register of members of the Company as at 2.30 pm on 29 January 2006, or in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at this meeting in respect of the number of shares registered in their name at that time. Changes to the entries on the relevant register of members after 2.30pm on 29 January 2006, or in the event that this meeting is adjourned, in the register of members 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.
6. Copies of the Company's existing Articles of Association are available at the Company's registered office during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until close of business on 29 January 2006 and will be available for inspection at the place of meeting for at least 15 minutes before and during the meeting, until the close of the meeting.



Close Income & Growth VCT PLC