Close Enterprise VCT plc

Initial Report and Accounts
for the period from 7 November 2006 to 30 September 2007

closeventures

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COMPANY INFORMATION

Company number	05990732
Directors	M Packe, Chairman Lady Balfour of Burleigh Lord St. John of Bletso P Reeve
Investment manager	Close Ventures Limited 10 Crown Place London, EC2A 4FT Tel: 020 7422 7830 Fax: 020 7422 7849 www.closeventures.co.uk enquiries@closeventures.co.uk
Secretary and registered office	Close Ventures Limited 10 Crown Place London, EC2A 4FT
Registrar	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield, HD8 0LA
Shareholder assistance	Tel: 0870 162 3124 Fax: 0870 162 3199 Email:shareholder.service@capitaregistrars.com
Registered auditors	Deloitte & Touche LLP Hill House 1 Little New Street London, EC4A 3TR
Taxation adviser	Ernst & Young LLP 1 More London Place London, SE1 2AF
Custodian	Capita Trust Company Limited 7th floor, Phoenix House 18 King William Street London, EC4N 7HE
Lawyers	Berwin Leighton Paisner Adelaide House London Bridge London, EC4R 9HA

Close Enterprise VCT PLC is a member of the Association of Investment Companies.

FINANCIAL HIGHLIGHTS

	30 September 2007
Net asset value per share (pence)(i)	95.2

Notes

(i) Compares to the net asset value per share of 94.5 pence (after costs) immediately following the closing of the 2006/2007 Offer.

The Directors have declared a revenue dividend of 0.7 pence per Share to be paid on 28 December 2007 to shareholders on the register as at 30 November 2007.

FINANCIAL CALENDAR

Annual General Meeting	19 December 2007
Record date for first dividend	30 November 2007
Payment of first dividend	28 December 2007
Announcement of final results for the period ended 31 March 2008	July 2008
Payment of first dividend for the year ended 31 March 2009	July 2008

CHAIRMAN'S STATEMENT

Introduction
Close Enterprise VCT PLC (the "Company") raised £19.8 million under the Offer for Subscription which closed at the beginning of April 2007. This was a pleasing result in a tighter VCT fundraising market.

The Company aims to provide investors with a regular and predictable source of income, combined with the prospect of longer term capital growth. The Company intends to achieve this by investing broadly 50 per cent. of the net funds raised under the Offer in lower risk, asset-based businesses, principally operating in the leisure sector and related areas. The balance of the net funds raised will be invested in higher growth businesses across a variety of sectors of the UK economy. These will range from lower risk, income producing businesses to higher risk, technology companies.

This document covers the initial accounts of the Company for the period from 7 November 2006, being the date of the Company's formation, to 30 September 2007. The accounts need to be audited and filed with the Registrar since the Company will be paying out its first dividend.

Investment progress
I am pleased to report that investment progress is proceeding according to plan. By 30 September 2007, a total of £2.4 million had been invested in seven businesses, while by 31 October 2007, the figure had grown to £2.8 million in eight businesses. At this early stage the portfolio is broadly split 40:60 between asset-based businesses in the leisure sector and higher growth companies. Over time it is expected that the split will be broadly equal.

Investments in asset-based businesses in the leisure sector comprise Churchill Taverns VCT Limited and Bravo Inns Limited, two operators of freehold pubs and CS (Norwich) Limited, an operator of a cinema based in Norwich. Investments in the higher growth portfolio comprise Point 35 Microsystems Limited, a semiconductor equipment company, Oxsensis Limited, a high temperature sensor developer, Process Systems Enterprise Limited, a process modeling business and Resort Hoppa, a travel business providing resort transfers. In addition, after the period end, an investment was made in MiPay Limited, a developer of software and systems for mobile phone payments and top ups.

Future prospects and further fundraising
The build up of the investment portfolio is encouraging and the Company is now 14.6% invested for the purposes of reaching the 70% investment level which the Company must reach by 31 March 2010 to comply with the HMRC VCT qualification rules.

The Company is now launching a Further Offer of Ordinary shares to raise up to an additional £20 million. The new shares will rank pari passu with the existing shares, except for no entitlement to the first dividend for the year to 31 March 2009. This will enable further growth and diversification of the Company's investment portfolio, as well as creating greater economies of scale, due to the spreading of fixed and semi-fixed overheads.

Risks and Uncertainties
As required under the new Listing Rules under which your Company operates, we are required to comment on the potential risks and uncertainties which could have a material impact over the VCTs performance over the remaining six months of the financial period. The key risk is the outlook for the UK economy which, while currently still growing, could be affected by the current unease in the wholesale financial and housing markets. While this could give rise to additional investment opportunities for a cash rich fund like ourselves, a downturn could affect existing investee companies and make it harder for the Manager to assess the prospects of new investment opportunities.

Results and dividend
As at 30 September 2007 the net asset value of the Company was £18.85 million, equivalent to 95.2 pence per share. Net revenue income attributable to shareholders was £285,000 for the period enabling the Board to declare a first dividend of 0.7 pence per share. The dividend will be paid on 28 December 2007 to those shareholders on the register as at 30 November 2007.

P Reeve 16 November 2007
Director

THE BOARD OF DIRECTORS

The following are the Directors of the Company. They operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Board has extensive experience of investment, including in smaller unquoted companies. The Board, with the exception of Patrick Reeve who is managing director of the Manager, has confirmed that it will act independently of the Manager at all times.

Maxwell Packe FCA (62) *(Chairman)* is chairman of Personal Injury Medical Services Limited and Schroder UK Mid & Small Cap Fund plc. Since 1996 he has been chairman of a number of private equity-backed companies with successful trade sales, including Crestacare PLC, Corgi Classics Limited and Paragon Book Services Limited. Previously he was founder and chief executive of Household Mortgage Corporation PLC from 1986 until its sale in 1996 to Abbey National Plc. Mr Packe was previously chairman of Murray VCT 2 PLC (which subsequently merged with Murray VCT PLC and Murray VCT 3 PLC and renamed as Crown Place VCT PLC). Maxwell Packe joined the Board of Directors on 28 November 2006.

Lady Balfour of Burleigh (62) is a non-executive director of Scottish American Investment Company plc, Scottish Oriental Smaller Companies Trust plc, Stagecoach Group plc and Murray International Trust plc. She is also chairman of the Nuclear Liabilities Fund. She was formerly a director of Cable and Wireless plc, Midland Electricity plc and WH Smith plc. Lady Balfour became a member of the Board of Directors on 28 November 2006.

Lord Anthony St John of Bletso (50) is a qualified solicitor and Chairman of Equest Balkan Properties plc, an AIM listed property fund focussed on the Balkans, as well as Spiritel plc, a telecommunications services and solutions provider. He acts as a consultant to Merrill Lynch and 2e2, a provider of mission critical IT services and solutions. He is also Chairman of the Governing Board of Certification International and Eurotrust International. Anthony has been a Crossbench Member of the House of Lords since 1979 and an extra Lord-in-Waiting to HM The Queen since 1999. He serves on several EU Select Committees. Lord Anthony St. John of Bletso joined the Board of Directors on 28 November 2006.

Patrick Reeve MA ACA (47) 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 plc 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 Ventures Limited with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996 and is a director of Close Brothers Protected VCT PLC, Close Income & Growth VCT PLC and Close Technology & General VCT PLC, all of which are managed by Close Ventures Limited. Patrick Reeve became a member of the Board of Directors on 7 November 2006.

THE MANAGER

Close Ventures Limited, a subsidiary of Close Brothers Group plc is authorised and regulated by the Financial Services Authority, and is the Manager of Close Enterprise VCT PLC. In addition to Close Enterprise VCT PLC it manages a further six VCTs and has total funds under management of £250 million.

Close Ventures Limited won the awards "VCT Manager of the Year" at the 2005 and 2006 Growth Company Awards and "Best VCT Provider" category in the Professional Adviser Awards in 2005 and in 2006.

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 Venture Capital Trusts managed by Close Ventures Limited:

Patrick Reeve, (47), *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 plc 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 Ventures Limited with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996 and is a director of Close Brothers Protected VCT PLC, Close Income & Growth VCT PLC and Close Technology & General VCT PLC, all of which are managed by Close Ventures Limited.

Isabel Dolan, (42), *ACA, MBA,* is Operations Director of Close Ventures Limited having previously been Finance Director for a number of unquoted companies. From 1993-1997 she was Head of Recoveries at the Specialised Lending Services of the Royal Bank of Scotland plc and from 1997-2001 she was a Portfolio Director at 3i plc. She joined Close Ventures Limited in 2005.

Andrew Elder, (36), *MA, FRCS*. After qualifying as a surgeon he practised for six years, specialising in neurosurgery before joining the Boston Consulting Group as a consultant in 2001 specialising in healthcare strategy. He joined Close Ventures Limited in 2005.

Will Fraser-Allen, (37), *BA (Hons), ACA* is Deputy Managing Director of Close Ventures Limited and qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Ventures Limited in 2001.

Emil Gigov, (37), *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 Ventures Limited in 2000.

David Gudgin, (34), *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, responsible for investing an evergreen fund of US$80 million, before joining Close Ventures Limited in 2005.

Michael Kaplan, (31), *BA, MBA.* After graduating from the University of Washington in 1999 with a BA in International Finance, he joined Marakon Associates as an Analyst. In 2000, he became the Chief Financial Officer of Widevine Technologies, a security software company based out of Seattle. Then, after graduating with his MBA from INSEAD, in 2004 he joined The Boston Consulting Group focusing on the retail and financial services industries. He joined Close Ventures Limited in 2007.

THE MANAGER
(continued)

Ed Lascelles, (31), *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 Ventures Limited in 2004.

Henry Stanford, (42), *MA, ACA*, qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group plc in 1992. He transferred to Close Ventures Limited in 1998.

Robert Whitby-Smith, (32), *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 Ventures Limited in 2005.

Marco Yu (30), *MA, MRICS*, qualified as a chartered surveyor with Bouygues Construction in 2004 and subsequently joined EC Harris to provide technical advisory services to senior lenders on leisure, health, education and residential property developments. He joined Close Ventures Limited in 2007.

PORTFOLIO OF INVESTMENTS

The following is a summary of the qualifying investments as at 30 September 2007.

Qualifying investments **Investee company**	**Investment at cost £'000**	**Cumulative movement in carrying/fair value[(1)] £'000**	**Total carrying/fair value £'000**
Asset-based leisure investments			
Bravo Inns Limited	750	3	753
Churchill Taverns VCT Limited	220	7	227
CS (Norwich) Limited	100	–	100
Total asset-based leisure investments	**1,070**	**10**	**1,080**
High growth unquoted investments			
Oxsensis Limited	380	–	380
Point 35 Microsystems Limited	384	–	384
Process Systems Enterprise Limited	295	–	295
Resort Hoppa	270	–	270
Total high growth unquoted investments	**1,329**	**–**	**1,329**
Total qualifying investments	**2,399**	**10**	**2,409**

(1) Included in this movement is positive movement in fair value of equity instruments of £2,000 and positive movement in carrying value of loans and receivables of £8,000.

PORTFOLIO OF INVESTMENTS (continued)

The following is a summary of the non-qualifying investments as at 30 September 2007.

Non-qualifying investments		**Investment at cost £'000**	**Cumulative movement in carrying/ fair value £'000**	**Total carrying/ fair value £'000**
Nationwide FRN 07/06/2010		1,497	–	1,497
Total non-qualifying investments		**1,497**	**–**	**1,497**
Total investments		**3,896**	**10**	**3,906**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Initial Report and Accounts. The Directors have chosen to prepare the initial accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view in accordance with UK GAAP of the state of affairs of the Company at the end of the period and of the profit and loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and 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 to 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 systems of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that the Initial Report and Accounts comply with the above requirements.

This disclosure is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The Directors are responsible for ensuring that any electronic publication or distribution of financial information properly presents the financial information and for the controls over, and security of, the website. The Directors are also responsible for establishing and controlling the process for electronically distributing annual reports and other information.

By order of the Board

Close Ventures Limited
as Company Secretary

16 November 2007

REPORT OF THE INDEPENDENT AUDITOR TO THE DIRECTORS OF CLOSE ENTERPRISE VCT PLC UNDER SECTION 273(4) OF THE COMPANIES ACT 1985

We have audited the initial accounts of Close Enterprise VCT PLC for the period from 7 November 2006 to 30 September 2007 which comprise the income statement, the balance sheet, the cash flow statement, the statement of the reconciliation of movement in shareholder's funds and the statement of accounting policies and the related notes 1 to 21. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Company in accordance with section 273(4) of the Companies Act 1985. Our work has been undertaken so that we might state to the Company those matters that we are required to state to it in an auditors' report on initial accounts 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 that we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the initial accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the initial accounts in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether those initial accounts give a true and fair view and have been properly prepared within the meaning of section 273 of the Companies Act 1985.

We read the other information contained in the initial report and accounts as described in the contents section, and consider whether it is consistent with the audited initial accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the initial accounts. Our responsibilities do not extend to any further information outside the initial report and accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the initial accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and its total return for the period from 7 November 2006 to 30 September 2007, and have been properly prepared in accordance with section 273 of the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
16 November 2007

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.

INCOME STATEMENT
for the period from 7 November 2006 to 30 September 2007

	Notes	Revenue £'000	Capital £'000	Total £'000
Gains on investments	3	–	2	2
Investment income	4	547	–	547
Investment management fees	5	(60)	(179)	(239)
Other expenses	6	(92)	–	(92)
Return/(loss) on ordinary activities before tax		395	(177)	218
Tax (charge)/credit on ordinary activities	7	(110)	58	(52)
Return/(loss) attributable to equityholders		285	(119)	166
Basic and diluted return/(loss) per share (pence)	9	1.4	(0.6)	0.8

All of the Company's activities derive from continuing operations.

The accompanying notes on pages 16 to 24 form an integral part of these financial statements.

There are no comparative year figures, since this is the first period of trading of the Company. The Company was incorporated on 7 November 2006 and commenced trading activities on 5 April 2007.

The total column of this Income Statement represents the profit and loss account of the Company. The supplementary revenue and capital columns have been prepared in accordance with the Association of Investment Companies' Statement of Recommended Practice.

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

BALANCE SHEET
as at 30 September 2007

	Notes	£'000
Fixed asset investments		
Qualifying		2,409
Non-qualifying		1,497
Total fixed asset investments	10	3,906
Current Assets		
Debtors	11	482
Cash at bank		14,688
		15,170
Creditors: amounts falling due within one year	12	(226)
Net current assets		14,944
Net assets		**18,850**
Capital and reserves		
Called up share capital	13	9,897
Special reserve	14	8,787
Realised capital reserve		(121)
Unrealised capital reserve		2
Revenue reserve		285
Total shareholders' funds		**18,850**
Net asset value per share (pence)	15	**95.2**

The interim information on pages 12 to 24 were approved by the Board of Directors on 16 November 2007.

Signed on behalf of the Board of Directors by

P Reeve
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the period from 7 November 2006 to 30 September 2007

	Called up share capital £'000	Share premium £'000	Special reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000	Total £'000
As at 7 November 2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of share capital	9,897	9,897	–	–	–	–	19,794
Issue costs	–	(1,089)	–	–	–	–	(1,089)
Cost of cancellation of share premium account	–	(21)	–	–	–	–	(21)
Cancellation of share premium account	–	(8,787)	8,787	–	–	–	–
Capitalised investment management and performance fees	–	–	–	(179)	–	–	(179)
Tax relief on costs charged to capital	–	–	–	58	–	–	58
Unrealised gains on investments	–	–	–	–	2	–	2
Revenue return attributable to shareholders	–	–	–	–	–	285	285
As at 30 September 2007	**9,897**	**–**	**8,787**	**(121)**	**2**	**285**	**18,850**

CASH FLOW STATEMENT
for the period from 7 November 2006 to 30 September 2007

	Note	£'000
Operating activities		
Investment income received		33
Deposit interest received		330
Investment management fees paid		(131)
Other cash payments		(40)
Net cash inflow from operating activities	16	192
Capital expenditure and financial investments		
Monies held with solicitors		(300)
Purchase of investments		(3,888)
Net cash outflow from investing activities		(4,188)
Net cash outflow before financing		(3,996)
Financing		
Issue of ordinary share capital		19,794
Expenses of issue of ordinary share capital		(1,110)
Net cash inflow from financing		18,684
Cash inflow in the year		**14,688**

NOTES TO THE INITIAL ACCOUNTS
for the period from 7 November 2006 to 30 September 2007

1. Accounting convention

The initial accounts have been prepared in accordance with the historical cost convention, modified to include the revaluation of investments, 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 ("AITC") in January 2003 and revised in December 2005. The particular accounting policies adopted are described below.

2. Accounting policies

Investments

In accordance with FRS 26 "Financial Instruments Measurement", equity investments are designated as fair value through profit or loss ("FVTPL"). The total column of the Income Statement represents the Company's profit and loss account. Unquoted investments' fair value is determined by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Fair value movements on equity investments and gains and losses arising on the disposal of investments are reflected in the capital column of the Income Statement in accordance with the AITC SORP.

Unquoted loan stock is classified as loans and receivables in accordance with FRS 26 and carried at amortised cost using the Effective Interest Rate method ("EIR"). Movements in the amortised cost relating to interest income are reflected in the revenue column of the Income Statement and movements in respect of capital provisions are reflected in the capital column of the Income Statement. Loan stock accrued interest is recognised in the Balance Sheet as part of the carrying value of the loans and receivables at the end of each reporting period.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of an investment.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore in accordance with the exemptions under FRS 9 "Associates and joint ventures", those undertakings in which the Company holds more than 20% of the equity are not regarded as associated undertakings.

Investment income

Dividends receivable on equity investments are taken to revenue on an ex-dividend basis. Fixed returns on debt securities are recognised on a time apportionment basis using an effective interest rate over the life of the financial instrument.

Investment management fees and other expenses

All expenses have been accounted for on an accruals basis. Expenses are charged through the revenue account except the following which are charged through the realised capital reserve:

- 75% of Management fees and performance fees, net of corporation tax is allocated to the capital account, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75% of the Company's investment returns will be in the form of capital gains; and
- expenses which are incidental to the purchase or disposal of an investment are charged through the realised capital reserve.

NOTES TO THE INITIAL ACCOUNTS
(continued)

2. Accounting policies (continued)

Debtors and creditors

- Debtors are non-interest bearing and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The Directors consider that the carrying amount of debtors approximates their fair value.
- Creditors are non-interest bearing and are stated at their nominal value. The Directors consider that the carrying amount of creditors approximates their fair value.

Taxation

Taxation is applied on a current basis in accordance with FRS 16 “Current tax”. Taxation associated with capital expenses is applied in accordance with the SORP. In accordance with FRS 19 “Deferred tax”, 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 taxation of venture capital trusts mean that it is unlikely that any deferred tax will arise. The Directors have considered the requirements of FRS 19 and do not believe that any provision should be made.

Reserves

Realised capital reserves

The following are disclosed in this reserve:

(i) gains and losses on the realisation of investments;

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

Unrealised capital reserves

Increases and decreases in the valuation of investments held at the period end are accounted for in this reserve.

Special reserve

This reserve is distributable.

Dividends

In accordance with FRS 21 “Events after the balance sheet date”, interim dividends are not accounted for until paid, and final dividends are accounted for when approved by shareholders at an annual general meeting.

3. Gains on investments

	7 November 2006 to 30 September 2007 £’000
Unrealised gains on investments	2

NOTES TO THE INITIAL ACCOUNTS
(continued)

4. Investment income

	7 November 2006 to 30 September 2007 £'000
Loan stock interest	37
FRN interest	9
Interest receivable and similar income	501
	547

5. Investment management fees

	7 November 2006 to 30 September 2007		
	Revenue £'000	Capital £'000	Total £'000
Investments management fee	60	179	239
Total	60	179	239

6. Other expenses

	7 November 2006 to 30 September 2007 £'000
Directors' fees	37
Auditors' remuneration – audit fees	18
Other administrative expenses	37
	92

7. Tax (charge)/credit on ordinary activities

	7 November 2006 to 30 September 2007		
	Revenue £'000	Capital £'000	Total £'000
UK Corporation tax	(110)	58	(52)

NOTES TO THE INITIAL ACCOUNTS
(continued)

7. Tax (charge)/credit on ordinary activities (continued)

The tax assessed for the period is lower than the standard rate of corporation tax of 30%. The difference is explained below:

	7 November 2006 to 30 September 2007		
	Revenue £'000	**Capital £'000**	**Total £'000**
Return on ordinary activities before tax	395	(177)	218
Tax on profit at 30%	(118)	53	(65)
Factors affecting the tax charge:			
Marginal relief	8	5	13
	(110)	58	(52)

8. Dividends

The Board has declared a first revenue dividend of 0.7 pence per share, which will be paid on 28 December 2007 to members on the register as at 30 November 2007.

9. Basic and diluted return/(loss) per share

	7 November 2006 to 30 September 2007		
	Revenue £'000	**Capital £'000**	**Total £'000**
Return attributable to equity shares	285	(119)	166
Return attributable per Ordinary share (pence) (Basic and diluted)	1.4	(0.6)	0.8

Return per share has been calculated on 19,793,147 shares, being the weighted number of shares in issue for the period since the allotment of shares under the 2006/2007 Offer on 4 April 2007.

There are no convertible instruments, derivatives or contingent share agreements in issue for Close Enterprise VCT PLC hence there are no dilution effects to the return per share. The basic return per share is therefore the same as the diluted return per share.

NOTES TO THE INITIAL ACCOUNTS (continued)

10. Fixed asset investments

	Qualifying investments £'000	Non-qualifying investments £'000	Total £'000
Opening cost	–	–	–
Acquisitions	2,399	1,497	3,896
Closing cost	2,399	1,497	3,896
Unrealised gains	2	–	2
Movement in loans and receivables	8	–	8
Closing valuation	2,409	1,497	3,906

Investments held at fair value through profit or loss account total £2,905,000. Loans and receivables held at amortised cost total £1,001,000. A full list of the portfolio by their aggregate market values is set out on pages 8 and 9 of this report.

11. Debtors

	30 September 2007 £'000
Other debtors	300
Prepayments and accrued income	182
	482

12. Creditors: amounts falling due within one year

	30 September 2007 £'000
Other creditors	10
Accruals	216
	226

13. Called up share capital

	30 September 2007 £'000
Authorised:	
40,000,000 Ordinary Shares of 50p each	20,000
Allotted, called-up and fully-paid:	
19,793,147 Ordinary Shares of 50p each	9,897

NOTES TO THE INITIAL ACCOUNTS
(continued)

13. Called up share capital (continued)

The Company was incorporated on 7 November 2006, with an authorised share capital of £20,000,000 divided into 39,900,000 Ordinary Shares of 50p each and 50,000 redeemable Preference Shares of £1 each, of which two Ordinary Shares were issued to the subscribers to the Memorandum of Association.

By ordinary and special resolutions passed on 23 November 2006:

(a) the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £19,999,999, such authority to expire on 1 November 2011 (unless previously revoked, extended or varied by the Company in general meeting);

(b) the Directors were empowered (pursuant to section 95(1) of the Act) to allot or make offers or agreements to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment, such powers to expire on 1 November 2011 (unless previously revoked, extended or varied by the Company in general meeting). This power was limited to the allotment of equity securities in connection with:

   (i) the issue of 50,000 Preference Shares to Close Ventures Limited;
   (ii) the 2006/2007 Offer;
   (iii) an offer of equity securities by way of rights;
   (iv) any dividend reinvestment scheme which may be introduced by the Company;
   (v) the sale of shares out of treasury; and
   (vi) otherwise, an offer of equity securities up to an aggregate nominal amount of 10 per cent. of the issued share capital of the Company immediately following the closing of the 2006/2007 Offer;

(c) the Company was authorised to make one or more market purchases (within the meaning of section 163 (3) of the Act) of Shares provided that:
   (i) the aggregate maximum number of Shares authorised to be purchased is an amount equal to 14.99 per cent. of the Shares in issue following the Offer;
   (ii) the minimum price which may be paid for a Share is 50 pence;
   (iii) the maximum price which may be paid for a Share is the higher of (i) an amount equal to the average of 105 per cent. of the middle market prices shown in the quotations for a Share in the Official List for the five business days immediately preceding the day on which that Share is purchased; and (ii) the higher of the price of the last independent trade in Shares and the highest then current independent bid for Shares on the London Stock Exchange; and
   (iv) the authority expires on 22 May 2008.

(d) it was resolved that the amount standing to the credit of the share premium account of the Company as at the date immediately following Admission be cancelled.

On 23 November 2006, 50,000 Preference Shares were allotted and issued to Close Ventures Limited pursuant to a letter of undertaking so as to enable the Company to obtain a certificate under section 117 of the Act. The Preference Shares were redeemed by the Company out of the proceeds of the 2006/2007 Offer. Each Preference Share redeemed was automatically redesignated on redemption as, and sub-divided into, two Shares in the authorised but unissued capital of the Company.

NOTES TO THE INITIAL ACCOUNTS
(continued)

13. Called up share capital (continued)

During the period, 19,793,147 shares of 50 pence each with a total nominal value of £9,896,574 were allotted in accordance with the terms of the Offer for Subscription dated 23 November 2006. 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 on 5 April 2007.

14. Share premium account

On 6 July 2007, the Company registered the Court Order dated 4 July 2007, which cancelled the whole of the share premium account as at 4 July 2007. The purpose of the cancellation was to enable the Company to offset the effects of unrealised losses on future dividends. For that effect, the Company created a special reserve, which is distributable.

15. Net asset value per Ordinary Share

	30 September 2007	
	Net asset value per share pence	**Net assets £'000**
Ordinary Shares	95.2	18,850

The number of shares used in this calculation is 19,793,147.

16. Reconciliation of net return on ordinary activities before taxation to net cash inflow from operating activities

	7 November 2006 to 30 September 2007 £'000
Revenue return on ordinary activities before taxation	395
Investment management fee charged to capital	(179)
Movement in accrued amortised loan stock interest	(8)
Increase in debtors	(182)
Increase in creditors	166
Net cash inflow from operating activities	192

17. Financial instruments and risk management

The Company's financial assets comprise equity and loan stock investments in unquoted companies, cash balances, floating rate notes and short term debtors which arise from its operations. The main purpose of these financial assets is to generate revenue and capital appreciation for the Company's operations. The Company has no financial liabilities other than short term creditors. The Company does not use any derivatives.

The principal risks arising from the Company's operations are:

- market and investment price risk (which includes fair value interest rate risk and credit risk);
- liquidity risk; and
- cash flow interest rate risk.

NOTES TO THE INITIAL ACCOUNTS
(continued)

17. Financial instruments and risk management (continued)

The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below:

Market price risk

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio in unquoted and in quoted investments, details of which are shown on pages 8 to 9. The Manager monitors this risk on an ongoing basis, and the Board reviews these risks on a formal basis when investments are made and at Board meetings.

Investment price risk

As a venture capital trust, it is the Company's specific business to price, evaluate and control the investment risk in its portfolio of investments, the results of which are detailed in the Chairman's statement on page 4. To mitigate investment risk, the investment strategy of the Company is to invest in a broad spread of industries with a large proportion of the investment comprising debt securities, which, owing to the structure of their yield, have a lower level of price volatility than equity. Details of the categories in which investments have been made are contained in the Portfolio of Investments section on pages 8 to 9.

Fair value interest rate risk

The majority of investments are unquoted and hence not subject to market movements as a result of interest rate movements. The floating rate note held by the Company is subject to this risk.

Credit risk

The Manager evaluates credit risk on loan stock instruments prior to investment, and as part of its ongoing monitoring of investments. Typically loan stock instruments have a first charge over the assets of the investee company. In this way, the Manager seeks to limit credit risk to the Company. The Company's credit risk is limited to the total carrying value of loan stock instruments and the fair value of floating rate notes of £2,498,000.

Liquidity risk

The Company had no committed borrowing facilities as at 30 September 2007 and had cash balances of £14,688,000. The main cash outflows are for investments, which are within the control of the Company. In view of this, the Company is subject to low liquidity risk.

Cash flow interest rate risk

It is the Company's policy to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes.

On the basis of the Company's analysis, it is estimated that a fall of one percentage point in all interest rates would have reduced profits before tax for the period by approximately 28.45%.

The weighted average interest rate applied to the Company's unlisted fixed rate assets during the year was approximately 12.79%. The weighted average period to maturity for the unlisted fixed rate assets is approximately 4.71 years.

Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 30 September 2007 are stated at fair value as determined by the Directors, with the exceptions of loans and receivables, which are carried at amortised cost, in accordance with FRS 26. In the opinion of the Directors, the amortised cost of loan stock approximates to the fair value of the loan stock. See note 2 of the financial statements for accounting policies.

NOTES TO THE INITIAL ACCOUNTS
(continued)

17. Financial instruments and risk management (continued)

The Company's financial assets as at 30 September 2007, all denominated in pounds sterling, consist of the following:

	30 September 2007			
	Total £'000	Fixed interest £'000	Floating rate £'000	Non-interest bearing £'000
Sterling				
Listed	1,497	–	1,497	–
Unlisted	2,409	1,001	–	1,408
Cash and other assets	15,170	10,000	4,988	182
	19,076	11,001	6,485	1,590

The maturity value of loan stock investments held at amortised cost is as follows:

	£'000
Less than one year	–
1-2 years	–
2-3 years	–
3-5 years	1,001
More than 5 years	–
Total	1,001

The Company's financial liabilities are all non-interest bearing. It is the Directors' opinion that the fair value of the financial liabilities approximates their book value.

18. Contingencies, guarantees and financial commitments

The Company has no contingencies or guarantees as at 30 September 2007.

19. Post balance sheet events

- Invested £340,000 in MiPay Limited
- Invested £40,000 in Churchill Taverns VCT Limited

20. Related party transactions

The Manager, Close Ventures Limited, is considered to be a related party by virtue of the fact that it is a party to a management contract from the Company. During the period, services of a total value of £239,000 (including VAT) were purchased by the Company from Close Ventures Limited. At the financial year end, the amount due to Close Ventures Limited disclosed as accruals and deferred income was £107,000.

21. Publication

This Initial Report and Accounts is being sent to shareholders and copies will be made available to the public at the registered office of the Company, Companies House, via the FSA viewing facility, and at www.closeventures.co.uk.

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