



Close Income & Growth VCT PLC



Report & Financial Statements
for the year ended 30 September 2006



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DIRECTORS AND ADMINISTRATION

Company number	05132495
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 Ventures Limited 10 Crown Place London EC2A 4FT Tel: 020 7422 7830
Secretary and Registered Office	Close Ventures Limited 10 Crown Place London EC2A 4FT
Registrar	Capita Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Shareholder helpline	Tel: 0870 162 3124
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

Close Income & Growth VCT PLC is a member of the Association of Investment Companies.



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

- 45% to be invested in higher growth unquoted businesses, including early stage technology;
- 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

	Year ended 30 September 2006	Period ended 30 September 2005 (restated*)
Total return per share (pence)	1.4	1.4
Total dividends per share (pence)	3.25	0.65
Net asset value per share (pence)	94.0	95.2
Shareholder value since launch	pence per share	pence per share
Total dividends paid during the period ended 30 September 2005 (i)	0.65	0.65
Total dividends paid during the year ended 30 September 2006	2.60	–
Total dividends paid to 30 September 2006	<u>3.25</u>	<u>0.65</u>
Net asset value as at 30 September 2006	<u>94.00</u>	<u>95.20</u>
Total cumulative shareholder value as at 30 September 2006	<u>97.25</u>	<u>95.85</u>

In addition to the dividends paid above the Board has declared a dividend of 1.75 pence per share to be paid on 19 January 2007 for those shareholders on the register on 22 December 2006.

* in accordance with FRS 21, dividends are now accounted for during the year in which paid, or agreed by shareholders in general meeting.

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 dividend date for first dividend	20 December 2006
Record date for first dividend	22 December 2006
Annual General Meeting	1 February 2007
Payment of first dividend	19 January 2007



CHAIRMAN'S STATEMENT

Overview

I am pleased to say that your Company continues to make progress with its aim of providing investors with a regular and predictable source of income combined with the prospect of longer term capital growth. The level of income for the year to 30 September 2006 shows further growth, resulting in a revenue return per share of 2.9 pence, compared with our target of 3.5 pence per share once the Company is fully invested. Net asset value per share at the year end was 94 pence, with the investment portfolio as a whole still valued broadly at cost, which is what we would expect at this relatively early stage in the Company's life.

Investment progress

During the year approximately £7 million was invested in 13 companies, of which 10 were new to the portfolio. As at the date of this document, including amounts reserved for investment in existing investee companies, the Company is 42.5% invested, and given the pipeline of investments in progress, we are confident of reaching the required 70% investment level by October 2007.

The investment portfolio now comprises some 22 companies which are split broadly equally between asset-based businesses in the leisure sector and growth companies. Certain companies within the portfolio are showing particularly strong prospects. These include Xceleron, whose world leading services to the drug development industry have shown sufficiently strong growth to justify a further investment of £500,000 after the year end to fund an expansion of its facilities, and Lowcosttravelgroup, where current bookings are running in excess of four and a half times the level at the time of our investment last year. Against this, provision is being taken against some of our investments, including Evolutions, the television post-production company, where strong growth slowed earlier in the year, and RedM Group, which saw a restructuring and refocusing of the business.

Our first spin-out investment from Brunel University, FlexNLock, is progressing according to plan and we anticipate reviewing further opportunities together in due course. However, as the Company's investment programme has developed, we have begun to build up a promising portfolio of earlier stage technology investments from sources other than Brunel. These include Xceleron, mentioned above, which is a spin-out from York University; Dexela, which enables a potentially revolutionary approach to the imaging and screening of breast cancer; and Helveta, which provides tracking services to the hard wood timber industry to ensure a sustainable development of tropical forests. Our view, therefore, is that it is appropriate to release Brunel from its exclusivity arrangement with the Company.

New accounting standards

During the year, the Company adopted the new Financial Reporting Standards ("FRS") 21-26, which have been issued with the intention to move to more internationally consistent accounting treatment and disclosure. The effect of these changes is disclosed in full in note 3 to the financial statements.

The main effects of these changes on the accounts is to classify loan stock investments as "loans and receivables" which are valued at amortised cost, and to account for dividends during the period in which they are paid, or approved by shareholders in general meeting.

Results and dividend

As at 30 September 2006, the Net Asset Value of the company was £42,606,000 equivalent to 94 pence per share. Net revenue income attributable to shareholders was £1,327,000 for the period enabling the Board to pay a first dividend for the current year of 1.75 pence per share. This dividend will be paid on 19 January 2007 to shareholders on the register on 22 December 2006.

Future prospects

The portfolio is being built up with a good balance of investments across sectors and shows promise of future capital growth. It is now generating satisfactory levels of income and supports our aim of providing shareholders with an annual dividend from revenue profits of 3.5 pence per share once the portfolio is fully invested.

Friedrich Ternofsky
Chairman

13 December 2006



THE BOARD OF DIRECTORS

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

Friedrich Ternofsky (63)

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 Wates Group Limited, Care UK PLC, and Punch Taverns PLC, as well as a number of private companies.

Mary Anne Cordeiro (45) 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. More recently she has applied her financial and strategy expertise to the commercialisation of science and technology, and is now an executive director of FlexNlock Limited, a Brunel University spin out.

John Kerr (64) 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 Ventures Limited.

Patrick Reeve (46) MA

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

David Watkins (62) 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 Ventures Limited, and is a director of a number of private UK companies.



THE MANAGER

Close Ventures 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 five venture capital trusts, and has total funds under management of £240 million.

Close Ventures Limited won the “Best VCT Provider” category in the Professional Adviser Awards 2005 and 2006, and ‘VCT Manager of the Year’ at the 2005 and 2006 Growth Company Awards.

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

The following are specifically responsible for the management and administration of the VCTs managed by Close Ventures Limited, including Close Income & Growth VCT PLC.

Patrick Reeve, (46), 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.

Henry Stanford, (41), 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 became an assistant director in 1996 and transferred to Close Ventures Limited in 1998 to concentrate on VCT investment.

Will Fraser-Allen, (36), BA (Hons), ACA, 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, (36), 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.

Isabel Dolan, (41), ACA, MBA, is Finance 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.

David Gudgin, (33), 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 Ventures Limited in 2005.

Robert Whitby-Smith, (31), 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.

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.

Dr Andrew Elder, (36), 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 Ventures Limited in 2005.

Mark Toomey, (29), 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 Ventures Limited in 2001.



PORTFOLIO OF INVESTMENTS

The following is a summary of investments as at 30 September 2006:

Qualifying investments

Investee Company	As at 30 September 2006			As at 1 October 2005		
	Investment at cost £'000	Cumulative ⁽ⁱ⁾ movement in carrying/fair value £'000	Total carrying/fair value £'000	Investment at cost £'000	Cumulative ⁽ⁱⁱ⁾ movement in carrying/fair value £'000	Total carrying/fair value ⁽ⁱⁱⁱ⁾ £'000
Asset based leisure investments						
Tower Bridge Health Club Limited	1,075	–	1,075	–	–	–
The Weybridge Club Limited	1,000	44	1,044	1,000	(1)	999
The Bold Pub Company Limited	690	87	777	690	(2)	688
CS (Brixton) Limited	650	19	669	650	–	650
Churchill Taverns VCT Limited	640	26	666	100	–	100
G B Pub Company VCT Limited	675	(30)	645	500	(2)	498
The Rutland Pub Company Limited	610	4	614	–	–	–
The Dunedin Pub Company Limited	390	(1)	389	–	–	–
Independent Beer Company Limited	380	(76)	304	380	(2)	378
CS (Exeter) Limited	250	(8)	242	250	–	250
The Independent Pub (VCT) Company Limited	150	(45)	105	150	(26)	124
Total asset based leisure investments	6,510	20	6,530	3,720	(33)	3,687
High growth unquoted investments						
Evolutions Television Limited	2,170	(28)	2,142	2,000	186	2,186
Xceleron Limited	1,000	349	1,349	1,000	16	1,016
Blackbay Limited	1,000	28	1,028	–	–	–
RFI Global Services Limited	950	31	981	–	–	–
Lowcosttravelgroup Limited	560	211	771	560	1	561
Grosvenor Health Limited	644	41	685	440	14	454
Helveta Limited	430	1	431	–	–	–
Dexela Limited	400	–	400	–	–	–
Red-M Group Limited	467	(80)	387	–	–	–
Palm Tree Technologies Limited	235	11	246	–	–	–
FlexNLock Limited	110	–	110	–	–	–
Total high growth investments	7,966	564	8,530	4,000	217	4,217
Total qualifying investments	14,476	584	15,060	7,720	184	7,904



PORTFOLIO OF INVESTMENTS

(continued)

Non-qualifying investments

Investee Company	As at 30 September 2006			As at 1 October 2005		
	Investment at cost £'000	Cumulative ⁽ⁱ⁾ movement in carrying/fair value £'000	Total carrying/ fair value £'000	Investment at cost £'000	Cumulative ⁽ⁱⁱ⁾ movement in carrying/fair value £'000	Total carrying/ fair value ⁽ⁱⁱⁱ⁾ £'000
Non Qualifying Investments						
FRN Bank of Nova Scotia	5,002	1	5,003	—	—	—
FRN Abbey National	5,001	1	5,002	—	—	—
FRN Rabobank	5,000	1	5,001	—	—	—
FRN Citigroup	5,000	—	5,000	—	—	—
FRN Barclays Bank	5,000	(4)	4,996	—	—	—
Total non-qualifying investments	25,003	(1)	25,002	—	—	—
Total investments	39,479	583	40,062	7,720	184	7,904

- (i) Included in this movement is capital appreciation of equity instruments amounting to £96,000 (2005: £92,000) and the movement in carrying value of loans and receivables of £487,000 (2005: £92,000).
- (ii) Adjusted values as at 1 October 2005 are shown in order to adjust the valuations to a common basis under FRS 26.
- (iii) Included in this total is the accrued loan stock interest as at 1 October 2005 of £21,000, adjusted from the presentation as at 30 September 2005, as required by the adoption of FRS 26 (see note 3).



PORTFOLIO OF INVESTMENTS

(continued)

Unquoted loan stock held by the following investments is classified as loans and receivables in accordance with FRS 26 and carried at effective cost using the effective interest rate.

The top ten investments by total carrying/fair value are as follows:

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, London and three leasehold premises nearby.

Latest audited results	Year to 30 June 2005
	£'000
Turnover	2,186
PBT	(265)
Basis of valuation:	Multiple of earnings combined with a property valuation
Website:	www.evolutionstelevision.com

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.

Latest audited results	Year to 31 July 2005
	£'000
Turnover	1,784
PBT	(317)
Basis of valuation:	Value of latest investment round
Website:	www.xceleron.co.uk

Tower Bridge Health Clubs Limited

The company owns a 27 year lease for a site that has been developed into a health and fitness club in the More London development next to Tower Bridge in London.

Latest audited results	As a newly incorporated company, Tower Bridge Health Club Limited has not yet filed accounts
Basis of valuation:	The valuation is based on an independent third party valuation
Website:	www.thirtysevendegrees.co.uk

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 expected to open in May 2007.

Latest audited results	Year to 31 August 2005
	£'000
Turnover	£nil
PBT	(82)
Basis of valuation:	The investment is valued at cost plus amortised cost movements



PORTFOLIO OF INVESTMENTS

(continued)

Blackbay Limited

The company provides mobile data solutions for the logistics and field service sectors.

Latest audited results	31 December 2005
	£'000
Turnover	802
PBT	(14)
Basis of valuation:	The investment is valued at cost plus amortised cost movements
Website:	www.blackbay.com

RFI Global Services Limited

RFI provides conformance testing services to the cellular, wireless and smart card industries. Cellular testing is RFI's largest division, accounting for the majority of the Company's revenue.

Latest audited results	Year to 31 March 2006
	£'000
Turnover	12,141
PBT	2,599
Basis of valuation:	The investment is valued at cost plus amortised cost movements
Website:	www.rfi-global.com

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 20 public houses in the region, taking the total in the portfolio to 30.

Latest audited results	Year to 31 March 2006
	As a small company, The Bold Pub Company Limited is exempt from filing full accounts
Basis of valuation:	The valuation is based on an independent third party valuation in April 2006

Lowcosttravelgroup Limited

The company owns Lowcostbeds.com, an online travel business specialising in dynamic packages to the Mediterranean and the Balearic Islands.

Latest audited results	Year to 31 October 2005
	As a small company, Lowcosttravelgroup Limited is exempt from filing full accounts
Basis of valuation:	Multiple of earnings
Website:	www.lowcosttravelgroup.com



PORTFOLIO OF INVESTMENTS
(continued)

Grosvenor Health Limited

The company is a provider of occupational healthcare services to large corporates such as Qinetiq, and has since made an acquisition in the same sector.

Latest audited results	Year to 31 December 2005
	£'000
Turnover	9,990
PBT	762
Basis of valuation:	Multiple of earnings
Website:	www.grosvenorhealth.com

CS (Brixton) Limited

The five screen freehold Ritzy Cinema in Brixton was acquired by the company in August 2005.

Latest audited results	Year to 31 December 2005
	As a small company, CS (Brixton) Limited is exempt from filing full accounts
Basis of valuation:	The valuation is based on an independent third party valuation
Website:	www.picturehouses.co.uk



REPORT OF THE DIRECTORS AND BUSINESS REVIEW

The Directors submit their Annual Report and Financial Statements on the affairs of the Company for the year ended 30 September 2006.

Business Review

The principal activity of the Company is that of a venture capital trust. It was provisionally approved by H.M. Revenue & Customs as a venture capital trust in accordance with Section 842AA of the Income and Corporation Taxes Act 1988 and in the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 30 September 2006 is subject to review should there be any subsequent enquiry under corporation tax self assessment.

The Company is not a close company for taxation purposes.

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and is listed on The London Stock Exchange.

Under current tax legislation, shares in the Company provide tax free capital growth and income distribution, in addition to the income tax relief some investors would have obtained when they invested at the time of the initial fundraising.

The Company's investment strategy is to provide investors with a regular and predictable source of income combined with the prospect of long term capital growth through allowing investors the opportunity to participate in a balanced portfolio of high growth businesses, including university spin-outs, and lower risk asset-based companies. The Company has delegated the investment management of the portfolio to Close Ventures Limited, a subsidiary of Close Brothers Group plc, which is authorised and regulated by the Financial Services Authority. Close Ventures Limited also provides company secretarial and other accounting and administrative support to the Company. More detail regarding the terms of engagement of the Manager are shown on page 16.

The Directors do not foresee any major changes in the activity undertaken by the Company in the current year, as the Company continues with its objective to invest in unquoted companies throughout the United Kingdom with a view to providing both capital growth and a reliable dividend income to shareholders over the long term.

Details of the principal investments made by the Company are shown in the portfolio of investments on page 8. A detailed review of the Company's business during the year and future prospects is contained in the Chairman's Statement on page 5.

Results, dividends and performance

	£'000
Revenue return for the year ended 30 September 2006 available for distribution	1,327
First dividend paid on 7 February 2006 of 1.35 pence per share	(612)
Second dividend paid on 4 August 2006 of 1.25 pence per share	(567)
Total transferred to revenue reserve	148
Realised and unrealised capital return for the year ended 30 September 2006	(672)
Total transferred from realised and unrealised capital reserve	(672)

In addition to the above dividend, the Board has declared a dividend of 1.75 pence per share, (which will be paid on 19 January 2007 to shareholders on the register on 22 December 2006). In accordance with FRS 21, the dividend has not been accrued as a liability in these financial statements.

As shown in the Company's Income Statement on page 25 of the financial statements, the Company's income has increased to £2,406,000 from £1,475,000 in the previous year, and similarly profit after tax has improved, providing the shareholder with a basic return per share of 2.9 pence for the year to 30 September 2006 (2005: 2.6 pence per share).

The Balance Sheet on page 26 of the financial statements shows that the Company's net assets and net asset value have decreased over the last year, reflecting the payment of the revenue dividends and the ongoing costs of the Company whilst the investment portfolio remains at an immature stage.

Cashflow for the business has been negative for the period, reflecting the investment in both qualifying and non-qualifying securities.

Details of important events occurring after the balance sheet date can be found in note 22 to the financial statements on page 38.

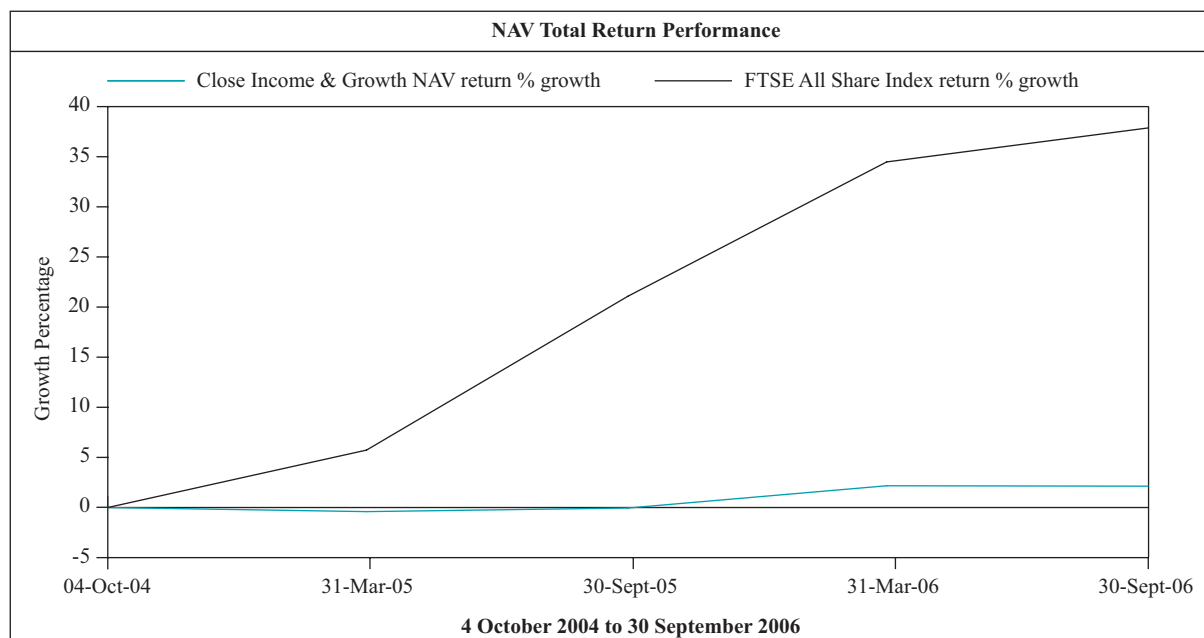


REPORT OF THE DIRECTORS AND BUSINESS REVIEW

(continued)

Key Performance Indicators

A graph of the performance of the growth of the Company's net asset value total return (the aggregate of net asset value and dividends paid to shareholders) compared with the growth in the FTSE All-Share Index is shown below;



The total expense ratio for the Company for the year to 30 September 2006 was 3.4% (2005: 2.5%). Under the terms of the management agreement, the total management and administration expenses of the Company, inclusive of any net irrecoverable VAT, but not including any Manager's performance incentive fee, are limited to a maximum of 3.5% of the value of the Company's net assets. Any excess will either be paid by the Manager, or refunded by way of deduction of management fees.

The objective of the Company is to generate a total return to shareholders of greater than 8% per annum (being net asset value plus dividends paid), over the long term. In the short term, the Board expects to be able to pay an annual dividend of 3.5 pence per share by the time that the fund becomes 70% invested in September 2007.

The dividend paid per year has risen from 0.65 pence per share for the period ended 30 September 2005, to 2.6 pence per share for the year ended 30 September 2006.

The Company operates a policy of buying back shares either for cancellation (or for holding in Treasury with effect from the forthcoming Annual General Meeting). The Manager has an objective of maintaining the discount of the share price to net asset value at below 10%.

Principal risks and uncertainties

The Board considers that the Company faces the following major risks and uncertainties;

1. Investment risk

This is the risk of investment in poor quality assets which reduce the capital and income returns to shareholders and negatively impacts on the Company's reputation. By nature, smaller unquoted businesses, such as those that qualify for venture capital trust purposes, are more fragile than larger, long established businesses.

To reduce this risk, the Board places reliance upon the skills and expertise of the Manager and their strong track record for investing in this segment of the market. In addition, the Manager operates a formal and structured investment process, which includes an Investment Committee comprising investment professionals from both the Manager and from other, independent investment businesses within the Close Brothers Group. Investments are actively and regularly monitored by the Manager (investment managers often sit on investee company boards) and the Board receives detailed reports on each investment as part of the Manager's report at quarterly board meetings.



REPORT OF THE DIRECTORS AND BUSINESS REVIEW

(continued)

Principal risks and uncertainties (continued)

2. Venture Capital Trust approval risk

The current provisional approval as a venture capital trust allows investors to take advantage of income tax reliefs on initial investment and ongoing tax free capital gains and dividend income. Failure to meet the qualifying requirements could result in investors losing the income tax relief on initial investment and loss of tax relief on any tax free income or capital gains received. In addition, failure to meet the qualifying requirements could result in a loss of listing of the shares.

To reduce this risk, the Board have appointed a Manager who has significant experience in venture capital trust management, and is used to operating within the requirements of the venture capital trust legislation. In addition, to provide further formal reassurance, the Board has appointed Ernst & Young LLP as its taxation advisors. Ernst & Young report quarterly to the Board to independently confirm compliance with the venture capital trust legislation, to highlight areas of risk and to inform on changes in legislation.

3. Compliance risk

The Company is listed on The London Stock Exchange and is required to comply with the rules of the UK Listing Authority, as well as with the Companies Act, Accounting Standards and other legislation. Failure to comply with these regulations could result in a delisting of the Company's shares, or other penalties under the Companies Act or from financial reporting oversight bodies.

Board members and the Manager have considerable experience of operating at the most senior levels within quoted businesses. In addition, the Board and the Manager receive regular updates on new regulation from its auditors, lawyers and other professional bodies.

4. Internal control risk

Failures in key controls, within the Board or within the Manager's business could put assets of the Company at risk or result in reduced or inaccurate information being passed to the Board or to shareholders.

The Audit committee meets with the Head of Internal Audit from Close Brothers Group plc at least once a year, receiving a detailed report regarding the last formal internal audit performed on the Manager, and providing the opportunity for the Audit Committee to ask specific and detailed questions. The Manager has a comprehensive business disruption plan in place in the event that operational continuity is threatened. Further details regarding the Board's management and review of the Company's internal controls through the implementation of the Turnbull guidance are detailed on page 19.

5. Financial risks

By its nature, as a venture capital trust, the Company is exposed to market price risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's policies for managing these risks are outlined in full in note 20 to the financial statements on page 37. All of the Company's income and expenditure is denominated in sterling and hence the Company has no foreign currency risk.

The Company is financed through equity and does not have any borrowings.

Environment

Management and administration of Close Income & Growth VCT PLC is undertaken by the Manager. Close Ventures Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption as shown in the financial statements of Close Ventures Limited.

Employees

The Company is managed by Close Ventures Limited and hence has no employees.



REPORT OF THE DIRECTORS AND BUSINESS REVIEW

(continued)

Directors

The biographies of Directors are shown on page 6.

The Directors who held office during the year, and their interests in the shares of the Company (including beneficial and family interests) were:

	30 September 2006	30 September 2005
	Shares held	Shares held
Friedrich Ternofsky	10,000	10,000
Mary Anne Cordeiro	4,000	4,000
John Kerr	6,000	6,000
Patrick Reeve	200,000	200,000
David Watkins	5,000	5,000

There have been no changes in the holdings of the Directors between 30 September 2006 and the date of this Report.

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

Mr P H Reeve is a Director of Close Ventures Limited and is deemed to have an interest in the management contract and management performance incentive to which the Company is a party. No options over the share capital of the Company have been granted to Directors personally.

Mr Reeve is remunerated through Close Ventures Limited and the remainder of the Directors are remunerated personally.

All Directors, with the exception of Patrick Reeve, are members of the Audit Committee, of which Mr. Kerr is the Chairman.

Directors retirement and re-election is subject to the Articles of Association and the Combined Code of Corporate Governance. At the forthcoming Annual General meeting Mary Anne Cordeiro, John Kerr and David Watkins will retire and offer themselves for re-election.

Management agreement

Under the terms of an agreement dated 2 August 2004, the Company and Close Ventures 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, company 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% 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.

Under the terms of the management agreement, the total management and administration expenses of the Company, inclusive of any net irrecoverable VAT, but not including any Manager's performance incentive fee, are limited to a maximum of 3.5% of the value of the Company's net assets. Any excess will either be paid by the Manager, or refunded by way of deduction of management fees.

The Board has evaluated the performance of the Manager and believe that it is in the Company's and in shareholders' best interests to re-appoint the Manager on the terms agreed for the current year.

Management performance incentive

In order to provide the Manager with an incentive to maximise the return to investors, the Management agreement contains the Manager's incentive fee arrangement in the event that returns exceed a minimum target level of 8% per annum (comprising dividends and net asset value); the Manager is entitled to 20% of the excess. For the year to 30 September 2006, no incentive fee became due to the Manager during the reporting period.

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 forthcoming Annual General Meeting.

Changes in accounting policies

During the year, the Company adopted the new Financial Reporting Standards issued by the Accounting Standards Board as part of the convergence with International Financial Reporting Standards. The main effect of these has been to value loan stock on an amortised cost basis, and to restate dividends so that they are now recognised during the accounting period in which they have been paid or approved by shareholders in general meeting, rather than when declared. Details of these adjustments are show in note 3 to the financial statements.



REPORT OF THE DIRECTORS AND BUSINESS REVIEW (continued)

Substantial interests

As at the year end and the date of this report, the Company has not been notified of any substantial interests in excess of 3% of the issued share capital of the Company.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the 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 year which give a true and fair view in accordance with the UK GAAP 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 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for 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.

In the case of each of the persons who are Directors of the Company at the date of approval of this report:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

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 2006 (2005: Nil).

Annual General Meeting

The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT at 11.30 a.m. on 1 February 2007. The notice of the Annual General Meeting is at the end of this document. Resolutions will be proposed as special business at the Annual General Meeting for the following purposes:

Power to allot shares

Ordinary resolution number 7 in the notice of the meeting will request the authority to allot up to 10% of the Ordinary share capital of the Company.

Dis-application of pre-emption rights

Special resolution number 8 will request the authority to disapply pre-emption rights in circumstances of a rights issue or the allotment of up to 5% of the share capital as described in Ordinary resolution number 7.



REPORT OF THE DIRECTORS AND BUSINESS REVIEW

(continued)

Purchase of own shares

Special resolution number 9 will request the authority to purchase an aggregate of 10% of the Ordinary shares in issue provided that:

- The maximum number of shares authorised to be purchased is 4,533,384 (representing 10%) of the Company's issued shares;
- The minimum price which may be paid for a share is 50p;
- The maximum price that may be paid on the exercise of this authority will not exceed the higher of (a) 105% of the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the shares over the five business days immediately preceding the date on which the shares are contracted to be purchased; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;
- This authority expires at the conclusion of the next annual general meeting of the Company, or eighteen months, whichever is earlier; and
- 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.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

This resolution would renew the 2005 authority, which was in similar terms. During the financial year under review the Company purchased 28,872 of its shares for cancellation.

Treasury shares

Under the previous regulations, any shares purchased by the Company would be cancelled and the number of the shares in issue would be reduced accordingly. The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003. These regulations allow shares purchased by the Company out of distributable profits to be held as Treasury Shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 9 is intended to apply equally to shares to be held by the Company as Treasury Shares in accordance with the Regulations.

At the Annual General Meeting, resolutions as described above will be proposed that the Directors will be authorised to allot relevant securities in accordance with section 80 of the Companies Act 1985 (the "Act") and to empower to allot equity securities for cash in accordance with section 95 of the Act. Again, these replace existing authorities and powers will allow the Directors to sell Treasury Shares at a price not less than that at which they were purchased.

By Order of the Board

Close Ventures Limited

Company Secretary

10 Crown Place
London EC2A 4FT

13 December 2006



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. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer.

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 Ventures Limited, the Manager. The Directors have a range of business and financial skills which are extremely relevant to the Company; these are described in the Board of Directors section of this Report, on page 6. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Manager. The Board has direct access to secretarial advice and compliance services by the Manager, who is responsible for ensuring that Board procedures are followed and applicable procedures complied with. 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' & Officers' Liability Insurance.

As all of the Directors are non-executives, and as a majority of the directors are independent, the Board has not appointed a senior independent director.

The Board met four times during the year ended 30 September 2006 as part of its regular programme of Board meetings. All of the Directors attended each of these 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;
- application of the principles of the Combined Code, corporate governance and internal control;
- review of sub-committee recommendations;
- 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

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.

The Board believes that it has the right balance of independence, skills, experience and knowledge for the effective governance of the Company.

The Directors who will retire and be subject to re-election at the Annual General Meeting, are Mary Anne Cordeiro, John Kerr and David Watkins. As a result of the process of performance evaluation, these Directors are considered to be independent and effective and demonstrate their strong commitment to the role; on this basis, it is believed to be in the best interest of the Company to reappoint them at the forthcoming Annual General Meeting.



STATEMENT OF CORPORATE GOVERNANCE

(continued)

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, B1.1 to B1.6, and B2.1 to B2.4 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 twice during the year ended 30 September 2006; all members attended the meetings.

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;
- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- 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;
- developing and implementing a policy for the supply of non-audit services by the external auditors;
- meeting with the Head of Internal Audit of Close Brothers Group plc when appropriate;
- ensuring that all Directors of the Company, and staff of the Manager feel able to raise issues of serious concern with the Chairman of the Audit Committee and that these issues, where raised, are subject to proportionate and independent investigation, and appropriate action;
- reporting to the Board, identifying any matters in respect of which action or improvement is needed and recommending appropriate steps to be taken; and
- undertaking the duties of the Engagement Committee, and therefore reviewing the performance of the Manager and all matters arising under the management agreement.

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

- formally reviewing the final report and accounts, the draft interim report, and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of the internal controls system and examination of the Internal Controls Report produced by the Manager;
- meeting with the Head of Internal Audit of Close Brothers Group plc;
- meeting with the external auditors and reviewing their findings; and
- reviewing the performance of the Manager and making recommendations regarding their re-appointment to the Board.

Nomination committee

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

It is the policy of the Company, as detailed in the Articles of Association, for one third of the Board of Directors to be re-elected at each Annual General Meeting in rotation.



STATEMENT OF CORPORATE GOVERNANCE (continued)

Internal Control

In accordance with principle C.2 of the Combined Code, 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 year 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’s monitoring covers all controls, including financial, operational and compliance controls, and risk management. 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 Manager’s and the Board’s attention.

The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the year. The Audit Committee assists the Board in discharging its review responsibilities.

As the Board has delegated the investment management and administration to Close Ventures Limited, the Board feels that it is not necessary to have its own internal audit function. Instead, the Board has continual access to the internal audit department of Close Brothers Group plc, which undertakes periodic examination of the business processes and controls environment at Close Ventures Limited, and ensures that any recommendations to implement improvements in controls are carried out. The internal audit department of Close Brothers Group plc reports formally to the Board on an annual basis and Directors have access at all times to the department as necessary. 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 1 February 2007 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 and the Manager will give a presentation on the investment portfolio. 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 2006 with all the relevant provisions set out in Section 1 of the Code, and with the AITC Code of Corporate Governance. 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 Schedule 7a to the Companies Act 1985. The report also meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

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

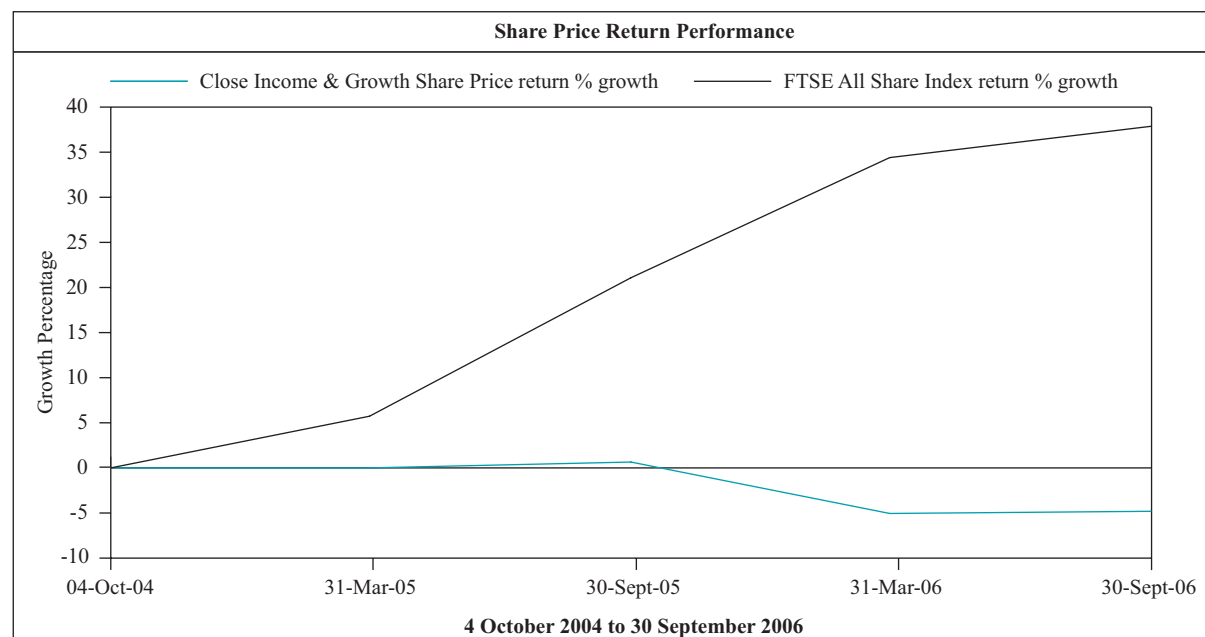
The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration market equivalents are considered in comparison to the overall activities and size of the Company.

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. No change in the level of fees is expected in the near future.

Performance graph

The graph below shows the percentage growth of Close Income & Growth VCT PLC's share price against the FTSE All Share Index, in both instances with dividends reinvested, since incorporation. The Directors consider this to be the nearest equivalent benchmark. The graph does not take into account the initial tax benefits on subscription received by shareholders.

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



Investors should be reminded that shares in venture capital trusts generally continue to trade at a discount to the net asset value of the Company.



DIRECTORS' REMUNERATION REPORT

(continued)

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

The following items have been audited:

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

	Year ended 30 September 2006			Period ended 30 September 2005		
	Fees £'000	Expenses £'000	Total £'000	Fees £'000	Expenses £'000	Total £'000
Friedrich Ternofsky	21	–	21	20	–	20
John Kerr	19	–	19	17	–	17
David Watkins	19	–	19	17	–	17
Mary Anne Cordeiro	19	–	19	17	–	17
Patrick Reeve	19	–	19	17	–	17
	<u>97</u>	<u>–</u>	<u>97</u>	<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 2006.

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

In addition to Director's remuneration the Company pays annual premiums in respect of Directors' & Officers' Liability Insurance.

By Order of the Board

Close Ventures Limited

Company Secretary

10 Crown Place
London
EC2A 4FT

13 December 2006



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 year ended 30 September 2006 which comprise the income statement, the balance sheet, the reconciliation of movement in shareholders' funds, 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 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

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers 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 other information contained in the Annual Report (as described in the contents section) and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations 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 to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

13 December 2006

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

		Year ended 30 September 2006			19 May 2004 to 30 September 2005 (restated*)		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	4	–	4	4	–	92	92
Investment income	5	2,406	–	2,406	1,475	–	1,475
Investment management fees	6	(314)	(942)	(1,256)	(218)	(657)	(875)
Administration expenses	7	(179)	–	(179)	(193)	–	(193)
Return/(loss) on ordinary activities before tax		1,913	(938)	975	1,064	(565)	499
Tax (charge)/credit on ordinary activities	9	(586)	266	(320)	(305)	215	(90)
Return/(loss) attributable to equity shareholders		1,327	(672)	655	759	(350)	409
Basic and diluted return/(loss) per share (pence)	11	2.9	(1.5)	1.4	2.6	(1.2)	1.4

*Comparative figures have been restated in accordance with FRS 21 in respect of dividends as disclosed in notes 2 and 3 of the financial statements.

The accompanying notes on pages 30 to 38 form an integral part of these financial statements.

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

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

There were no recognised gains or losses other than the results for the year as disclosed above. Accordingly a statement of total recognised gains and losses is not required.



BALANCE SHEET

	Note	30 September 2006 £'000	30 September 2005 (restated*) £'000
Fixed asset investments			
Qualifying investments		15,060	7,802
Non-qualifying investments		<u>25,002</u>	<u>124</u>
	12	40,062	7,926
Current assets			
Debtors and accrued income	14	110	170
Cash at bank and in hand		<u>3,483</u>	<u>35,563</u>
		3,593	35,733
Creditors: amounts falling due within one year	15	<u>(1,049)</u>	<u>(470)</u>
Net current assets		<u>2,544</u>	<u>35,263</u>
Net assets		<u>42,606</u>	<u>43,189</u>
Capital and reserves			
Called up share capital	16	22,667	22,681
Capital redemption reserve		14	–
Special reserve		20,148	20,186
Realised capital reserve		(1,118)	(442)
Unrealised capital reserve		96	92
Revenue reserve		<u>799</u>	<u>672</u>
Total shareholders' funds		<u>42,606</u>	<u>43,189</u>
Net asset value (pence per share)	17	<u>94.0</u>	<u>95.2</u>

*Comparative figures have been restated in accordance with FRS 21 in respect of dividends as disclosed in notes 2 and 3 to the financial statements.

The financial statements on pages 25 to 38 were approved by the Board of Directors on 13 December 2006 and were signed on its behalf by

Friedrich Ternofsky
Chairman



RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Called up share capital £'000	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 September 2005	22,681	20,186	–	(442)	92	60	42,577
Restatement as required by the adoption of FRS 21 (note 3)	–	–	–	–	–	612	612
As at 30 September 2005 (restated)	22,681	20,186	–	(442)	92	672	43,189
Adjustment in respect of FRS 26 (note 3)	–	–	–	–	–	(21)	(21)
As at 1 October 2005 (restated and adjusted)	22,681	20,186	–	(442)	92	651	43,168
Purchase of own shares	(14)	(26)	14	–	–	–	(26)
Cost of cancellation of share premium account	–	(12)	–	–	–	–	(12)
Capitalised investment management fees	–	–	–	(942)	–	–	(942)
Tax on capitalised investment management fees	–	–	–	266	–	–	266
Unrealised gains on investments	–	–	–	–	4	–	4
Revenue return attributable to equityholders	–	–	–	–	–	1,327	1,327
Dividends paid to equityholders	–	–	–	–	–	(1,179)	(1,179)
As at 30 September 2006	22,667	20,148	14	(1,118)	96	799	42,606



RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Called up share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000	Total £'000
As at 19 May 2004	–	–	–	–	–	–	–	–
Issue of equity	22,681	22,681	–	–	–	–	–	45,362
Issue costs of equity	–	(2,495)	–	–	–	–	–	(2,495)
Cancellation of share premium account	–	(20,186)	20,186	–	–	–	–	–
Capitalised investment management fees	–	–	–	–	(657)	–	–	(657)
Tax on capitalised investment management fees	–	–	–	–	215	–	–	215
Unrealised gains on investments	–	–	–	–	–	92	–	92
Revenue return attributable to equityholders	–	–	–	–	–	–	759	759
Dividend paid to equityholders	–	–	–	–	–	–	(699)	(699)
As at 30 September 2005	<u>22,681</u>	<u>–</u>	<u>20,186</u>	<u>–</u>	<u>(442)</u>	<u>92</u>	<u>60</u>	<u>42,577</u>



CASH FLOW STATEMENT

	Note	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Operating activities			
Investment income received		1,856	138
Deposit interest received		557	1,066
Investment management fees paid		(1,255)	(563)
Administrative expenses paid		(157)	(138)
Net cash inflow from operating activities	19	1,001	503
Taxation		(121)	–
Capital expenditure and financial investment			
Purchase of qualifying investments		(6,752)	(7,570)
Purchase of non-qualifying investments		(25,003)	(150)
Net cash outflow from investing activities		(31,755)	(7,720)
Equity dividends paid			
Dividends paid on ordinary shares		(1,179)	(87)
Financing			
Issue of equity net of expenses		–	42,867
Repurchase of shares		(26)	–
Net cash (outflow)/inflow from financing		(26)	42,867
(Decrease)/increase in cash	18	<u>(32,080)</u>	<u>35,563</u>



NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2006

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 ("AITC") in January 2003 and revised in December 2005.

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.

Change in accounting policies

With effect from 1 October 2005, the Company adopted the new Financial Reporting Standards ("FRS") 21-26 that have been issued by the Accounting Standards Board as part of the convergence process of United Kingdom Generally Accepted Accounting Practice with International Financial Reporting Standards ("IFRS"). In the case of FRS 25 and 26, the Company applied the exemption available on transition at 1 October 2005 from restating 2005 comparative figures. The effects of the relevant accounting policies are disclosed in the respective notes below, and restatement and adjustment of the relative comparative figures are detailed in note 3. The particular accounting policies adopted are described below.

Investments

In accordance with FRS 26 "Financial Instruments Measurement", equity investments are designated at fair value through profit or loss account ("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 the 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, those investments in which the Company holds more than 20 per cent of the equity are not regarded as associated undertakings.

Investment Income

Dividend income 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 using an effective interest rate over the life of the financial instrument.

Management fees and 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 per cent. of Management fees, net of corporation tax (the balance of the management fee is charged to the Revenue account) which 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.

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.



NOTES TO THE FINANCIAL STATEMENTS

(continued)

2. Accounting policies (continued)

Debtors and creditors

Debtors do not carry any interest and are short term in nature and are accordingly 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 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.

Dividends

In accordance with FRS 21 "Events after the balance sheet date", dividends declared by the Company are accounted for in the period in which the dividend has been paid or approved by shareholders in general meeting. Comparative figures for the previous year have been restated as detailed in note 3.

Reserves

Realised capital reserves

The following are accounted for in this reserve:

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

Unrealised capital reserve

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

Special reserve

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

The special reserve was created in the prior year on cancellation of the share premium account.

Capital redemption reserve

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase of the Company's own shares.

The total column of the Income Statement represents the Company's profit and loss account.



NOTES TO THE FINANCIAL STATEMENTS
(continued)

3. **Restatement of and adjustment to revenue and unrealised capital reserves as at 30 September 2005**

Under the terms of the transitional provisions contained within FRS 26 “Financial Instruments Measurement”, comparatives for revenue and unrealised capital reserves at 1 October 2005 in relation to movements in amortised cost of loans and receivables and equity investment valuations have been adjusted to reflect the impact of the adoption of FRS 26.

The adoption of FRS 26 has resulted in a decrease in the revenue reserve at 1 October 2005 as a result of the adjustment to the treatments of loan stock investments now held at amortised cost as determined by the Effective Interest Rate method.

In accordance with FRS 21 “Events after the balance sheet date”, comparatives for revenue reserves at 30 September 2005 have been restated in recognition of a change in accounting policy. The adoption of FRS 21 has resulted in a decrease in the distribution liability as a result of the de-recognition of proposed dividends thereon and an increase in the revenue reserves as at 30 September 2005.

A reconciliation of reserves incorporating the adjustments and restatements required by the adoption of the revised FRS 21 and FRS 26 is illustrated below:

Reconciliation of revenue reserves

	£'000
Revenue reserves previously reported at 30 September 2005	60
Restatement as required by adoption of FRS 21 – change in accounting for dividends	612
Restated revenue reserves at 30 September 2005	672
Adjustment as required by adoption of FRS 26 – change in valuation of loan stock investments to amortised cost using the EIR method	(21)
Revenue reserves as at 1 October 2005 as restated and adjusted	651

4. **Gains on investments**

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Unrealised gains	4	92
Total	4	92

5. **Investment income**

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Income from qualifying shares	2	–
Income from loan stock	973	299
Non qualifying income	–	7
FRN interest	970	–
Bank deposit interest	461	1,169
Total	2,406	1,475



NOTES TO THE FINANCIAL STATEMENTS

(continued)

6. Investment management fees

	Year ended 30 September 2006			19 May 2004 to 30 September 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	314	942	1,256	218	657	875
Total	314	942	1,256	218	657	875

Further details of the management agreement under which the investment management fee is paid are given in the Report of the Directors on page 16. The total management fee for the year ended 30 September 2006 includes irrecoverable VAT of £187,000.

7. Administrative expenses

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Directors' fees (including VAT and NIC)	106	95
Auditors' remuneration – audit fees	14	15
Tax services	5	10
Other administrative expenses	54	73
Total	179	193

8. Directors' fees

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Directors' fees	97	88
National insurance and VAT	9	7
Total	106	95



NOTES TO THE FINANCIAL STATEMENTS

(continued)

9. Tax (charge)/credit on ordinary activities

	Year ended 30 September 2006			19 May 2004 to 30 September 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return/(loss) before taxation	1,913	(938)	975	1,064	(565)	499
UK corporation tax at 30%	(574)	281	(293)	(319)	169	(150)
Under accrual in previous year	(12)	(15)	(27)	–	–	–
Total UK corporation tax charge at 30%	(586)	266	(320)	(319)	169	(150)
Factors affecting the tax charge:						
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
Total	(586)	266	(320)	(305)	215	(90)

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%.

10. Dividends paid to equityholders

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 (restated) £'000
Revenue dividends		
First interim dividend of 1.35 pence per share (2005: 0.65 pence per share)	612	87
Second interim dividend of 1.25 pence per share (2005: nil)	567	–
Total	1,179	87

The Board has declared a revenue dividend of 1.75 pence per share, which will be paid on 19 January 2007 to shareholders registered on 22 December 2006. In accordance with FRS 21 this dividend has not been accrued as a liability in these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

(continued)

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

	Year ended 30 September 2006			19 May 2004 to 30 September 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Return/(loss) attributable to equity shares (£'000)	1,327	(672)	655	759	(350)	409
Weighted average shares in issue (number)	45,347,996	45,347,996	45,347,996	28,746,716	28,746,716	28,746,716
Return/(loss) attributable per equity share (pence)	2.9	(1.5)	1.4	2.6	(1.2)	1.4

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.

12. Fixed asset investments

	Qualifying investments £'000	Non-qualifying investments £'000	Total investments £'000
Opening book cost	7,570	150	7,720
Opening accumulated movement in loan stock carrying value	114	–	114
Opening unrealised gain	118	(26)	92
Opening valuation as at 30 September 2005	7,802	124	7,926
Adjustment as required by FRS 26 (note 3)	(21)	–	(21)
Adjusted opening valuation at 1 October 2005	7,781	124	7,905
Purchases at cost	6,757	25,003	31,759
Reclassification of non-qualifying investment	124	(124)	–
Movement in loan stock carrying value	394	–	394
Increase/(decrease) in unrealised depreciation	5	(1)	4
Closing valuation	15,060	25,002	40,062
Movement in loan stock carrying value			
Opening accumulated movement in loan stock carrying value	114	–	114
Adjustment as required by FRS 26 (note 3)	(21)	–	(21)
Movement in loan stock carrying value	394	–	394
Closing accumulated movement in loan stock carrying value	487	–	487
Movement in unrealised gains			
Opening movement in unrealised gains	118	(26)	92
Reclassification of non-qualifying investment	(26)	26	–
Movement in unrealised gains	5	(1)	4
Closing movement in unrealised gains	97	(1)	96
Historic cost basis			
Opening book cost	7,570	150	7,720
Purchases at cost	6,757	25,003	31,760
Reclassification of non-qualifying investment	150	(150)	–
Closing book cost	14,477	25,003	39,480

Investments held at fair value through profit or loss amount to £30,717,000. Investments held at amortised cost total £9,345,000.



NOTES TO THE FINANCIAL STATEMENTS

(continued)

13. Significant interests

The Company has interests of greater than 20% in the nominal value of the allotted shares in the investee companies as at 30 September 2006 as described below:

Company	Country of incorporation	Principal activity	% class and share type	% total voting rights
Blackbay Limited	United Kingdom	Mobile data solutions	33.3% A Ordinary	9.6%
Xceleron Limited	United Kingdom	Bio-analytical services	50% A Ordinary	20.6%

14. Debtors and accrued income

	30 September 2006 £'000	30 September 2005 £'000
Prepayments and accrued income	106	127
Other debtors	4	43
Total	110	170

15. Creditors: amounts falling due within one year

	30 September 2006 £'000	30 September 2005 (restated) £'000
Corporation tax	291	90
Accruals and deferred income	758	380
Total	1,049	470

16. Called up share capital

	30 September 2006 £'000	30 September 2005 £'000
Authorised		
50,000,000 shares of 50p each	25,000	25,000
Allotted, called up and fully paid		
45,333,837 shares of 50p each (2005: 45,362,709)	22,667	22,681

During the year to 30 September 2006, the Company purchased for cancellation, a total of 28,872 of its own Ordinary shares, representing 0.6% of the Ordinary shares in issue as at 1 October 2005. These purchases cost £26,000 including stamp duty, and were funded from the Special reserve.

17. Net asset value per share

Net asset value per ordinary share is based on net assets at the year end of £42,606,000 (2005 (restated): £43,189,000), and on 45,333,837 Ordinary shares, (2005: 45,362,709) being the number of Ordinary shares in issue at the year end.

18. Analysis of changes in cash during the year

	30 September 2006 £'000	30 September 2005 £'000
Opening cash balance	35,563	–
Net cash (outflow)/inflow	(32,080)	35,563
Closing cash balance	3,483	35,563



NOTES TO THE FINANCIAL STATEMENTS

(continued)

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

	Year ended 30 September 2006 £'000	19 May 2004 to 30 September 2005 £'000
Return on ordinary activities before taxation	975	499
Gains on investments	(4)	(92)
Decrease/(increase) in operating debtors	60	(170)
Increase in operating creditors	364	380
Movement in return on loan stock	(394)	(114)
Net cash inflow from operating activities	1,001	503

20. Financial instruments and risk management

The Company's financial assets comprise equity and loan stock investments in unquoted companies, floating rate notes, cash balances and short term debtors which arise from its operations. The main purpose of these financial statements 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.

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 investments, details of which are shown on pages 8 to 12. 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.

Fair value interest rate risk

Unquoted investments in loan stock and equity are not subject to price movements as a result of interest rate movements. Floating rate note investments, due to the floating rate nature of these instruments, are not subject to significant price movements as a result of interest rate movements.

Credit risk

The Manager evaluates credit risk on loan stock instruments prior to investment, and as part of its ongoing monitoring of investments. Typically all loan stock instruments have a first charge over the assets of the investee company. Floating rate note investments are made in notes issued by banks with a Moody's credit rating of at least 'A'. In this way, the Manager seeks to limit credit risk to the Company.

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 unquoted companies, the results of which are detailed in the Chairman's statement on page 5. To mitigate the investment risk, the strategy of the Company is to invest in a broad spread of industries with approximately two thirds 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 industries in which investments have been made are contained in the Portfolio of Investments section on pages 8 to 12.

Liquidity risk

The Company has no committed borrowing facilities as at 30 September 2006 (2005: £nil) and had cash balances of £3,483,129. 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.



NOTES TO THE FINANCIAL STATEMENTS

(continued)

20. Financial instruments and risk management (continued)

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 30 September 2006 profits before tax by approximately 26.08% (2005: 56.78%).

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 10.56% (2005: 10.25%). The weighted average period to maturity for the fixed rate assets is 4.06 years (2005: 4.16 years).

Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 30 September 2006 are stated at fair value as determined by the directors, with the exceptions of loans and receivables, which are carried at 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.

The Company's financial assets and liabilities as at 30 September 2006, all denominated in pounds sterling, consist of the following:

	30 September 2006				30 September 2005 (restated)			
	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Non- interest bearing £'000	Total £'000
Equity	–	–	5,715	5,715	–	–	3,048	3,048
Loan stock	7,515	1,830	–	9,345	4,032	846	–	4,878
Floating Rate Notes	–	25,002	–	25,002	–	–	–	–
Debtors	–	–	110	110	–	–	170	170
Liabilities	–	–	(1,049)	(1,049)	–	–	(470)	(470)
Cash	–	3,483	–	3,483	–	35,563	–	35,563
Total assets	7,515	30,315	4,776	42,606	4,032	36,409	2,748	43,189

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

	£'000
Less than 1 year	–
1-2 years	–
2-3 years	–
3-5 years	9,345
Total	9,345

The contractual re-pricing of the Floating Rate Notes held in the portfolio will occur within one year.

21. Contingencies, guarantees and financial commitments

The Company has given a guarantee to The Royal Bank of Scotland plc in respect of the borrowing of an investee company. As at 30 September 2006 the maximum exposure under this guarantee was £nil. This guarantee is secured by a third party charge of deposit dated 31 January 2005 granted to the Royal Bank of Scotland plc.

22. Post balance sheet events

Since 30 September 2006 the Company has entered into the following material transactions:

- Invested £500,000 in Blackbay Group Limited
- Invested £1,000,000 in The Weybridge Club Limited
- Invested £500,000 in Xceleron Limited

23. 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 (details disclosed on page 16 of this report). During the year, services of a total value of £1,256,000 (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 £313,000.

There are no other related party transactions or balances requiring disclosure.



NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Close Income & Growth VCT PLC will be held at 11.30 a.m. on 1 February 2007 at 10 Crown Place, London EC2A 4FT for the purpose of dealing with the following business, of which items 7 to 9 are special business.

Ordinary Business

1. To receive and adopt the accounts and the reports of the Directors and Auditors for the year ended 30 September 2006.
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 Mary Anne Cordeiro as a Director of the Company.
5. To re-elect John Kerr as a Director of the Company.
6. To re-elect David Watkins as a Director of the Company.

Special Business

7. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount of £2,266,692 which comprises 10% of the Ordinary Share capital, such authority to expire on 31 May 2008, but so that the Company may before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period, and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired; and all unexercised authorities previously granted to the Directors to allot relevant securities be, and are hereby, revoked.

8. To consider and, if thought fit, pass the following resolution as a special resolution:

That subject to and conditional on the passing of resolution number 7, the Directors be empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 (2) to section 94 (3A) of the Act) for cash pursuant to the authority conferred by resolution number 7 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights issue, open offer or other offer of securities in favour of the holders of Ordinary shares on the register of members at such records date as the Directors shall determine where the equity securities respectively attributable to the interest of the Ordinary shareholder are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them on any such record date, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange by virtue of shares being represented by depository receipts or any other matter whatever; and
- (b) otherwise than pursuant to sub-paragraph above up to an aggregate nominal amount of £1,133,346 equal to 5% of the Ordinary Share capital;



NOTICE OF MEETING

(continued)

and shall expire on 31 May 2008, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of the resolution the words “pursuant to the authority conferred by resolution number 7” were omitted.

9. 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 4,533,384 (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% of the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the shares over the five business days immediately preceding the date on which the shares are contracted to be purchased; 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 Ventures Limited

Company Secretary

Registered Office

10 Crown Place

London EC2A 4FT

Date: 13 December 2006



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 11.30 a.m. on 30 January 2007, 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 or 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 11.30 a.m. on 30 January 2007, 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 30 January 2007 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.





FORM OF PROXY

Form of proxy for the Annual General Meeting to be held at 11.30 a.m. on 1 February 2007 at 10 Crown Place, London EC2A 4FT.

I/We.....(BLOCK CAPITALS please)
 being a holder/s of Ordinary Shares in CLOSE INCOME & GROWTH VCT PLC and entitled to attend and vote at the above Annual General Meeting, hereby appoint the duly elected Chairman* of the Meeting or failing him

.....
 as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11.30 a.m. on 1 February 2007 and at any adjournment thereof in respect of the resolutions set out in the Notice of Meeting.

My/our proxy is to vote as indicated below:

		For	Against	Vote withheld (note 4)	Discretionary (note 5)
Ordinary resolution 1	To receive and adopt the report and accounts for the year ended 30 September 2006.				
Ordinary resolution 2	To approve the Directors' remuneration report.				
Ordinary resolution 3	Re-appointment of Deloitte & Touche LLP as Auditors for the ensuing year and to authorise the Directors to fix their remuneration.				
Ordinary resolution 4	To re-elect Mary Anne Cordeiro				
Ordinary resolution 5	To re-elect John Kerr				
Ordinary resolution 6	To re-elect David Watkins				
Ordinary resolution 7	Authority to allot shares (special business)				
Special Resolution Number 8	Dis-application of pre-emption rights				
Special Resolution Number 9	Purchase of own shares				

..... Signed..... Date



Notes

- *If any other proxy is preferred, strike out the reference to the Chairman stated above, add the name of the proxy you wish to appoint and initial the alteration. Failure to initial the alteration will deem the Chairman of the Meeting to be your proxy. A proxy need not be a member of the Company.
- If the appointor is a Corporation, this form must be under its common seal or under the hand of some officer or attorney in that behalf.
- Please insert an "X" in either of the columns. If all spaces are left blank, the proxy will exercise his discretion as to whether, and if so how, he votes.
- The "Vote withheld" option is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.
- If you want your proxy to vote in a certain way on the resolutions specified please place a mark in the relevant boxes. If you select "Discretionary" or fail to select any of the given options your proxy can vote as he or she chooses or can decide not to vote at all. The proxy can also do this on any other business (including a motion to adjourn the Meeting or to amend a resolution) which may properly come before the Meeting.
- To be valid, this form of proxy must be completed and deposited at the office of the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours prior to the time fixed for the holding of the Meeting.
- In the case of joint holders, only one need sign but the names of all joint holders should be shown.
- The completion and return of this form of proxy will not preclude you from attending and voting at the meeting should you subsequently decide to do so.

Second Fold

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**Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4TU**

First Fold

Third Fold and tuck in



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