

The Income & Growth VCT plc

Annual Financial Results of the Company for the year ended 30 September 2008

Investment Objective

The objective of The Income & Growth VCT plc (“I&G” or “the Company”) is to provide investors with an attractive return, by maximising the stream of dividend distributions from the income and capital gains generated by a diverse and carefully selected portfolio of investments.

The Company invests in companies at various stages of development. In some instances this may include investments in new and secondary issues of companies which may already be quoted on the Alternative Investment Market (“AiM”) or PLUS.

Dividends paid – ‘O’ Share Fund

Year ended	Dividends paid in each year (p) per share	Cumulative dividends paid since launch (p) per share
30 September 2008	4.00	16.45
30 September 2007	3.75	12.45
30 September 2006	3.25	8.70
30 September 2005 (restated)	1.25	5.45
30 September 2004 (restated)	1.25	4.20

Dividends paid include distributions from both income and capital.

Dividends proposed – ‘O’ Share Fund

A final proposed dividend of 4 pence per share comprising 1 penny from income and 3 pence from capital, which will be recommended to Shareholders at the AGM on 6 February 2009 for payment on 16 February 2009.

Performance Summary – ‘O’ Share Fund

Year ended	Net assets (£ million)	Net asset value per ‘O’ Share (p)	NAV total return to shareholders since launch per ‘O’ Share (p)	Share price (p) ¹	Share price total return to shareholders since launch per ‘O’ Share (p)
30 September 2008	29.6	83.6	100.0	79.5	96.0
30 September 2007	36.8	100.5 ²	115.0	87.5	100.0
30 September 2006	44.2	112.9	121.6	84.5	93.2
30 September 2005 (restated)	49.2	122.5	128.0	87.5	93.0
30 September 2004 (restated)	33.5	81.3	85.5	62.5	66.7

Performance Summary – ‘S’ Share Fund

Year ended	Net assets (£ million)	Net asset value per ‘S’ Share	NAV total return to shareholders	Share price (p) ¹	Share price total return to shareholders
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		(p)	since launch per 'S' Share (p)		since launch per 'S' Share (p)
30 September 2008	11.2	94.6	94.6	100	100
At close of Offer for Subscription	11.2	94.5	94.5	100	100

* Source: London Stock Exchange

² After deducting the dividend of 2p per share paid to 'O' Fund Shareholders on 24 October 2007

The share price and net asset value (NAV) total return comprise the share price and NAV respectively per share.

Chairman's Statement

I am pleased to present to Shareholders the annual results of the Company for the year ended 30 September 2008. This is also the first set of results of the Company since it became a single manager Venture Capital Trust (VCT).

Change to single manager

In my last Half-Yearly Report to you, I stated that the Board had extended the Matrix Private Equity Partners ('MPEP') management role. Your Board, in anticipation of these more difficult times, took the view that investment in the more risky early stage technology sector should be curtailed and, as a result, Foresight Group's ('Foresight') expertise in this area was no longer required. The final elements of the handover of the Foresight portfolio have now been completed.

I remain confident, that in these turbulent economic times, to concentrate the portfolio in the hands of our better performing Investment Manager, MPEP, was a good investment decision. MPEP remains one of the top VCT managers in the marketplace. Please see my comments below on MPEP's recent award.

Performance

'O' Shares

At 30 September 2008, the Net Asset Value (NAV) per 'O' Share was 83.56 pence (2007: 100.52 pence). Adjusted for the 2 pence dividend paid to Shareholders in the year, this represents a decrease of 14.9% over the twelve month period. This compares with a decline of 33.9% in the FTSE SmallCap Index and a decline of 43.5% in the FTSE AiM Index during the same period. The NAV total return per 'O' Share fell in the year by 13.0% from 114.97 pence at 30 September 2007 to 100.01 pence at 30 September 2008.

The performance of the portfolio in the year was mixed. The MPEP portfolio achieved realised gains of £2.1 million but these were offset by provisions and lower valuations giving rise to unrealised losses of £3.3 million, resulting in net overall losses of £1.2 million. Realisations generated significant cash proceeds of £7.1 million. The Foresight legacy portfolio suffered greater falls in value with further provisions leading to unrealised net losses of £4.2 million.

UK sector price earnings multiples have, in the main, decreased significantly over this twelve month period, and this does impact on our portfolio valuation in both the quoted and unquoted sectors. The MPEP portfolio at the year end represented 87% of total venture capital investments by current value, whilst the Foresight legacy portfolio represented 13%. It continues to be a difficult time for technology investments

Overall, the underlying performance of the portfolio continues to provide encouragement. The total dividends proposed to be paid in respect of the year under review will be 4 pence per 'O' Share which compares with 4 pence per 'O' Share paid in respect of the financial year ended 30 September 2007.

'S' Shares

At 30 September 2008, the NAV and NAV total return per 'S' Share had risen marginally to 94.59 pence (at launch: 94.50 pence), a slight increase of 0.1%.

For more information on the performance of the portfolio, please refer to the Investment and Portfolio Review below.

Economic background

All UK investment portfolios are being affected by the much harsher economic conditions which now exist and are predicted to continue for some time. If the problems in the global financial community are not resolved quickly and confidence restored in our financial system, the recession is likely to be severe. Today's problems can almost certainly be attributed to irresponsible lending by many banks, by the Government's imprudent growth in public spending and by its insatiable borrowing, both on and off balance sheet, over more than a decade. I cover our views below on the outlook for the economy and the Company's portfolios.

The portfolio

'O' Shares

Overall, the MPEP portfolio continues to perform well, particularly given the current economic climate, with good trading performances being shown by some of the investments; notably Amaldis (2008) Limited (Original Additions), Tottel Publishing Limited, IDOX plc, VSI Limited, PastaKing Holdings Limited and Vectair Holdings Limited. Within the MPEP portfolio new investments of £516,900 and £424,447 respectively were made into Focus Pharma Holdings Limited, a seller of generic pharmaceutical products, in October 2007 and into Monsal Holdings Limited, an environmental technology company, in December 2007. This was followed in April 2008 by an investment of £307,071 into The Plastic Surgeon Holdings Limited to support the MBO of Plastic Surgeon Fine Finishers, a company specialising in the snagging and finishing of domestic and commercial properties. In October, just after the year-end, an investment of £595,842 was made into ATG Media Holdings Limited to support the MBO of Metropress Limited, publishers of the Antiques Trade Gazette. At the end of November, a further investment of £129,264 was made into PXP Holdings (Pinewood Structures).

In the first six months of this period, advantage was taken of market conditions at that time to dispose profitably of the portfolio's investments in Ministry of Cake (Holdings) Limited, BBI Holdings plc and to receive a further payment from Secure Mail Services Limited which was sold in the previous year. Shortly after that, further payments were received from a prepayment of loan stock from VSI Limited and from a recapitalisation of HWA Limited (Holloway White Allom).

Before the year-end, the 'O' Share portfolio also made three investments of £1 million each into three acquisition vehicles, namely, Apricot Trading Limited (a company established to acquire businesses in the marketing services and media sector), Aust Construction Investors Limited (a company established to acquire businesses in the specialist construction, building support services, building products and related

services), and Calisamo Management Limited (a company established to acquire businesses in healthcare, wellbeing products, management or professional services).

In the former Foresight portfolio, the Company invested a further £387,764 into Oxonica plc in December 2007. However, the Foresight portfolio, being an early stage technology portfolio, has been affected by sharp falls in quoted prices and much more difficult trading conditions.

'S' Shares

Since launch in February of this year, this Fund in April 2008 invested £99,011 into The Plastic Surgeon Holdings Limited, a company specialising in the snagging and finishing of domestic and commercial properties, and just after the year end, the Fund also made an investment of £404,158 into ATG Media Holdings Limited to support the MBO of Metropress Limited, the publishers of the Antiques Trade Gazette.

Cash available for investment

During this economic turmoil, both the Board and the Investment Manager have worked to ensure that our cash available for investment for both the 'O' and 'S' Share Funds remains as secure as possible. We have for some time been spreading our significant cash deposits with a number of the leading global cash funds rather than depositing direct to individual banks, thereby reducing our exposure to any one particular bank.

Revenue account

The Revenue return for the Company as a whole has increased from £240,595 to £717,196 over the year, being an increase of £476,601.

£117,359 of this increase arises from the 'S' Share Fund, primarily due to the liquidity fund income earned from the funds raised under the 'S' Share Offer.

The 'O' Share Fund increased its return by £359,242. Income attributable to the revenue return rose by £220,857, itself due to two principal factors. First, dividend income rose by £157,289 as several MPEP investments generated dividends in the year, notably Image Source Group Limited and Brookerpaks Limited; secondly, liquidity fund interest rose by £42,539 from higher cash balances resulting primarily from the realisations in the MPEP portfolio. Loan stock income was broadly constant this year, although the level of provisions against non-performing loan stocks has risen. The 'O' Share Fund's income has also increased exceptionally by £83,278, being 25% of anticipated VAT recoverable, (the other 75% being recorded in the capital return). This is explained more fully further on in my Statement below.

Management fees charged to revenue fell by £58,241 in the year as asset values declined together with the absence of VAT on this fee. A portion of overhead costs has been shared with the 'S' Share Fund this year causing a reduction of £60,909 in running costs attributable to the 'O' Share Fund. Although the tax charge attributable to the revenue return has risen by £64,043, this in itself reflects the higher levels of taxable income of £423,285.

Dividends

'O' Shares

The Company's revenue return per 'O' Share was 1.66 pence per share (2007: 0.62 pence per share). Your Board will be recommending a final dividend of 4 pence per 'O' Share comprising 1 penny from income and 3 pence from capital in respect of the year under review at the Annual General Meeting to be

held on 6 February 2009. The dividends will be paid on 16 February 2009 to 'O' Fund Shareholders on the Register on 16 January 2009.

'S' Shares

The Company's revenue return per 'S' Share was 1.26 pence per share. The Fund expects to commence dividend payments from income in the next financial year. This will become possible after the cancellation of the share premium account attributable to the 'S' Share Fund.

Dividend investment scheme

'O' Fund Shareholders have and 'S' Fund Shareholders will have the opportunity to re-invest their dividends into new shares of the relevant class at the latest published NAV per share as at the dividend payment date. Board members have indicated that they will be doing so to the extent of their full entitlement.

Valuation policy

In accordance with current accounting standards, quoted stocks are now valued at bid prices, rather than mid-market prices. It is worth commenting that the Company does hold a number of relatively early stage AiM-quoted stocks with limited marketability. In such cases, the price at which a sizeable block of shares could be traded, if at all, may vary significantly from the market price used.

Share buy-backs

During the year ended 30 September 2008, the Company continued to implement actively its buy-back policy and, accordingly the Company bought back 1,213,848 'O' Shares (representing 3.32% of the 'O' Shares in issue at the beginning of the period) at a total cost of £1,055,206 (net of expenses). These shares were subsequently cancelled by the Company.

VAT

Shareholders may be aware of recent HMRC announcements that could permit VCTs to recover VAT previously charged on fund management fees for at least the past three years. These accounts have recognised VAT recoverable of £464,000, based upon available information supplied by the Company's current and past Investment Managers, of which £131,000 has been set off against the current year's management expense. This figure contains a degree of estimation and it is possible that additional amounts of such VAT will be recoverable in due course. The Directors are unable at this stage to quantify such further amounts. This amount has been disclosed as a separate item of income in the Profit and Loss Account.

Appointment of corporate broker

On 13 October 2008, the London Stock Exchange announced that Landsbanki Securities (UK) Limited (Landsbanki) would no longer be able to act as a market maker. Landsbanki was therefore unable to quote prices or make a market in the Company's shares. The Directors understand that this action by the London Stock Exchange related to the Administration of Landsbanki's parent company, Landsbanki Islands hf, and resultant regulatory actions arising therefrom. I apologise for the inconvenience this may have caused to any shareholders.

The Board is pleased, therefore to have been able to announce the appointment of Matrix Corporate Capital LLP (MCC) as corporate broker to the Company on 3 December 2008. The team at MCC includes the core Investment Funds team who were formerly at Landsbanki.

Outlook

It is highly probable that the much tougher economic conditions now being experienced could last for some time. Relatively small, early stage growth businesses are inevitably tested in such an environment. However, many of our portfolio companies, which are in later stages of development, are continuing to trade positively. The Company has significant cash resources and this is very important at a time when commercial banks have been announcing losses and are pursuing more cautious lending policies. Furthermore, it places the Company in an excellent position to take advantage of what are expected to be increasingly attractive investment opportunities which should become available in due course. We have already recently seen one example where economic conditions enabled a renegotiation of the terms of investment. Therefore, while short term valuations may be subject to continuing pressure your Board looks to the mid-term future with more confidence.

Awards for MPEP and PastaKing

I am delighted to inform you that our Investment Manager, Matrix Private Equity Partners, won the award for “VCT Manager of the Year” at the recent *unquote*” British Private Equity Awards 2008. May I congratulate the team on their hard work throughout the year.

We were also very proud to hear that one of our investee companies, PastaKing, has been awarded ‘The Small to Medium Sized Business of the Year Award’ at the National Business Awards.

I&G website

May I remind you that the Company has its own website which is available at www.incomeandgrowthvct.co.uk.

Responsibility Statement of the Directors in respect of the Annual Financial Report

The Directors confirm that to the best of their knowledge:

- (a) The financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice, ‘Financial Statements of Investment Trust Companies’ issued by the Association of Investment Trust Companies in 2003 and revised in 2005, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- (b) The management report, comprising the Chairman’s Statement, Investment Policy, Statement of Principal Risks, Management and Regulatory Environment, Investment Portfolio Summary and the Investment and Portfolio Review, includes a fair review of the development and performance of the business and the position of the **Company**, together with a description of the principal risks and uncertainties that they face.

Investment Policy

The Company's policy is to invest primarily in a diverse portfolio of UK unquoted companies. Investments are structured as part loan and part equity in order to receive regular income and to generate capital gains from trade sales and flotations of investee companies.

Investments are made selectively across a number of sectors, primarily in management buyout transactions (MBOs) i.e. to support incumbent management teams in acquiring the business they manage but do not yet own. Investments are primarily made in companies that are established and profitable.

The Company has a small legacy portfolio of investments in companies from its period prior to 30 September 2008, when it was a multi-manager VCT. This includes investments in early stage and technology companies and in companies quoted on the Alternative Investment Market or PLUS.

Uninvested funds are held in cash and lower risk money market funds.

UK companies

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue & Customs ("HMRC"). Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in VCT qualifying holdings, of which a minimum overall of 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, although the Company can invest less than 30 per cent of an investment in a specific company in ordinary shares it must have at least 10 per cent by value of its total investments in each VCT qualifying company in ordinary shares which carry no preferential rights.

Asset mix

The Company initially holds its funds in a portfolio of readily realisable interest bearing investments and deposits. The investment portfolio of qualifying investments is built up over a three year period with the aim of investing and maintaining at least 70 per cent of net funds raised in qualifying investments.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses across different industry sectors. To reduce the risk of high exposure to equities, each qualifying investment is structured using a significant proportion of loan stock (up to 70 per cent of the total investment in each VCT qualifying company). Initial investments in VCT qualifying companies are generally made in amounts ranging from £200,000 to £1 million at cost. No holding in any one company will represent more than 10 per cent of the value of the Company's investments at the time of investment. Ongoing monitoring of each investment is carried out by the Investment Manager, generally through taking a seat on the board of each VCT qualifying company.

Co-investment

The Company aims to invest in larger, more mature unquoted companies through investing alongside the four other VCTs advised by the Investment Manager with a similar investment policy. This enables the Company to participate in combined investments advised on by the Investment Manager of up to £5 million.

Principal risks, management and regulatory environment

The Board believes that the principal risks faced by the Company are:

Economic risk – events such as an economic recession and movement in interest rates could affect trading conditions for smaller companies and consequently the value of the Company’s qualifying investments.

Loss of approval as a Venture Capital Trust – the Company must comply with section 274 of the Income Tax Act 2007 (“ITA”) which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a Venture Capital Trust (VCT), qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

Investment and strategic – inappropriate strategy or consistently weak VCT qualifying investment recommendations might lead to underperformance and poor returns to shareholders.

Regulatory – the Company is required to comply with the Companies Acts 1985 and 2006 (“the Companies Acts”), the listing rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company’s Stock Exchange listing, financial penalties or a qualified audit report.

Financial and operating risk – inadequate controls that might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations. Failure of the Manager’s and Administrator’s accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Market risk – Investment in unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the London Stock Exchange main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals.

Asset liquidity risk – The Company’s investments may be difficult to realise.

Market liquidity risk – Shareholders may find it difficult to sell their shares at a price which is close to the net asset value.

Counterparty risk - A counterparty may fail to discharge an obligation or commitment that it has entered into with the Company. For further information, please see the paragraph on 'Cash available for investment' in the Chairman's Statement.

The Board seeks to mitigate the internal risks by setting policy and by undertaking a key risk management review at each quarterly Board meeting. Performance is regularly reviewed and assurances in respect of adequate internal controls and key risks are sought and received from the Investment Manager and Administrator on a six monthly basis. In mitigation and the management of these risks, the Board applies rigorously the principles detailed in the AIC Code of Corporate Governance. The Board also has a Share Buy Back policy which seeks to mitigate the Market Liquidity risk. This policy is reviewed at each quarterly Board Meeting.

Investment and Portfolio Review

Summary

The portfolio has experienced a mixed year, reflecting to a significant extent the extreme market conditions which have prevailed over the period, starting with the excellent environment for profitable realisations through to March rapidly followed by the collapse in share prices as the UK headed into recession.

At 30 September 2007 the investments in the MPEP portfolio were valued at £24.0 million. During the year, realised gains of £2.1 million were achieved, but the increasing pressure on valuations in the second half of the financial year led to the need for provisions and therefore unrealised losses of £3.3 million, resulting in a net loss of £1.2 million. The realisations generated significant cash proceeds of £7.1 million.

The Foresight Group (Foresight) legacy portfolio fared less well. At 30 September 2007 the investments in the Foresight portfolio were valued at £6.9 million. During the year, there were no realisations for cash, but there was a need for provisions and therefore unrealised losses of £4.2 million. This reflected a continuing difficult environment for technology investment.

The year-end valuations of portfolio companies have inevitably been affected by the material reductions in the FTSE Sector PEs, by reference to which the Company's investments are valued. Despite this, we remain confident in the overall quality of the portfolio and in particular, given recent general comment on the tightening of bank lending, do not consider that the portfolio is exposed to unsustainable levels of third party debt.

MPEP 'O' Share Fund investments

During the year, £4.2 million was deployed into new investments and since the year-end, new investments of £724,106 were completed.

Generally we have been very cautious regarding new investments over the past two years, believing that vendors' price expectations would prove unsustainable over the medium term. Since the previously reported investments of £516,900 and £424,447 to support the management buy-outs ("MBOs") of Focus Pharmaceuticals and Monsal respectively in October and December 2007, one further MBO transaction has been completed. This was an investment into Plastic Surgeon in April; this company offers snagging and finishing services to domestic and commercial properties and is based in Bovey Tracey, Devon. The 'O' Share Fund invested £307,071 for 4.6% of the equity.

As part of a new initiative to generate additional high-quality MBO investments, the Fund has also invested alongside other MPEP advised funds in three new companies headed by experienced Chairmen well known to MPEP. These individuals are working closely with MPEP in seeking to identify and complete investments in specific sectors relevant to their industry knowledge and experience. Three investments of £1 million were completed in September; Apricot Trading is focussed on the marketing services and media sectors, Aust Construction Investors is seeking to invest in the construction related services, and Calisamo Management is targeting the healthcare and wellbeing products sectors. Importantly these acquisition vehicles are designed to provide time to find and invest in their chosen target companies at sufficiently attractive prices.

After the year-end, the 'O' Share Fund invested £595,842 for loan stock and 5.3% of the equity of ATG Media. This company was formed to acquire the publisher of the leading weekly newspaper serving the UK antiques trade, the Antiques Trade Gazette, via a MBO. This London-based business also offers an on-line auction capability. Also after the year-end, the 'O' Share Fund made a further investment of 129,264 into PXP Holdings.

Conditions prevailing in the earlier months of the year gave us the opportunity to realise highly satisfactory returns from the disposals of BBI and Ministry of Cake. These were reported in detail at the half-year and resulted in total proceeds of £4.4 million (including further proceeds from the 2006 sale of Secure Mail Services), compared with cost of £1.22 million and a 30 September 2007 valuation of £2.47 million. In the case of Secure Mail Services, a further £80,000 was received in July and additional proceeds that are not recognised in these accounts are expected over the next nine months.

The recapitalisation of HWA produced a cash return of £2.38 million and a concentration of the Fund's investment from 17.0% to 21.1%. A smaller recapitalisation of Amaldis has resulted in the Fund's 11.0% equity investment being exchanged for a 9.2% shareholding and a loan stock with a value of £1.2 million.

Small distributions of £68,000 and £22,000 have also been received from the liquidation of The Hunter Rubber Company, and in April a loan stock prepayment of £143,000 was received from VSI, together with a 10% premium.

Whilst there is some evidence of declining performance in the portfolio, particularly amongst those companies more directly exposed to the construction and retail sectors, many portfolio companies are continuing to record growing profits and generate strong cash flow.

Youngman has inevitably suffered from a significant reduction in demand from its major trade customers serving the construction industry, and whilst PXP has performed well this year, 2009 looks less promising. Plastic Surgeon has also been hit by the downturn and we have decided to provide 50% of the cost of investment to reflect this poor start. Blaze Signs Holding, having had a record year in 2007-8, is now feeling the effects of its customers deferring work. The provision against Monsal reflects a timing issue in winning new contracts during the year although next year appears considerably more promising with a number of contracts now secured. HWA continues with a strong order book and is expected broadly to maintain current levels of profitability.

Media investments show a mixed picture, with an excellent performance from Tottel Publishing looking to continue into 2009, based on a strong list of new legal and taxation titles. Image Source has operated in a more turbulent royalty-free image market but is succeeding in growing steadily its independent distribution revenues and expects to increase profits in its current financial year. Campden has found it challenging to grow its US wealth conference business, particularly over the last few months.

Elsewhere, DiGiCo Europe has enjoyed a strong first year post-investment following the successful launch of its new digital audio mixing desk. PastaKing has posted profits of £2.7 million, an increase of 23%, despite increasing pressure on ingredient prices, and Brookerpaks has again performed solidly. Focus Pharma has also had a good first year since its MBO.

Vectair had an outstanding year, producing record profits and making inroads into potentially significant markets in India and the US. VSI is strongly cash-generative and is benefitting from the relative weakness of sterling as well as seeing increased customer demand. British International's helicopter service to the Scilly Isles from Penzance experienced possibly the worst summer weather in two decades which decimated the day trip market, but has benefited from the solidity of its long-term military contract revenue.

Amaldis is anticipating increased profitability in 2008 but much as ever will depend on the Christmas season. Racoon has continued to struggle to develop its salon business but hopes for its new retail range are high with a major retailer having agreed to take its product during the last quarter of 2008.

BG Consulting will fall short of last year's performance in view of the major upheavals of its investment banking clients. Letraset continues to struggle to halt its gradual revenue decline, and SectorGuard's share price has moved downwards in line with the market although it is hoped that its acquisition of Manguard in early 2008 may prove transformational. The liquidation of FH Ingredients continues. Finally and disappointingly, Inca Interiors went into administration in June, having failed to stem its losses over the past two years; no proceeds are expected to accrue to the Fund. The investment had been fully provided against.

The other portfolio investments are two quoted companies, Tikit and IDOX. The investment in IDOX has shown a small uplift in value over the year, and its acquisitions, particularly Plantech, seem to be performing well and strengthening its presence in the local authority market. Tikit has suffered a 31% drop in value over the year despite posting interim results recently which showed a 19% increase in operating profits.

Foresight 'O' Share Fund investments

Following the Board's announcement in March that MPEP was to assume responsibility from Foresight for the eleven investments it managed on behalf of your Company, MPEP and Foresight have been working together to ensure a smooth handover. This has now been accomplished.

This portfolio, comprising a mixture of shareholdings in AiM-quoted companies and predominantly early-stage technology-based private businesses, has again had a difficult year. With the exception of ANT, whose share price has risen by 50% over the last year, these companies have all seen very large falls in their share prices: 58% in the case of Oxonica, 74% in the case of Corero and 83% in the case of Sarantel.

Over the same period the AiM All-Share Index has suffered a 44% drop and smaller capitalisation businesses with limited liquidity are particularly exposed. This is especially so when, as is the case with Oxonica and Sarantel, cash-flow negative businesses need to raise additional capital. The 'O' Fund provided an additional £388k to Oxonica in December 2007 as part of a £4 million capital raising.

Aigis Blast Protection remains loss-making as do Biomer Technology and Nexxtdrive, both of which are only now beginning to generate small levels of revenue. Camwood moved into losses as a result of costs incurred to develop and exploit a new product designed for customers migrating to Microsoft Vista, which is taking longer than expected to happen. Alaric Systems continues to find it difficult to grow sales, not helped by the long lead times inherent in selling to financial institutions.

DCG Group (Datapoint) is seeking to develop its managed services revenue which is expected to drive shareholder value, and Aquasium Technology is performing more strongly this year due to improvement in its UK business.

'S' Share Fund

The Fund completed its first investment alongside the 'O' Share Fund, in Plastic Surgeon, as described above, investing £99,011 for 1.5% of the equity. Since the year end it has also supported the MBO of ATG Media, investing £404,158 for a 3.6% equity stake.

Whilst the 'S' Share Fund has not invested alongside the 'O' Share Fund in Apricot Trading, Aust Construction Investors and Calisamo Management, it is intended that it will do so as these companies identify and complete suitable MBO transactions.

Investment outlook

We continue to see a steady influx of interesting MBO investment opportunities but are particularly mindful of the worsening domestic economic environment and will complete only those investments which in our view are highly resilient and appropriately priced and funded to be able to weather the challenging economic conditions over the coming period.

Investment Portfolio Summary - 'O' Share Fund

As at 30 September 2008

	Cost at 30-Sep-08	Valuation at 30-Sep-07	Additional investments	Valuation at 30-Sep-08	% of equity held ³	% of portfolio by value
Matrix Private Equity Partners portfolio						
	£	£	£	£		
HWA Limited (Holloway White Allom Limited) Refurbishment, restoration and construction of notable public buildings and top-end residential dwellings in and around London	34,553	4,691,649	-	2,359,597	21.1%	10.22%
Image Source Group Limited	305,000	2,850,171	-	2,241,678	44.0%	9.71%

Royalty free picture library							
Youngman Group Limited	1,000,052	2,930,234	-	1,615,929	8.5%	6.99%	
Manufacturer of ladders and access towers							
Blaze Signs Holdings Limited	1,338,500	1,704,694	-	1,392,644	12.5%	6.03%	
Manufacturer and installer of signs							
Tottel Publishing Limited	514,800	809,221	-	1,294,585	13.7%	5.61%	
Publisher of specialist legal and taxation titles							
Amaldis (2008) Limited (Original Additions)	80,313	967,438	-	1,248,967	9.2%	5.41%	
Manufacturer and distributor of beauty products							
Apricot Trading Limited	1,000,000	-	1,000,000	1,000,000	24.5%	4.33%	
Company seeking to acquire businesses in the marketing services and media sector.							
Aust Construction Investors	1,000,000	-	1,000,000	1,000,000	16.3%	4.33%	
Company seeking to acquire businesses in the construction sector.							
Calisamo Management Limited	1,000,000	-	1,000,000	1,000,000	16.3%	4.33%	
Company seeking to acquire businesses in the healthcare sector.							
Tikit Group plc¹	500,000	1,304,346	-	899,999	3.0%	3.90%	
Provider of consultancy, services and software solutions for law firms							
PastaKing Holdings Limited	292,405	611,778	-	856,250	4.5%	3.71%	
Manufacturer and supplier of fresh pasta meals							
I-Dox plc¹	872,625	775,833	-	816,667	2.4%	3.54%	
Provider of document storage systems							
DiGiCo Europe Limited	656,900	656,900	-	763,337	4.3%	3.31%	
Designer and manufacturer of audio mixing desks							
VSI Limited	245,596	730,901	-	675,439	10.0%	2.93%	
Provider of software for CAD and CAM vendors							
Focus Pharma Holdings Limited	516,900	-	516,900	516,900	2.1%	2.24%	
Licensors and distributor of generic pharmaceuticals							
Brookerpaks Limited	55,000	416,130	-	417,540	17.1%	1.81%	
Importer and distributor of garlic and vacuum-packed vegetables to supermarkets and the wholesale trade							
British International Holdings Limited	500,000	538,535	-	375,112	5.0%	1.62%	
Helicopter service operator							
Vectair Holdings Limited	215,914	300,579	-	341,830	4.6%	1.48%	
Designer and distributor of							

washroom products							
PXP Holdings Limited (Pinewood Structures)	790,912	790,912	-	324,860	6.8%	1.41%	
Designer, manufacturer and supplier of timber frames for buildings							
Monsal Holdings Limited	424,447	-	424,447	318,335	6.6%	1.39%	
Supplier of engineering services to water and waste sectors							
B G Consulting Group Limited/Duncary 4 Limited	1,153,976	332,212	-	256,530	33.2%	1.11%	
Technical training business							
The Plastic Surgeon Holdings Limited	307,071	-	307,071	153,536	4.6%	0.66%	
Supplier of snagging and finishing services to property sector.							
Campden Media Limited	334,880	326,842	-	65,842	3.7%	0.29%	
Magazine publisher and conference organiser							
SectorGuard plc	150,000	107,142	-	64,286	1.1%	0.28%	
Provider of manned guarding, mobile patrols and alarm response services							
Racoon International Holdings Limited	550,852	413,139	-	13,692	7.7%	0.06%	
Supplier of hair extensions, hair care products and training							
Inca Interiors Limited	350,000	50,000	-	0	14.8%	0.00%	
Design, supply and installation of quality kitchens to house developers							
Letraset Limited	650,000	213,982	-	0	17.4%	0.00%	
Manufacturer and worldwide distributor of graphic art products							
BBI Holdings plc	-	1,430,231	-	-		0.00%	
Manufacturer of gold conjugate for the medical diagnostics industry							
Ministry of Cake (Holdings) Limited	-	1,039,709	-	-	0.0%	0.00%	
Manufacturer of desserts and cakes for the food service industry							
Special Mail Services Limited (Company sold in 2006)	-	-	-	-	12.6%	0.00%	
Other investments in the portfolio²	1,719,785	0	-	0	-	0.00%	
MPEP Total	16,560,481	23,992,578	4,248,418	20,013,555		86.70%	

Notes

¹ Investment formerly managed by Nova Capital Management Limited up to 31 August 2007.

² Other investments in the portfolio comprise The Hunter Rubber Company Limited (in administration), Stortext-FM Limited/Stortext (DO) Limited and FH Ingredients Limited, of which the principal operating subsidiary, FH Realisations Limited, is in administration.

³ The percentage of equity held for these companies may be subject to further dilution of an additional 1% or more if, for example, management of the investee company exercises share options.

	Cost at 30-Sep-08	Valuation at 30-Sep-07	Additional investments	Valuation at 30-Sep-08	% of equity held ³	% of portfolio by value
Former Foresight Group portfolio						
	£	£	£	£		
Oxonica plc Specialist in the design, manipulation and engineering of properties of materials at the nano-scale	2,524,527	1,944,060	387,764	1,113,991	10.6%	4.82%
Camwood Limited Provider of software repackaging services	1,028,181	1,028,181	-	552,444	34.7%	2.39%
DCG Group Limited (formerly DCG Datapoint Group Limited) Design, supply and integration of data storage solutions	312,074	376,283	-	321,013	6.3%	1.39%
Aquasium Technology Limited Business engaged in the design, manufacturing and marketing of bespoke electron beam welding and vacuum furnace equipment	700,000	567,310	-	311,306	16.7%	1.35%
NexxtDrive Limited¹ Developer of transmissions technologies for applications in the automotive, construction and industrial sectors	812,014	738,264	-	203,004	8.4%	0.88%
ANT plc Provider of embedded browser/email software for consumer electronics and Internet appliances	462,816	131,319	-	196,979	2.7%	0.85%
Biomer Technology Limited¹ Developer of biomaterials for medical devices	137,170	753,837	-	137,170	5.6%	0.59%
Corero plc (formerly Mondas plc) Provider of e-business technologies	600,000	279,955	-	73,672	6.5%	0.32%
Sarantel plc Developer and manufacturer of antennae for mobile phones and other wireless devices	1,881,251	408,465	-	68,078	3.6%	0.29%
Aigis Blast Protection Limited	272,120	249,990	-	68,030	4.2%	0.29%

Specialist blast containment materials company						
Alaric Systems Limited	595,803	446,822	-	30,647	8.1%	0.13%
Software developer and provider of support services in the credit/debit card authorisation and payments market						
Other investments in the portfolio ²	-	-	-	-	-	0.00%
	-----	-----	-----	-----	-----	-----
Foresight Total	9,325,956	6,924,486	387,764	3,076,334		13.30%
	-----	-----	-----	-----	-----	-----
O' Share Fund Total	25,886,437	30,917,064	4,636,182	23,089,889		100.00%
	-----	-----	-----	-----	-----	-----

Notes

¹ Investment formerly managed by Nova Capital Management Limited up to 31 August 2007.

² Other investments in the portfolio comprises data relating to Broadreach Networks Limited (dissolved in May 2008).

³ The percentage of equity held for these companies may be subject to further dilution of an additional 1% or more if, for example, management of the investee company exercises share options.

Investment Portfolio Summary - 'S' Share Fund

As at 30 September 2008

	Cost at 30-Sep-08	Valuation at 30-Sep-07	Additional investments	Valuation at 30-Sep-08	% of equity held ¹	% of portfolio by value
Matrix Private Equity Partners portfolio						
	£	£	£	£		
The Plastic Surgeon Holdings Limited	99,011	-	99,011	49,506	4.6%	100.00%
Supplier of snagging and finishing services to property sector.						
	-----	-----	-----	-----	-----	-----
S' Share Fund Total	99,011	0	99,011	49,506		100.00%
	-----	-----	-----	-----	-----	-----
Company totals	25,985,448	30,917,064	4,735,193	23,139,395		100.00%
	-----	-----	-----	-----	-----	-----

¹ The percentage of equity held for these companies may be subject to further dilution of an additional 1% or more if, for example, management of the investee company exercises share options.

Non-Statutory Analysis between the 'O' Share and 'S' Share Funds

1. **Profit and Loss Accounts** for the year ended 30 September 2008

	‘O’ Share Fund			‘S’Share Fund		
	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Unrealised (losses)/gains on investments held at fair value	-	(7,504,370)	(7,504,370)	-	(49,505)	(49,505)
Realised gains on investments held at fair value	-	2,053,510	2,053,510	-	-	-
Income	1,201,981	-	1,201,981	252,743	-	252,743
Recoverable VAT	83,278	249,833	333,111	-	-	-
Investment management fees	(166,985)	(923,688)	(1,090,673)	(30,043)	(90,122)	(120,165)
Other expenses	(434,526)	-	(434,526)	(82,479)	-	(82,479)
	-----	-----	-----	-----	-----	-----
Return on ordinary activities before taxation	683,748	(6,124,715)	(5,440,967)	140,221	(139,627)	594
Tax on ordinary activities	(83,911)	88,298	4,387	(22,862)	18,475	(4,387)
	-----	-----	-----	-----	-----	-----
Return attributable to equity shareholders	599,837	(6,036,417)	(5,436,580)	117,359	(121,152)	(3,793)
	=====	=====	=====	=====	=====	=====
Return per share	1.66 p	(16.72)p	(15.06)p	1.26 p	(1.30)p	(0.04)p
Average number of shares in issue			36,109,718			9,341,544

	Total		
	Revenue £	Capital £	Total £
Unrealised (losses)/gains on investments held at fair value	-	(7,553,875)	(7,553,875)
Realised gains on investments held at fair value	-	2,053,510	2,053,510
Income	1,454,724	-	1,454,724
Recoverable VAT	83,278	249,833	333,111
Investment management fees	(197,028)	(1,013,810)	(1,210,838)
Other expenses	(517,005)	-	(517,005)
	-----	-----	-----
Return on ordinary activities before taxation	823,969	(6,264,342)	(5,440,373)
Tax on ordinary activities	(106,773)	106,773	-
	-----	-----	-----
Return attributable to equity shareholders	717,196	(6,157,569)	(5,440,373)
	=====	=====	=====

2. Balance Sheets as at 30 September 2008

	'O' Share Fund	'S' Share Fund	Adjustments (see note below)		Total
	£	£	£	£	£
Fixed assets					
Assets held at fair value through profit and loss - investments	23,089,889	49,506			23,139,395
Current assets					
Debtors and prepayments	1,433,409	461,095	(50,727)	1,843,777	
Other assets	5,643,415	10,692,599		16,336,014	
Cash at bank	24,071	41,619		65,690	
	-----	-----	-----	-----	-----
	7,100,895	11,195,313	(50,727)	18,245,481	
Creditors: amounts falling due within one year	(566,564)	(77,327)	50,727	(593,164)	
	-----	-----	-----	-----	-----
Net current assets/(liabilities)	6,534,331	11,117,986			17,652,317
	=====	=====	=====	=====	=====
Net assets	29,624,220	11,167,492			40,791,712
	=====	=====	=====	=====	=====
Capital					
Called up share capital	354,515	118,065			472,580
Share premium reserve	213,062	11,053,220			11,266,282
Capital redemption reserve	65,472	-			65,472
Capital reserve - unrealised	(1,203,256)	(49,505)			(1,252,761)
Special reserve	18,169,799	-			18,169,799
Profit and loss account	12,024,628	45,712			12,070,340
	=====	=====	=====	=====	=====
Equity shareholders' funds	29,624,220	11,167,492			40,791,712
	=====	=====	=====	=====	=====
Number of shares in issue:	35,451,438	11,806,467			
Basic net asset value per 1p share:	83.56p	94.59p			
Diluted net asset value per 1p share:	82.39p	94.59p			

Note: The adjustment above nets off the inter-fund debtor and creditor balances, so that the "Total of both Funds" balance sheet agrees to the Statutory Balance Sheet below.

3. Reconciliation of Movements in Shareholders' Funds

	'O' Share Fund £	'S' Share Fund £	Total £
Opening shareholders' funds	36,778,493	-	36,778,493

Net share capital bought back in the year	(1,063,732)	-	(1,063,732)
Net share capital subscribed for in the year	77,226	11,171,285	11,248,511
Loss for the year	(5,436,580)	(3,793)	(5,440,373)
Dividends paid / payable in year	(731,187)	-	(731,187)
Closing shareholders' funds	29,624,220	11,167,492	40,791,712

Profit and Loss Account

for the year ended 30 September 2008

	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Net unrealised losses on investments	-	(7,553,875)	(7,553,875)	-	(3,150,761)	(3,150,761)
Net gains on realisation of investments	-	2,053,510	2,053,510	-	85,906	85,906
Income	1,454,724	-	1,454,724	981,124	432,488	1,413,612
Recoverable VAT	83,278	249,833	333,111	-	-	-
Investment management fees	(197,028)	(1,013,810)	(1,210,838)	(225,226)	(675,676)	(900,902)
Other expenses	(517,005)	-	(517,005)	(495,435)	-	(495,435)
Profit/(loss) on ordinary activities before taxation	823,969	(6,264,342)	(5,440,373)	260,463	(3,308,043)	(3,047,580)
Tax on ordinary activities	(106,773)	106,773	-	(19,868)	19,868	-
Profit/(loss) on ordinary activities after taxation for the financial year	717,196	(6,157,569)	(5,440,373)	240,595	(3,288,175)	(3,047,580)
Basic and diluted earnings per share – 'O' Share Fund:	1.66p	(16.72)p	(15.06)p	0.62p	(8.47)p	(7.85)p
Basic and diluted earnings per share – 'S' Share Fund:	1.26p	(1.30)p	(0.04)p	-	-	-

All the items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the period.

The total column is the Profit and Loss Account of the Company.

There were no other recognised gains and/or losses in the year.

The difference between the loss as reported above and the result that would have been reported on the historic cost basis of accounting is solely due to fair value adjustments. Accordingly, no reconciliation between the two bases has been provided.

Balance Sheet

as at 30 September 2008

	as at 30 September 2008			as at 30 September 2007		
	£	£	£	£	£	£
Fixed assets						

Investments at fair value		23,139,395		30,917,064
Current assets				
Debtors and prepayments	1,843,777		718,787	
Current investments	16,336,014		6,581,497	
Cash at bank	65,690		46,862	
		18,245,481		7,347,146
Creditors: amounts falling due within one year				
Other creditors	19,954		1,337,587	
Accruals	573,210		148,130	
		(593,164)		(1,485,717)
Net current assets		17,652,317		5,861,429
Net assets		40,791,712		36,778,493
Capital and reserves				
Called up share capital		472,580		365,895
Share premium account		11,266,282		136,594
Capital redemption reserve		65,472		53,334
Capital reserve - unrealised		(1,252,761)		8,425,544
Special reserve		18,169,799		21,508,270
Profit and loss account		12,070,340		6,288,856
		40,791,712		36,778,493
Net asset value per share				
'O' Shares - basic		83.56p		100.52p
'O' Shares - diluted		82.39p		100.52p
'S' Shares - basic and diluted		94.59p		

Reconciliation of Movements in Shareholders' Funds for the year ended 30 September 2008

	2008	2007
	£	£
Opening shareholders' funds	36,778,493	44,150,278
Net share capital bought back in the year	(1,063,732)	(2,202,103)
Net share capital subscribed for in the year	11,248,511	76,309
Loss for the year	(5,440,373)	(3,047,580)
Dividends paid/payable in the year	(731,187)	(2,198,411)
Closing shareholders' funds	40,791,712	36,778,493

Cash Flow Statement

for the year ended 30 September 2008

	Year ended 30 September 2008	Year ended 30 September 2007
Operating activities	£	£
Investment income received	1,435,092	1,758,835
Other income received	-	11,754
Investment management fees paid	(782,286)	(1,026,861)
Other cash payments	(564,901)	(492,457)
	-----	-----
Net cash inflow from operating activities	87,905	251,271
Investing activities		
Acquisition of investments	(5,735,193)	(3,544,272)
Disposal of investments	7,247,239	4,968,804
	-----	-----
	1,512,046	1,424,532
Equity Dividends		
Payment of equity dividends	(1,385,722)	(1,466,621)
	-----	-----
Cash inflow before financing and liquid resource management	214,229	209,182
Management of liquid resources		
Increase in monies held pending investment	(9,754,517)	(612,057)
Financing		
Issue of Ordinary shares	11,171,285	76,309
Purchase of own shares	(1,612,169)	(1,653,666)
	-----	-----
	9,559,116	(1,577,357)
	=====	=====
Increase/(decrease) in cash for the year	18,828	(1,980,232)
	=====	=====

Notes

1. Income

	2008	2007
Income from investments	£	£
– from equities	305,895	581,094
– from OEIC funds	659,358	375,523
– from loan stock	445,525	444,647
– from bank deposits	43,946	4,473
Total income	1,454,724	1,405,737
Total income comprises		
Revenue dividends received	965,253	524,129
Capital dividends received	-	432,488
Interest	489,471	449,120

Other income	-	7,875
	1,454,724	1,413,612

2. **Investment Managers' fees**

In accordance with the policy statement published under "Management and Administration" in the Company's Prospectus dated 13 October 2000, the Directors have charged 75% of the investment management expenses to capital reserve except for the incentive fee payable, which is charged 100% to capital .

3. **Return per 'O' Share**

The basic revenue return per 'O' Share is based on the net revenue from ordinary activities after taxation of £599,837 (2007: £240,595) and on 36,109,718 (2007: 38,802,180) 'O' Shares, being the weighted average number of 'O' Shares in issue during the year.

The basic capital return per 'O' Share is based on net realised capital loss of £6,036,417 (2007: £3,288,175) and on 36,109,718 (2007: 38,802,180) 'O' Shares, being the weighted average number of 'O' Shares in issue during the year.

4. **Return per 'S' Share**

The basic revenue return per 'S' Share is based on the net revenue from ordinary activities after taxation of £117,359 and on 9,341,544 'S' Shares, being the weighted average number of 'S' Shares in issue during the year.

The basic capital return per 'S' Share is based on net realised capital losses of £121,152 and on 9,341,544 'S' Shares, being the weighted average number of 'S' Shares in issue during the year.

5. **Net asset values**

Net asset value per 'O' Share is based on net assets at the end of the year and on 35,451,438 'O' Shares of 1 penny (2007: 36,589,479), being the number of 'O' Shares in issue on that date.

Net asset value per 'S' Share is based on net assets at the end of the year and on 11,806,467 'S' Shares of 1 penny (2007: nil), being the number of 'S' Shares in issue on that date.

6. **Dividends**

The Company proposes to pay a final dividend of 4 pence per share, comprising 1 penny per share from income and 3 pence per share from capital, to 'O' Fund Shareholders.

The Company is not proposing any final dividend from income to 'S' Fund Shareholders, as there are no distributable reserves in this Fund.

The dividends will be recommended to members at the Annual General Meeting and, if approved, will be paid on 16 February 2009 to shareholders on the Register on 16 January 2009.

7. **Financial information**

The financial information set out in these statements does not constitute the Company's statutory accounts for the year ended 30 September 2008 but is derived from those accounts. Statutory accounts will be delivered to the Registrar of Companies after the Annual General Meeting.

8. **Annual Report**

A Summary Annual Report will be circulated by post to all Shareholders shortly and copies will be available thereafter to members of the public from the Company's registered office. Shareholders who wish to receive a copy of the full Annual Report may request a copy by writing to the Company Secretary, Matrix-Securities Limited, One Vine Street, London W1J 0AH. Alternatively copies may be downloaded via the Company's website at www.incomeandgrowthvct.co.uk.

9. The Annual General Meeting of the Company will be held at 11.00 am on 6 February 2008 at One Vine Street, London W1J 0AH.

..... Director's initials