Close Second AIM VCT PLC

Report and Financial Statements
for the year ended 29 February 2008

Contents

Company information

Directors

Elizabeth Anita Kennedy (52) LLB (Hons) FCIS FSI, *Chairman*

A qualified solicitor, Elizabeth joined the corporate finance department of Parsons & Co. in 1981 and moved to Brewin Dolphin Limited in 1996. Since then she has been a director in the corporate finance and lately in the corporate broking departments, specialising in advising on flotations, secondary issues, takeovers, acquisitions and reconstructions on AIM and the Official List. She has been a member of the London Stock Exchange's AIM Advisory Group since 1995, was its Chairman between 1999 and 2002 and is a member of the AIM Disciplinary Commitee. Elizabeth is a director of F & C Private Equity Trust plc. She became Director and Chairman of the Company on 13 February 2001.

Sir Aubrey Thomas Brocklebank (56) BSc ACA

From 1986 to 1990, Sir Aubrey was a director of Venture Founders Limited, managing a £12 million venture capital Fund which was raised to invest in early stage ventures. He managed the Avon Enterprise Fund (a venture capital fund of £4.5 million investing in about 20 companies) from 1990 until all investments had been realised in 1997. He is chairman of The AIM Distribution Trust PLC, the four Puma VCT's, Key Data AIM VCT plc, Key Data AIM VCT 2 plc and Top Ten Holdings plc. He is director of a number of other companies including Pennine 6 VCT plc. Sir Aubrey Brocklebank became a Director of the Company on 14 February 2001.

Alastair James Ritchie (60) BA (Econ)

Since 1993, Alastair has been actively involved in small company investment, MBO/MBI opportunities and corporate recovery. He is presently chairman of a number of companies, including John Swan and Sons plc, livestock auction mart operators and a director of Aberforth Geared Capital and Income Trust PLC. Alastair Ritchie became a Director of the Company on 14 February 2001.

Investment Manager

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Company number

SC215733

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

* (Calls cost 10 pence per minute plus network extras.)

The Investment Manager

With effect from 30 September 2006, the business activities of Close Investment Limited (formerly Rutherford Asset Management Limited ("RAML")), were transferred to a fellow subsidiary of Close Brothers Group plc, Close Investments Limited. RAML was established in June 1992 to specialise in investment in small and unquoted companies. In August 1994, RAML was appointed as the investment manager to the newly formed Beacon Investment Trust plc ("Beacon"), one of the first investment vehicles to specialise in what was then the Rule 4.2 trading facility (where bargains in unquoted securities were matched) of the London Stock Exchange. Beacon was converted into an open ended investment company ("OEIC"), Close Beacon Investment Fund, in December 1999.

RAML played a leading role in the establishment of AIM. In May 1997, RAML was acquired by Close Brothers Group plc and changed its name to Close Investment Limited subsequently becoming Close Investments Limited.

In addition to Close Second AIM VCT PLC, Close Investments Limited also provides investment advice to a number of funds which specialise in investment in small unquoted companies including two Venture Capital Trusts, Close IHT AIM VCT PLC and Close Brothers AIM VCT PLC. It also advises a range of portfolios which seek to achieve benefits for their investors such as accelerated taper relief, inheritance tax business property relief and capital gains tax deferral. Close Investments Limited therefore has the necessary experience to manage the share portfolio and continues to be a prominent manager of specialist AIM portfolios. It has three experienced AIM and PLUS specialist managers.

The AIM investment team of Close Investments Limited is as follows:

Andrew Buchanan (56)
Andrew Buchanan joined Barclays Bank to manage investment portfolios in 1973. After gaining an MBA from London Business School, he joined Performance Analysis Services in 1980, specialising in quantitative investment analysis. In 1985, he moved to Mercury Asset Management, where he managed UK equities for a range of pension funds. After a period at Hoare Govett he joined RAML in 1993 and has been responsible for managing Beacon since its establishment in 1994. Andrew is also involved in the management of all of the AIM portfolios, particularly the capital gains tax deferral portfolios referred to above, which invest in AIM and PLUS companies.

Kate Tidbury (45)
Kate Tidbury joined Close Investments Limited in November 2000 after a career which has included experience both as an investment analyst and as a fund manager, including periods as an analyst with Sheppards and Chase and Panmure Gordon. From 1993 to 2000 she managed funds totalling £180m including specialist ethical and small and mid-cap funds, initially for the Co-operative Bank, and then for Colonial First State Investments. Kate is involved in the management of all of the AIM portfolios, particularly the inheritance tax portfolios.

Stephen Wood (25)
Stephen Wood joined Close Investments Limited at the beginning of 2007 initially working for the specialist technology team and latterly with the AIM team. Stephen holds a Masters degree in Electronic Engineering from University College London.

Capital Structure

Close Second Aim VCT PLC (the “Company” or the “Fund”) is a venture capital trust which raised £8.9 million through an issue of Ordinary shares between February and June 2001.

In 2006 the Company raised a further £20.25 million through the issue of C and D shares. Whilst C shares follow a conventional VCT format and will merge with the Ordinary shares in June 2009, the D shares offer the opportunity for a distribution in specie or (but not part) the option to merge with the Ordinary share portfolio.

The distribution in specie in 2009 will enable shareholders to create their own portfolio which under certain conditions can assist with Inheritance Tax planning.

Investment Strategy

The investment strategy aims to maximise long term capital growth from a portfolio of investments primarily comprising AIM and PLUS quoted companies and provide a steady income stream. The Investment Manager will allocate approximately 80 per cent of its funds to Qualifying Investments in companies quoted on AIM or PLUS and the balance of 20 per cent to Non-qualifying Investments.

Qualifying Investments
The policy adopted by the Investment Manager, Close Investments Limited is to seek to achieve such capital appreciation as is consistent with a prudent approach to investment in companies traded on AIM or PLUS which qualify for venture capital trust purposes. It is the Investment Manager’s intention to manage a broadly based portfolio of investments.

Non-qualifying Investments
Once its qualifying target has been reached, the Company intends that approximately 20 per cent of its funds will be invested in non-qualifying investments, principally comprising floating rate securities, and short-term money-market deposits. A proportion of the 20 per cent will be invested in UK smaller companies both directly and indirectly including the Close Special Situations Fund managed by the Investment Manager. All investment management fees earned by the Manager on any such investment will be rebated to the Company.

Financial highlights

	Ordinary Shares		C & D Shares	
	Year ended 29 February 2008	Year ended 28 February 2007	**Year ended 29 February 2008**	Year ended 28 February 2007
Dividends paid per share (pence)	**11.00**	7.00	**2.21**	0.75
(Loss)/return per share for the year (pence)	**(11.87)**	7.20	**(4.90)**	3.05
Net asset value per share (pence)	**40.18**	62.97	**89.25**	96.36
Movement in FTSE AIM Index (%)	**(7.48)**	(6.34)	**(7.48)**	(6.34)
Movement in FTSE Small Cap (excl. Investment Trusts) (%)	**(25.33)**	12.70	**(25.33)**	12.70

Shareholder value per share since launch:

	Ordinary Shares pence per share	C & D Shares pence per share
Total dividends paid during the year to 28 February 2003	1.60	–
Total dividends paid during the year to 29 February 2004	–	–
Total dividends paid during the year to 28 February 2005	–	–
Total dividends paid during the year to 28 February 2006	1.00	–
Total dividends paid during the year to 28 February 2007	7.00	0.75
Total dividends paid during the year to 29 February 2008	11.00	2.21
Total dividends (capital and revenue)	20.60	2.96
Net asset value at 29 February 2008	40.18	89.25
Total cumulative shareholder return at 29 February 2008	60.78	92.21

In addition to the dividends above, the Board has declared an Ordinary share dividend to be paid out of realised gains of 1.00 pence per share. This dividend is subject to the approval of HM Revenue & Customs. The record date and payment date of this dividend will be announced on the London Stock Exchange RNS Service.

The Board has also declared a revenue dividend of 1.00 pence per C and D share to be paid on 25 July 2008 to shareholders on the register as at 27 June 2008.

Financial calendar

Annual General Meeting	15 July 2008
Record date of first C and D share dividend	27 June 2008
Payment date of first C and D share dividend	25 July 2008
Announcement of half-yearly results for the six months ended 31 August 2008	October 2008

Chairman's statement

In my Half-yearly statement last October, I highlighted the detrimental effect that news of sub-prime losses and the credit crunch had already had on the market, and particularly on smaller company shares.

Unfortunately, the second half of the year has continued in the same vein as that of the first, namely volatile stockmarkets that have particularly impacted the share prices of smaller companies as appetite for risk has diminished. As a result I have to report a net asset value decline of 18.7 per cent and 5.1 per cent (after adding back dividends paid of 11.00 pence and 2.21 pence per each class of share) for the Ordinary and C and D shares respectively for the year to 29 February 2008.

The above performance needs to be placed into context. Although there is not a perfect comparable index, the two most relevant indices are the FTSE AIM Index and the FTSE Small Cap (excl. Investment Trusts). The former declined by 7.5 per cent, reflecting its significant bias (30 per cent) towards the Oil and Gas, and Basic Materials sectors which performed very well, but in which we cannot invest. The latter index, which does not have the same bias, declined by 25.3 per cent during this period.

During the second half of the year, the C and D share portfolio made 8 new qualifying investments and ended the year 45 per cent invested in qualifying holdings. Investments made since the year end have increased this to 55 per cent. With eight months to go, the Investment Manager is confident of being able to meet the HM Revenue & Customs target of 70 per cent for the Company.

Performance

The Investment Manager's report on page 7 gives further details of the market background and the reasons underlying the performance of the portfolios. The graph on page 25 shows the total return of each class of share against the FTSE AIM Index since launch. As explained above, the FTSE AIM Index includes a substantial proportion of companies in which we cannot invest and thus it is not a strictly comparable benchmark.

Dividends

Ordinary shares

Dividends paid during the financial year to 29 February 2008 totalled 11.00 pence per Ordinary share. The Board has declared a first dividend of 1.00 pence per share to be paid out of realised capital gains. This dividend is subject to HM Revenue & Customs approval and the record date and payment date of this dividend will be announced on the London Stock Exchange RNS service.

C&D shares

Dividends paid during the financial year to 29 February 2008 totalled 2.21 pence per C and D share. In addition, the Board has declared a first dividend of 1.00 pence per share. This revenue dividend will be payable on 25 July 2008 to shareholders on the register as at 27 June 2008.

Share buybacks and management of the discount

Your Board continues to believe that it is in the best interests of all shareholders for it to manage the discount to net asset value at which the shares trade with a view to maintaining it at 10 per cent or below. During the year under review 94,848 Ordinary shares were repurchased for cancellation. In addition 113,656 Ordinary shares were bought into Treasury, at an average price of 40 pence, which may give your Board greater flexibility in regard to future re-issuance. There were no C or D shares purchased. Shareholders intending to sell their shares might wish to contact the Investment Manager at Close Investments Limited.

Risks and Uncertainties

One of the key issues facing the Company is the need to meet HM Revenue & Customs regulations requiring 70 per cent of your Company to be invested in qualifying holdings within three years and to maintain that level of cover thereafter. Although the UK economy may still be growing, it could be affected by the current unease in the financial and property markets. While this could give rise to additional investment opportunities at lower prices, a downturn could affect existing investee companies' trading prospects and share prices. Other risks and uncertainties are described in the Directors' report and business review on page 26.

Chairman’s statement
(continued)

Proposed change to the Company’s Articles of Association

At the Annual General meeting, a special resolution will be proposed to adopt new Articles (the “New Articles”) in order to update the Company’s existing Articles of Association (the “Current Articles”) and to take account of the changes that have been brought into force by Companies Act 2006. Whilst the Company will be incorporating the new provisions of the Companies Act 2006 in relation to electronic and/or website communications, it does not yet intend to communicate with its shareholders via such means. A further resolution will be proposed to enable the Directors to manage the conflicts of interest as permitted by Companies Act 2006 and which will come into force on 1 October 2008 or such later date as section 175 of Companies Act 2006 provides. The Directors are proposing a resolution to allow Directors to approve actual or potential conflicts situations, should it be in the Company’s best interests to do so, and to allow conflicts of interest to be dealt with in a similar way to the current position. A summary of the principal changes that are proposed to be made to the Current Articles by resolution 9 is contained in the Directors report and business review on pages 30 to 32, along with details of these changes that will come into force on 1 October 2008 as a result of resolution 10.

Outlook

The year under review has been an exceptionally difficult time for financial markets and smaller companies in particular. The Investment Manager’s report on page 7 provides further detail. There has been a collapse in confidence amongst investors and until this is restored, markets will remain fragile. In addition, there is now evidence of a slowing economy coupled with increased inflation, which will make it harder for companies to grow. Thus, despite the generally good recent trading results from many of the companies in your portfolio, their share prices have been substantially de-rated compared with larger companies. We expect many companies in your portfolio to continue to make underlying trading progress; however, this progress is unlikely to be reflected in valuations until underlying sentiment towards smaller companies turns.

Alastair Ritchie
Director

13 June 2008

Investment Manager's report

Introduction

The focus of the year under review was the ongoing investment of the cash in the C & D share portfolio in order to achieve qualifying status for the Company by 28 February 2009. The Ordinary portfolio sought to maintain its qualifying level of cover at 80 per cent or more.

Market Overview

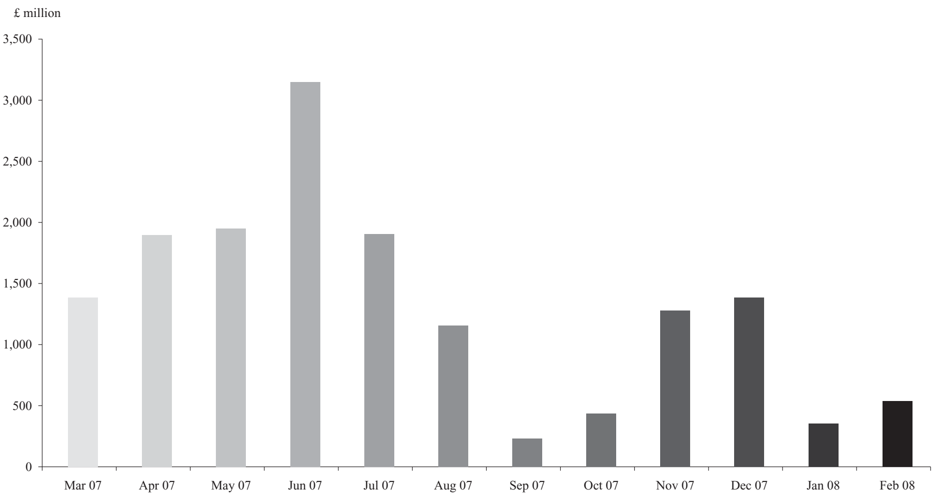
The AIM market has, like every equity market this past year, suffered several bouts of severe volatility in a general downward trend. The first part of 2007 was dominated by early signs of what we all now fully recognise, namely the credit crisis. In addition, markets began to worry about slowing global economic growth (particularly in the US) and UK economic concerns relating to property market weakness and inflation. These fears gathered momentum as 2007 progressed, fuelled by the near collapse of Northern Rock and worries over financial contagion in international markets. Against this backdrop market sentiment turned negative with the resulting "flight to quality" and quality, in such conditions, does not include small companies as they are seen as riskier assets. As trading volumes in smaller company shares became a casualty, smaller company shares lost their premium ratings relative to larger companies. This has continued to be the case since the end of February 2008, as concerns about the global economic environment have increased.

All of the above affected smaller companies generally, with the result that the FTSE Small Cap Index (ex Investment Trusts) fell by 25.3 per cent in the year. The FTSE AIM Index fared much better because of its high weighting in the outperforming resource sectors. Unfortunately your Company is unable to invest in resource stocks, and so the FTSE AIM Index has been a poor comparative in the period.

You will see from the charts below that these market conditions had a significant effect on the number of funds raised on FTSE AIM and the number of admissions on FTSE AIM in the second half of the year. It should also be noted that many of the admissions to FTSE AIM in the year were in the resource sector and therefore not part of the VCT's available universe. There are still VCT qualifying opportunities out there, but there is less choice than there was a year ago.

Funds Raised (£m) on FTSE AIM

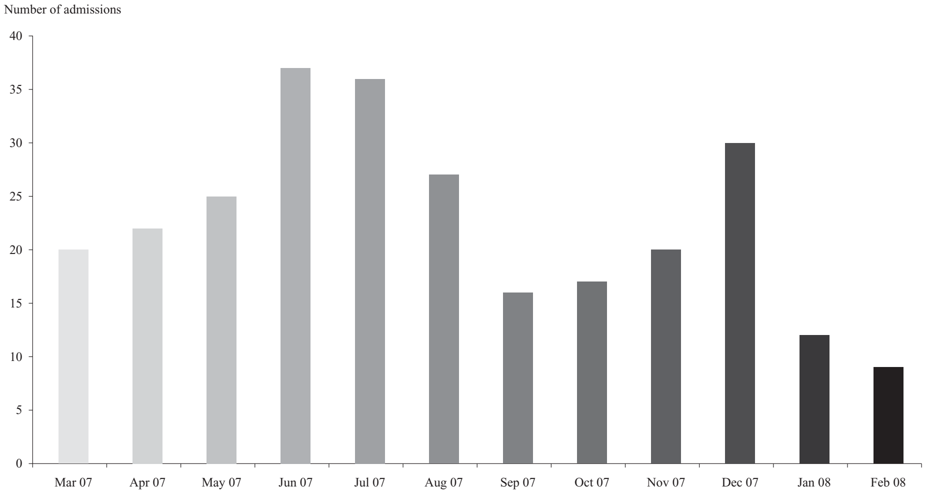
1 March 2007 to 28 February 2008



Source: London Stock Exchange

Investment Manager's report
(continued)

Admissions to AIM
1 March 2007 to February 2008



Source: London Stock Exchange

Ordinary share portfolio

Performance

Despite many companies within the portfolio reporting positive trading updates, the performance of your Company's NAV has undoubtedly been negatively affected by the rapid change in market sentiment and falling smaller company valuations. It is fair to say that share prices at the moment generally bear little relation to companies' trading performance. During the year under review, the Ordinary share NAV fell by 18.7 per cent (after adding back the 11 pence of dividends paid out in the year) against a 7.5 per cent fall in the FTSE AIM Index and a 25.3 per cent fall in the FTSE Small Cap Index (ex Investment Trusts). However as highlighted earlier, the second half of the financial year has been particularly weak since the credit crisis hit the headlines in August. As a result, the Ordinary share NAV fell by 15 per cent (after adding back a 1.00 pence dividend) against a 7.4 per cent fall in the FTSE AIM Index on a total return basis in the second half of the year.

This outperformance of the FTSE AIM Index relative to the portfolio reflects the dominance of oil, gas and mining stocks, which represent nearly a third of FTSE AIM Index by value. Buoyancy in commodity markets and continued increases in the price of oil helped the share price performance of these stocks on AIM last year. However, we have been encouraged by the good trading results reported by various companies within the portfolio during the year under review.

All of the shares in the portfolio were affected by market conditions, but there were some notable movements. In the second half, the biggest contributors to the poor performance were those perceived as cyclical, which made up quite a proportion of the investments. An example would be Bond International Software, where beating market expectations counted for nothing in the face of fears about a slowdown in demand from its recruitment company customers. It has continued to announce a string of new contracts. All the recruitment companies in the portfolio also suffered, led by Imprint which had its own difficulties but has now been taken over for cash. Vertu Motors has also seen its share price halve since it floated on fears about the effect of an economic slowdown on its business. It currently sits at a significant discount to net assets. The other poor performer was Clapham House which now has Capricorn Ventures as a 26 per cent shareholder as a result of share buying on weakness.

Portfolio Activity

The portfolio listed on page 13 consists of twenty seven qualifying holdings at a cost of £2.5m. At the end of February 2008, the Ordinary share portfolio was 86 per cent invested in Qualifying holdings for HM Revenue & Customs purposes.

During the year four Qualifying investments were made at a cost of £0.2m. This was below the level of investment for the previous year and represented a progressive decline in the number of attractive VCT Qualifying opportunities as market turbulence increased. All were made alongside the C & D share portfolio. There is a short description of these in the new investments section on page 10.

Investment Manager’s report
(continued)

You will see from the schedule of disposals on page 18 that we sold ten Qualifying investments realising £0.9m in the year. The biggest disposal was of shares in Computer Software Group, which was taken private. Of the rest, Torex Retail went into liquidation, and we sold complete holdings in Zenith, Accuma, Huveaux, and Petards after they had disappointed over a period of time. We also took some profits in holdings such as Mattioli Woods, Clapham House, Individual Restaurant Group and Bond International Software. Profits on the disposals have added £0.3m to the future dividend paying ability of the Company.

C & D share Portfolio

Performance

The NAV of the C & D shares fell by 7.4 per cent to 89.25p. If dividends paid out during the year are added back, the total negative return was 5.1 per cent. This compares with a fall in the FTSE AIM Index of 7.5 per cent. The C & D shares were also affected by market conditions, particularly in the second half of the year when the NAV fell by 7.2 per cent (after adding back a 1p dividend) against a background of rapidly worsening sentiment and falling smaller company valuations. The decline was less severe than in the Ordinary shares because cash weightings were still much higher as the portfolio is being invested.

Portfolio activity

The portfolio listed on page 13 consists of twenty two Qualifying holdings at a cost of £8.0m. At the end of February 2008, the C & D share portfolio was 45 per cent invested in Qualifying holdings with twelve months to go to achieve 70 per cent.

During the year fifteen Qualifying investments were made at a cost of £5.4m. This represented an increase in the rate of investment that had been achieved the previous year despite harder market conditions. Of these investments, seven were in existing AIM companies, allowing the valuation to be set by an existing share price in the marketplace reflecting market conditions at the time. The remainder were new flotations, where prices became more realistic as the year progressed. There is a short description of the new investments on page 10.

You will see on page 18 that there was only one disposal, BBI, which was taken over thus realising a profit of £0.2m. Our priority is to reach the 70 per cent qualifying level, and so in the absence of a sudden glut of investment opportunities or a spate of takeovers it is unlikely that there will be many disposals from this portfolio during the year in progress.

Among the existing holdings, there was mainly good trading news. The disappointments have been Telephonetics, Twenty and BGlobal. Telephonetics and Twenty have suffered from a sharp rise in costs resulting in lower profit margins. However, Telephonetics has announced several contract wins over the last few months which is more encouraging. BGlobal has been affected by the UK Government’s consultation on smart metering which caused a delay in large scale installations by a major energy supplier. However, we believe the company is still well placed to benefit from future market growth. The company recently announced that it is to supply end-to-end smart metering solutions to Scottish & Southern Energy’s largest electricity business customers, although it remains well behind its original business plan.

Hexagon Human Capital is now the largest senior interim management provider in Europe following its latest acquisition. The company’s interim results showed continued improvement in the core interim management business. The company’s share price fall over the last few months, though in line with the recruitment sector in general, poorly reflects the visibility of its income relative to its sector peers.

Neuropharm trials for autism appear to be on track and since the share float the company has signed to major collaborative agreements in the US as well as achieving orphan status for its drugs. IDOX has fully integrated CAPS Solution which it acquired in June 2007. The trading performance of both IDOX and CAPS Solution has been strong and the installed base of its systems continues to grow. Both Vertu Motors and Individual Restaurant Company have recently issued positive trading statements despite concerns about the UK consumer. Hatpin, a recruitment business, which has a market value of £0.2m in these accounts, went into administration in May 2008 and we believe that it is unlikely that the Fund will realise anything from this investment.

Investment Manager's report
(continued)

New Investments in the Ordinary and C&D share portfolios

Animalcare

Animalcare is a provider of pharmaceutical products and services to vets and vet wholesalers.

BGlobal

BGlobal provides smart meters for the utilities market.

Claimar Care Group

Provider of domiciliary care services to local authorities in the UK.

Craneware

Craneware develops and supplies billing software analysis for the US healthcare services sector.

Fishworks

Operator of a chain of fish restaurants.

IDOX

IDOX is a software company that develops document, content and information management systems for the public sector.

Lombard Medical Technologies

Specialist cardiovascular device and polymer coating company.

Melorio

Melorio floated on AIM in October 2007 and is a newly formed vehicle aimed at consolidating the UK vocational training market.

Mount Engineering

Mount Engineering manufactures and supplies thread conversion adaptors mainly for the oil industry.

Neuropharm Group

Neuropharm is a pharmaceutical company specialising in the development of treatment for autism and other disorders of the central nervous system.

Optimisa

Optimisa is a media consultancy and market research company specialising in interpreting market data and forecasting business models for new and existing product lines.

Plastics Capital

Plastics Capital is a manufacturer and supplier of high margin plastic mouldings and extrusions to the industrial sector.

Pressure Technologies

Pressure Technologies designs, manufacturers and tests high pressure seamless steel cylinders used in the global energy and defence markets.

Outlook

We have moved from a benign economic background to a rather more hostile one as far as small companies are concerned. Fears about the UK consumer retreating further in the face of falling house prices, rising energy and food prices and financial sector woes have resulted in downward revisions to UK GDP growth in 2008. Despite cuts in base rates to the current 5 per cent level, inflationary pressures remain high on the Bank of England's list of concerns leaving further room for limited manoeuvres.

Investment Manager's report
(continued)

Against this background, it should not really be a surprise that smaller company share prices have been de-rated to the extent that they have. However, the crucial question for investors now is whether the problems which lie ahead are already fully reflected in smaller company share prices. To answer that question, we have to make the assumption that companies will continue to trade and, although they may not be as profitable as current estimates suggest, that they will still be profitable. We would argue strongly that in general share prices now reflect the macro concerns of investors and that cash generative companies, representing minimal risk to banks, will be able to trade and borrow relatively normally. Thus for such companies, share prices which reflect a general mark down by market makers are probably too cheap, because, as usual in the first phase of a market adjustment, the stock market fails to discriminate between companies. It requires specific information about companies over time to begin to be able to value them correctly.

While it is undoubtedly true that there are some major economic issues that have to be resolved and, no doubt too, some further shocks perhaps involving another major bank's solvency, it seems to us that, as regards small companies, the worst that is likely to befall their share prices has largely occurred. What we cannot yet predict is the length of time that the economy takes to recover some degree of positive growth and therefore the time during which small company share prices might stagnate. However, even a period in which share prices hardly move may be sufficient to rekindle some new issue activity and that will begin to attract attention to value that small companies then represent. We expect investments made whilst current market conditions persist to be at more attractive valuations giving scope for price appreciation over the medium term.

Close Investments Limited

13 June 2008

Summary of investments
at 29 February 2008

	Ordinary shares Fair value £'000	Ordinary shares Percentage of investments and cash %	Ordinary shares Original cost £'000	C & D shares Fair value £'000	C & D shares Percentage of investments and cash %	C & D shares Original cost £'000
Equities traded on AIM or PLUS	**2,426**	**80.79**	**2,588**	**7,355**	**40.65**	**8,264**
Listed investments	–	–	–	**7,419**	**41.00**	**7,504**
Authorised unit trust	–	–	–	**1,057**	**5.84**	**1,000**
Total investments	**2,426**	**80.79**	**2,588**	**15,831**	**87.49**	**16,768**
Cash	**577**	**19.21**	**577**	**2,263**	**12.51**	**2,263**
Total investments and cash	**3,003**	**100.00**	**3,165**	**18,094**	**100.00**	**19,031**

Portfolio of Investments

The following are details of qualifiying investments at 29 February 2008

Qualifying Investments Company and nature of business	Fair value at 29 February 2008 Ordinary Shares £'000	C & D Shares £'000	Book cost at 29 February 2008 Ordinary Shares £'000	C & D Shares £'000	Shareholding at 29 February 2008 Ordinary Shares £'000	C & D Shares £'000	Voting equity owned %	Voting equity owned by CIL* managed funds %
Animalcare Group Ord GBP0.20 Provider of pharmaceutical products and services to vets and vet wholesalers.	–	511	–	485	–	881,818	4.5	12.7
Atlantic Global Ord GBP0.05 Provider of resource management software.	105	–	187	–	750,013	–	3.3	3.3
BGlobal Ord GBP0.01 Provider of smart meters for the utilities market.	–	117	–	150	–	300,000	0.5	1.6
Bond International Software Ord GBP0.01 Provider of business software and support solutions to the recruitment and human resources industry.	124	–	43	–	107,500	–	0.3	2.4
Brooks MacDonald Group Ord GBP0.01 Provider of asset management and financial consulting services.	194	–	100	–	71,429	–	0.7	3.1
Brulines (Hldgs) Ord GBP0.10 Provider of quality revenue protection systems mainly for pub chains.	78	234	68	202	54,902	164,706	0.9	2.9
Cello Group Ord GBP0.10 Marketing services group.	155	–	145	–	144,900	–	0.4	2.2
Claimar Care Group Ord GBP0.10 Provider of domicilliary care services in the UK.	–	400	–	400	–	380,952	0.8	4.3
Clapham House Group (The) Ord GBP0.10 Acquirer and developer of restaurants across the UK.	90	–	46	–	45,980	–	0.1	0.6
Clerkenwell Ventures Ord GBP0.05 Currently a cash shell with a focus on acquiring UK restaurant groups.	36	396	50	550	133,333	1,466,666	2.2	8.0
Concateno Ord GBP0.10 Provider of drug and alcohol testing services.	108	–	77	–	76,923	–	0.1	0.4
Craneware Ord GBP0.10 Developer of billing software to the US healthcare industry.	26	173	21	140	16,409	109,375	0.5	1.6
Datong Electronics Ord GBP0.005 Developer and manufacturer of high performance surveillance products.	79	–	100	–	78,125	–	0.6	3.4
Dowlis Corp Sols Ord GBP0.004 Distributor of promotional products to large corporate entities.	54	–	100	–	277,778	–	0.7	5.1
Fishworks Ord GBP0.01 Operator of a chain of fish restaurants.	–	220	–	220	–	3,666,667	3.3	7.3

Portfolio of Investments
(continued)

Company and nature of business	Fair value at 29 February 2008 Ordinary Shares £'000	Fair value at 29 February 2008 C & D Shares £'000	Book cost at 29 February 2008 Ordinary Shares £'000	Book cost at 29 February 2008 C & D Shares £'000	Shareholding at 29 February 2008 Ordinary Shares £'000	Shareholding at 29 February 2008 C & D Shares £'000	Voting equity owned %	Voting equity owned by CIL* managed funds %
Freedom 4 Communications Ord GBP0.01 Provider of telecommunications services.	81	–	22	–	1,107,616	–	0.1	0.4
Hatpin Ord GBP0.025 Provider of recruitment services.	–	115	–	246	–	341,880	1.1	3.6
Hexagon Human Capital Ord GBP0.10 Provider of recruitment services.	–	401	–	505	–	306,241	1.7	5.2
IDOX Ord GBP0.01 Developer of document, content and information management systems for the public sector.	–	271	–	189	–	2,520,000	0.7	3.1
Imprint Ord GBP0.01 Provider of recruitment services.	93	–	124	–	85,327	–	0.2	1.5
Independent Media Support Ord GBP0.025 Supplier of media access services.	25	–	149	–	260,000	–	1.0	5.3
Individual Restaurant Group Ord GBP0.35 Operator of a chain of restaurants.	–	139	–	173	–	165,045	0.5	2.1
Lombard Medical Technologies Ord GBP0.02 Specialist cardiovascular device and polymer coating company.	–	279	–	300	–	2,142,857	1.6	3.6
Mattioli Woods Ord GBP0.01 Provider of pensions consultancy and administration services.	133	–	61	–	46,475	–	0.3	3.1
Mears Group Ord GBP0.01 Building maintenance contractor to local authorities, the MOD and the private sector.	155	–	130	–	55,826	–	0.1	0.6
Media Square Ord GBP0.05 Provider of marketing and communication services.	51	–	108	–	599,272	–	0.2	1.0
Medical House Ord GBP0.01 Supplier and manufacturer of medical instruments.	58	–	167	–	320,513	–	0.5	0.5
Melorio Ord GBP0.10 Acquirer and consolidator of UK vocational training businesses.	92	549	82	490	82,000	490,000	1.8	6.4
Mount Engineering Ord GBP0.01 Manufacturer and supplier of thread conversion adaptors mainly for the oil industry.	–	418	–	431	–	615,429	2.5	8.2

Portfolio of Investments
(continued)

Company and nature of business	Fair value at 29 February 2008 Ordinary Shares £'000	Fair value at 29 February 2008 C & D Shares £'000	Book cost at 29 February 2008 Ordinary Shares £'000	Book cost at 29 February 2008 C & D Shares £'000	Shareholding at 29 February 2008 Ordinary Shares £'000	Shareholding at 29 February 2008 C & D Shares £'000	Voting equity owned %	Voting equity owned by CIL* managed funds %
Neuropharm Group Ord GBP0.10 Pharmaceutical company specialising in the development of treatment for autism and other disorders of the central nervous system.	–	669	–	500	–	393,700	1.3	4.3
Optimisa Ord GBP0.25 Media service provider.	50	327	68	443	31,440	204,360	2.7	8.8
Pilat Media Global Ord GBP0.05 Software provider for the global multi-channel broadcasting market.	59	–	88	–	160,561	–	0.3	3.3
Plastics Capital Ord GBP0.01 Manufactures proprietary plastic products for niche markets.	–	409	–	465	–	465,000	1.7	5.2
Playgolf (Holdings) Ord GBP0.002 Owner and operator of golfing facilities.	36	–	150	–	900,000	–	1.2	5.8
Pressure Technologies Ord GBP0.05 Designer, manufacturer and tester of high pressure, seamless steel cylinders.	–	440	–	300	–	200,000	1.8	5.6
Research Now Ord GBP0.02 World-wide online fieldwork and specialist panel consumer company.	148	265	73	300	55,916	100,000	0.9	4.8
Strategic Thought Group Ord GBP0.01 Owner and licensee of risk management software.	14	–	54	–	45,278	–	0.2	1.0
Telephonetics Ord GBP0.01 Provider of advanced speech recognition products and services.	–	141	–	364	–	1,820,000	1.7	7.5
Twenty Ord GBP0.10 Marketing services group.	–	200	–	500	–	2,500,000	5.2	18.1
Vertu Motors Ord GBP0.10 Acquirer and consolidator of UK based motor retail businesses.	102	410	150	600	250,000	1,000,000	1.4	4.5
Win Ord GBP0.10 Provider of service that enables business customers to send and receive text messages to and from a large number of users.	62	–	87	–	43,000	–	0.4	3.2
Zetar Ord GBP0.10 Acquirer of companies and businesses in the confectionery, snack food and related markets within the UK.	162	–	65	–	32,365	–	0.3	2.1
Total qualifying investments at 29 February 2008	**2,370**	**7,084**	**2,515**	**7,953**				

It should be noted that although investments were originally floated on AIM or PLUS, some may progress to a full listing.
* CIL: Close Investments Limited, the Investment Manager.

Portfolio of Investments
(continued)

Non-qualifying holdings consist primarily of authorised unit trust investments and floating rate note securities. In addition, any shares quoted on AIM, which are purchased in the secondary market, rank as a non-qualifying investment. Some of the original investments made by your Company which were approved for VCT purposes as a qualifying trade at the time of investment by the HM Revenue & Customs, may by the nature of their continuing business activities become a non-qualifying trade.

The following are the details of non-qualifying investments held at 29 February 2008:

	Fair value at 29 February 2008		Book cost at 29 February 2008		Shareholding at 29 February 2008	
Non-qualifying investments	**Ordinary Shares £'000**	**C & D Shares £'000**	**Ordinary Shares £'000**	**C & D Shares £'000**	**Ordinary Shares £'000**	**C & D Shares £'000**
Listed Investments						
Alliance & Leicester Floating Rate Note 10/10/08	–	2,482	–	2,500	–	2,500,000
Citigroup Inc Floating Rate Note 01/11/10	–	2,445	–	2,502	–	2,500,000
Commonwealth Bank of Australia Floating Rate Note 01/06/10	–	2,492	–	2,502	–	2,500,000
Authorised Unit Trust						
Close Special Situations Fund	–	1,057	–	1,000	–	1,012,043
AIM Quoted Investments						
Atlantic Global Ord GBP 0.05	–	–	1	–	987	–
BGlobal Ord GBP0.01	–	–	–	1	–	1,000
Brulines (Hldgs) Ord GBP0.10	–	1	–	2	–	1,000
Claimar Care Group Ord GBP0.10	–	1	–	1	–	1,000
Clerkenwell Ventures Ord GBP0.05	56	–	72	–	205,714	–
Freedom Communications Ord GBP0.01	–	–	–	–	384	–
Hat Pin Ord GBP0.025	–	–	–	1	–	1,000
Hexagon Human Capital Ord GBP0.10	–	1	–	2	–	1,000
Individual Restaurant Ord GBP0.35	–	1	–	1	–	1,000
Neuropharm Group Ord GBP0.10	–	2	–	2	–	1,000
Research Now Ord GBP0.02	–	265	–	300	–	100,000
Vertu Motors Ord GBP0.10	–	–	–	1	–	1,000
Total non-qualifying investments at 29 February 2008	**56**	**8,747**	**73**	**8,815**		

Schedule of acquisitions

The following investments were acquired during the year ended 29 February 2008

Ordinary shares	Qualifying Book cost £'000	Non-qualifying Book cost £'000	Number of shares
Company			
Clerkenwell Ventures Ord GBP0.05	50	–	666,667
Craneware Ord GBP0.01	21	–	16,409
Melorio Ord GBP0.01	82	–	82,000
Optimisa Ord GBP0.25	68	–	31,440
Total	**221**	**–**	

C & D shares	Qualifying Book cost £'000	Non-qualifying Book cost £'000	Number of shares
Company			
Animalcare Group Ord GBP0.20	485	–	881,818
BBI Holdings Ord GBP0.025	–	2	1,000
BGlobal Ord GBP0.01	150	1	301,000
Brulines (Hldgs) Ord GBP0.10	–	2	1,000
Claimar Care Group Ord GBP0.10	400	1	381,952
Clerkenwell Ventures Ord GBP0.05	550	–	7,333,333
Craneware Ord GBP0.01	140	–	109,375
Fishworks GBP0.01	220	–	3,666,667
Hatpin Ord GBP0.025	–	1	1,000
Hexagon Human Capital Ord GBP0.10	–	2	1,000
IDOX Ord GBP0.01	189	–	2,520,000
Individual (Bank) Restaurant Group Ord GBP0.35	–	1	1,000
Lombard Medical Technologies Ord GBP0.02	300	–	2,142,857
Melorio Ord GBP0.10	490	–	490,000
Mount Engineering Ord GBP0.01	431	–	615,429
Neuropharm Group Ord GBP0.10	500	2	394,700
Optimisa Ord GBP0.25	442	–	204,360
Plastics Capital Ord GBP0.01	465	–	465,000
Pressure Technologies Ord GBP0.05	300	–	200,000
Research Now Ord GBP0.02	300	300	200,000
Vertu Motors Ord GBP0.10	–	1	1,000
Total	**5,362**	**313**	

Schedule of disposals

The following investments were disposed of during the year ended 29 February 2008

Ordinary shares	**Qualifying Investments**		**Non-Qualifying Investments**		**Realised Gain/(loss) £'000**
	Book cost £'000	**Proceeds £'000**	**Book cost £'000**	**Proceeds £'000**	
Company					
Accuma Group Ord GBP0.10	100	15	–	–	(85)
Barclays Bank Floating Rate Note 16/01/08	–	–	300	300	–
Bond International Software Ord GBP0.01	17	88	–	–	71
Clapham House Group (The) Ord GBP0.10	17	37	–	–	20
Clerkenwell Ventures Ord GBP0.05	–	–	1	1	–
Computer Software Group Ord GBP0.10	151	425	–	–	274
Huveaux Ord GBP0.10	61	99	–	–	38
Individual Restaurant Group Ord GBP0.35	43	65	–	–	22
Mattioli Woods Ord GBP0.01	36	78	–	–	42
Petards Group Ord GBP0.01	71	33	–	–	(38)
Torex Retail Ord GBP0.10	47	–	–	–	(47)
Zenith Hygiene Group Ord GBP0.05	67	28	–	–	(39)
Total	**610**	**868**	**301**	**301**	**258**

C & D shares	**Qualifying Investments**		**Non-Qualifying Investments**		**Realised Gain/(loss) £'000**
	Book cost £'000	**Proceeds £'000**	**Book cost £'000**	**Proceeds £'000**	
Company					
BBI Holdings Ord GBP0.025	169	375	2	2	206
Nationwide Floating Rate Note 07/07/09	–	–	2,504	2,494	(10)
Rabobank Nederland					
Floating Rate Note 29/07/10	–	–	2,500	2,500	–
Royal Bank of Scotland					
Floating Rate Note 19/01/09	–	–	2,501	2,493	(8)
Total	**169**	**375**	**7,507**	**7,489**	**188**

Top ten investments

CLOSE SPECIAL SITUATIONS FUND

The Close Special Situations Fund is an authorised unit trust, which aims to provide capital growth, by exploiting special situations in individual companies or market sectors experiencing significant changes. It invests in a focused "best ideas" portfolio of 35-45 mainly fully listed or AIM quoted companies. Close Second AIM VCT PLC has invested in 1,012,043 units of a total 4,659,078 units within the fund, representing 21.7% of the Close Special Situations Fund.

Results for year ending 31 December 2007

	£'000
Turnover	(255)
Loss before tax	(250)
Loss after tax	(250)
Net assets	4,970
% of units held	21.7%
Basis of valuation:	Bid price
Website:	www.closeinvestments.co.uk

Other funds managed by Close Investments Limited have invested in this company.

RESEARCH NOW

The company is a world-wide online fieldwork and specialist panel consumer company.

Latest audited results – year to 31 October 2007

	£'000
Turnover	25,807
Profit before tax	343
Loss after tax	(445)
Net assets	12,334
% of voting rights	1.5%
Basis of valuation:	Bid price
Website:	www.researchnow.co.uk

Other funds managed by Close Investments Limited have invested in this company.

NEUROPHARM GROUP

The company is a pharmaceutical company specialising in the development of treatment for autism and other disorders of the central nervous system.

Latest unaudited results – six months to 31 December 2007

	£'000
Turnover	–
Loss before tax	(1,828)
Loss after tax	(1,653)
Net assets	15,123
% of voting rights	1.3%
Basis of valuation:	Bid price
Website:	www.neuropharm.co.uk

Other funds managed by Close Investments Limited have invested in this Company.

Top ten investments (continued)

MELORIO
The company is an acquirer and consolidator of UK vocational training businesses.

The company was established in August 2007, therefore there are no accounts submitted to Companies House

% of voting equity	1.8%
Basis of valuation:	Bid price
Website:	www.melorio.com

Other funds managed by Close Investments Limited have invested in this company.

VERTU MOTORS
The company is an acquirer and consolidator of UK based motor retail businesses.

Results for period ending 31 January 2007 (As per admission document relating to Bristol Street Group)

	£'000
Turnover	–
Loss before tax	(43)
Loss after tax	(30)
Net assets	21,485
% of voting equity	1.4%
Basis of valuation:	Bid price
Website:	www.vertumotors.com

Other funds managed by Close Investments Limited have invested in this company.

ANIMALCARE GROUP
The company is a provider of pharmaceutical products and services to vets and vet wholesalers.

Latest audited results – year to 30 June 2007

	£'000
Turnover	8,286
Profit before tax	48
Loss after tax	(5)
Net assets	4,699
% of voting equity	4.5%
Basis of valuation:	Bid price
Website:	www.animalcaregroup.co.uk

Other funds managed by Close Investments Limited have invested in this company.

CLERKENWELL VENTURES
Currently a cash shell with a focus on acquiring UK restaurant groups.

Latest audited results – year to 30 September 2007

	£'000
Turnover	nil
Loss before tax	(78)
Loss after tax	(78)
Net assets	29,055
% of voting equity	2.2%
Basis of valuation:	Bid price
Website:	www.clerkenwellventures.com

Other funds managed by Close Investments Limited have invested in this company.

Top ten investments (continued)

PRESSURE TECHNOLOGIES

The company designs, manufactures and tests high pressure, seamless steel cylinders.

Latest audited results – year to 30 September 2007

	£’000
Turnover	15,124
Profit before tax	1,409
Profit after tax	957
Net assets	7,865
% of voting equity	1.8%
Basis of valuation:	Bid price
Website:	www.pressuretechnologies.co.uk

Other funds managed by Close Investments Limited have invested in this company.

MOUNT ENGINEERING

The company is a manufacturer and supplier of thread conversion adaptors mainly for the oil industry.

The company was established in April 2007, therefore there are no accounts submitted to Companies House

% of voting equity	2.5%
Basis of valuation:	Bid price
Website:	www.mountengineering.co.uk

Other funds managed by Close Investments Limited have invested in this company.

PLASTICS CAPITAL

The company manufactures proprietary plastic products for niche markets.

Latest audited results – year to 31 March 2007

	£’000
Turnover	16,660
Profit before tax	1,461
Profit after tax	1,383
Net assets	3,300
% of voting equity	1.7%
Basis of valuation:	Bid price
Website:	www.plasticscapital.com

Other funds managed by Close Investments Limited have invested in this company.

Directors' report and business review

The Directors submit the Report and Financial Statements on the affairs of Close Second AIM VCT PLC (the "Company") for the year ended 29 February 2008.

BUSINESS REVIEW

Principal activity and status

The principal activity of the Company is that of a venture capital trust. It has been granted approval by HM Revenue & Customs as a venture capital trust in accordance with Part 6 of the Income Taxes Act 2007. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 29 February 2008 may be 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 no longer an investment company as defined by Section 266 of the Companies Act 1985. The Company revoked its investment trust status on 25 November 2005 in order for the Company to pay dividends from realised capital profits. The Company 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 tax relief some investors would have obtained when they invested at the time of the initial fundraising.

Capital structure

The share capital of the Company comprises three classes of shares, Ordinary shares, C and D shares (which were created and issued in 2006). Whilst C shares follow a conventional venture capital trust format and will merge with the Ordinary shares in June 2009, the D shares offer the opportunity for a distribution in specie or (but not part) the option to merge with the Ordinary share portfolio. Currently the Ordinary shares represent 27 per cent, C shares 30 per cent and D shares 43 per cent of the total voting rights of the Company.

Details of the authorised share capital, together with movements in the Company's issued share capital during the year are shown in note 14.

All shares rank pari passu for voting rights, save in respect of specific resolutions impacting their class, such as in the case of a reconstruction. Each share is entitled to one vote. Each class of share is entitled to dividends derived from the specific net asset value of that class.

Investment policy

Qualifying investments

The Directors do not foresee any major changes in activity or in the investment policy adopted by the Investment Manager, Close Investments Limited, ("CIL") which is to seek to achieve such capital appreciation as is consistent with a prudent approach to investment in companies traded on AIM or PLUS which qualify for venture capital trust purposes. It is the Investment Manager's intention to manage a broadly based portfolio of investments in companies. Approximately 80 per cent of funds available for investment will be invested in companies trading on AIM or PLUS, with the balance of approximately 20 per cent invested in Non-qualifying investments.

All business sectors on AIM and PLUS are considered for investment by the Investment Manager, subject to the requirement to undertake a qualifying trade.

Non-qualifying investments

Once its qualifying target has been reached, the Company intends that approximately 20 per cent of its funds will be invested in Non-qualifying investments, principally comprising floating rate securities and short-term money-market deposits. A proportion of the 20 per cent will be invested in UK smaller companies both directly and indirectly including the Close Special Situations Fund managed by the Investment Manager. All investment management fees earned by the Manager on any such investment will be rebated to the Company.

Venture capital trust status

In order to maintain status under venture capital trust legislation, the following tests must be met:

(1) The Company's income must be derived wholly or mainly from shares and securities;

(2) At least 70 per cent of the value of its investments must have been represented throughout the year by shares or securities that are classified as 'Qualifying holdings' following an initial three year investment period;

(3) At least 30 per cent by value of its total Qualifying holdings must have been represented throughout the year by holdings of 'eligible shares';

Directors' report and business review
(continued)

Investment policy (continued)

(4) At no time during the year must the Company's holdings in any one company (other than another VCT) have exceeded 15 per cent by HM Revenue & Custom's value of its investments;

(5) The Company must not have retained greater than 15 per cent of its income earned in the year from shares and securities;

(6) Eligible shares must comprise at least 10 per cent by value of the total of the shares and securities that the Company holds in any one investee company; and

(7) The Company's shares, throughout the year must have been listed in the Official List of the Stock Exchange.

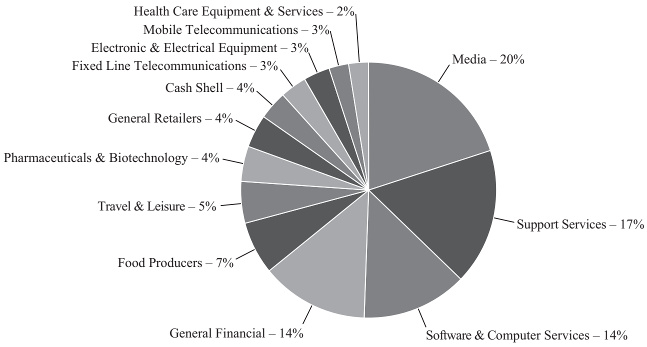
The Company has until 28 February 2009 to meet the minimum 70 per cent qualifying level for C and D shares as stated in (2) above, and is confident of doing so. 'Qualifying holdings', for Close Second AIM VCT PLC include shares or securities in AIM or PLUS quoted companies which operate a 'qualifying trade' wholly or mainly in the United Kingdom. 'Qualifying trade' excludes amongst other sectors, dealing in property or shares and securities, insurance, banking, agriculture and operating or managing hotels or residential care homes.

Investee company gross assets must not exceed £15 million immediately prior to investment and £16 million immediately thereafter and there is an annual investment limit of £1 million in each company.

These tests have been carried out and independently reviewed for the year ended 29 February 2008. The Company continues to comply with all tests and continues to do so as at the date of this Report and Financial Statements.

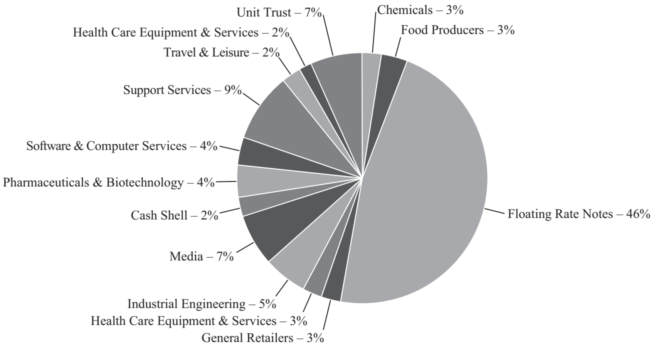
As defined under the Articles of Association, the Company's maximum exposure in relation to gearing is restricted to 100 per cent of the adjusted share capital and reserves. As at 29 February 2008, this maximum exposure could have been up to £21,101,000 (2007: £24,394,000). As at 29 February 2008 the Company had no gearing. The Directors do not currently have any intention to utilise long term gearing

Ordinary Share portfolio valuation by sector as at 29 February 2008



source: Close Ventures Limited

C and D Share portfolio valuation by sector as at 29 February 2008



source: Close Ventures Limited

Directors' report and business review
(continued)

As at 29 February 2008 the Ordinary share portfolio was 86.13 per cent invested for HM Revenue & Customs purposes, the C and D share portfolio was 44.68 per cent invested for HM Revenue & Customs purposes. The investments held are diversified to ensure a spread of risk across the portfolios.

Details of the principal investments made by the Company are shown in the portfolio of investments on pages 13 to 16. A detailed review of the Company's business during the year and future prospects is contained in the Chairman's Statement on pages 5 and 6. Details of significant events which have occurred since the end of the financial year are listed in note 22.

The Company has delegated the investment management of the portfolio to Close Investments Limited ("CIL"), a subsidiary of Close Brothers Group plc which is authorised and regulated by the Financial Services Authority. Close Investments Limited provides administrative support to the Company. Close Ventures Limited, a subsidiary of Close Brothers plc, is the Company Secretary. Further details regarding the terms of engagement of the Investment Manager are shown on page 28.

Results, dividends and performance

	Year ended 29 February 2008		
	Ordinary Shares £'000	**C & D Shares £'000**	**Total £'000**
Revenue return attributable to shareholders for the year ended 29 February 2008	6	414	420
Revenue dividends of 2.21 pence per C and D share	–	(447)	(447)
Revenue transferred to/(from) reserves	**6**	**(33)**	**(27)**
Realised capital return attributable to shareholders for the year ended 29 February 2008	231	(65)	166
Unrealised capital return attributable to shareholders for the year ended 29 February 2008	(1,147)	(1,342)	(2,489)
Capital dividend of 11.0 pence per Ordinary share	(844)	–	(844)
Capital transferred from reserves	**(1,760)**	**(1,407)**	**(3,167)**
Total transferred from reserves	**(1,754)**	**(1,440)**	**(3,194)**

Dividends

The dividends paid during the year to 29 February 2008 were 11.00 pence per Ordinary share (2007: 7.00 pence per share) and 2.21 pence per C and D share (2007: 0.75 pence per share).

In addition to the above dividends, the Board has declared a dividend of 1.00 pence per Ordinary share subject to HM Revenue & Customs approval. The record and payment date of this dividend will be announced on the London Stock Exchange RNS service. The Board has also declared a 1.00 pence per share dividend for the C and D shares. This dividend will be paid on 25 July 2008 to shareholders on the register as at 27 June 2008. In accordance with FRS 21, the dividends have not been accrued as a liability in these financial statements and will be accounted for when paid.

As shown in the Company's Income Statement on page 42 of the financial statements, the Company's investment income for Ordinary shares for the year ended 29 February 2008 has decreased to £55,000 (2007: £62,000) which is mainly due to a decrease in the interest received from floating rate notes following the sale of these investments to fund increased levels of qualifying equity investment. The C and D shares' income has remained at a similar level to the previous year of £774,000 (2007: £760,000).

Results, dividends and performance (continued)

Ordinary shares revenue return to equity holders has increased to £6,000 (2007: loss £12,000) and for the C and D shares increased to £414,000 (2007: £400,000) primarily as a result of a reduction in the management fees due to a reduction in the Net Asset Values.

Directors' report and business review
(continued)

The Ordinary shares' capital return for the year was a loss of £916,000 (2007: profit £573,000) and the C and D shares' capital return for the year was a loss of £1,407,000 (2007: profit £168,000) due to a decrease in the unrealised appreciation as a result of the prevailing economic conditions leading to a devaluation in some of the holdings in the portfolios.

The Ordinary shares total return per share was a loss of 11.87 pence per share (2007: profit 7.20 pence per share) and the C and D share total return per share was a loss of 4.90 pence per share (2007: profit 3.05 pence per share).

The Balance Sheet on page 44 of the financial statements shows that the Ordinary shares' net asset per share has decreased over the last year to 40.18 pence per share (2007: 62.97 pence per share) and that of the C and D shares has decreased to 89.25 pence per share (2007: 96.36 pence per share), reflecting the decrease in the valuation of some of the quoted investments in the year.

Ordinary share cash flow has been largely neutral for the year and C and D share cash flow has been positive for the year reflecting the offset of cash generated through the realisation of Non-qualifying investments against new Qualifying investments made, and dividends paid.

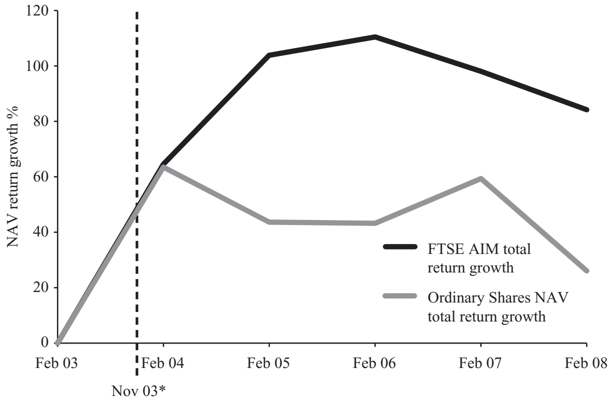
Details of the principal investments made by the Company are shown in the portfolio of investments on pages 13 to 16. A detailed review of the Company's business during the year and future prospects is contained in the Chairman's Statement on pages 5 and 6 and in the Investment Manager's report on pages 7 to 11.

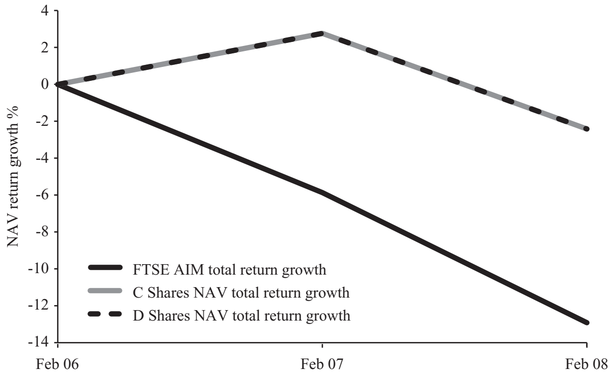
Key performance indicators

The graphs below show the performance of the growth of the Company's Ordinary and C and D share cumulative net asset value total return growth, compared with the cumulative growth in the FTSE AIM Index (in both cases with dividends invested).

* Close Investments Limited became the Investment Manager in November 2003.

Net asset value total return growth relative to the FTSE AIM Index
(in both cases with dividends reinvested)





source: Close Ventures Limited

The total expense ratio for the Company for the year to 29 February 2008 was 3.3 per cent (2007: 3.0 per cent).

The Company operates a policy of buying back shares either for cancellation or for holding in Treasury. The Investment Manager has an objective of maintaining the discount of the share price to net asset value at less than 10 per cent of the last published net asset value. This is designed to improve the marketability of the shares and to encourage the shares to trade at a narrower discount to the underlying net asset value.

Directors' report and business review
(continued)

Principal risks and uncertainties

In addition to the current economic risks outlined in the Chairman's Statement, 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 reduces the capital and income returns to shareholders and negatively impacts on the Company's reputation. The AIM and PLUS markets are designed primarily for emerging or smaller companies and these businesses are more fragile than larger, long established businesses. Additionally, the tax status of the Company may restrict its ability to make investment decisions in order to maintain its venture capital trust status.

To reduce this risk, the Board places reliance upon the skills and expertise of the Investment Manager and their strong track record for investing in this segment of the market. In addition, the Investment Manager operates a formal and structured investment process, which includes due diligence and an Investment Committee. Investments are actively and regularly monitored by the Investment Manager and the Board receives detailed reports on each investment at the time of investment and as part of the Investment Manager's report at quarterly board meetings.

2. *Venture Capital Trust approval risk*

The current approval as a venture capital trust allows investors to take advantage of 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 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 has appointed an Investment 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 PricewaterhouseCoopers LLP as its taxation advisers. PricewaterhouseCoopers LLP independently report half-yearly to the Board to confirm compliance with the venture capital trust legislation, to highlight areas of risk and to inform on changes in legislation.

3. *Reliance upon third parties risk*

The Company is reliant upon the services of Close Investments Limited for the provision of management and administrative functions. There are provisions within the Investment Management Agreement for the change of Investment Manager under certain circumstances (for more detail, see Investment Management Agreement paragraph on page 28). In addition, the Investment Manager has demonstrated to the Board that there is no undue reliance placed upon one individual within Close Investments Limited, or its parent Close Brothers Group plc.

4. *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 Venture Capital Trust 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. Delisting of shares could result in a loss to the Company's venture capital trust approval.

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

Directors' report and business review
(continued)

Principal risks and uncertainties (continued)

5. Internal control risk

Failures in key controls, within the Board or within the Investment 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 report regarding the last formal internal audit performed on the Investment Manager, and providing the opportunity for the Audit Committee to ask specific and detailed questions. The Investment 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 38.

Measures are in place to mitigate information risk in order to ensure the integrity, availability and confidentiality of information used within the business.

6. Financial risks

By its nature, as a venture capital trust, the Company is exposed to market price risk, credit risk and liquidity risk. The Company's policies for managing these risks and its financial instruments are outlined in full in note 19 to the financial statements. 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. The Company does not use derivative financial instruments.

Environment

Management and administration of Close Second AIM VCT PLC is undertaken by the Investment Manager. Close Investments 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 including recycling and reducing energy consumption are shown in the financial statements of Close Investments Limited.

Employees

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

In the Directors' view there are no other non-financial performance indicators materially relevant to the business.

Directors

The biographies of Directors are shown on page 1.

The Directors who held office during the year and their interests in the shares of the Company (including beneficial and family interests) as at the date of this report are shown below:

	Ordinary shares	C shares	D shares
Elizabeth Anita Kennedy	15,000	–	25,625
Sir Aubrey Thomas Brocklebank	5,000	5,138	–
Alastair James Ritchie	5,000	–	25,000

There have been no changes in the holdings of the Directors between 29 February 2008 and the date of this Report.

Further details regarding Directors' remuneration are shown in the Directors' Remuneration section of this Report and Financial Statements.

No Director has a service contract with the Company and there are no agreements with Directors providing compensation in the event of a takeover bid.

The Company does not have any employees.

Directors’ report and business review
(continued)

Directors (continued)
No options over the share capital, long term incentives or retirement benefits have been granted to Directors, nor does the Company make a contribution to any pension scheme on behalf of the Directors.

All Directors are members of the Audit Committee, of which Sir Aubrey Brocklebank is Chairman.

Directors’ retirement and re-election is subject to the Articles of Association and the Combined Code of Corporate Governance.

Investment Management Agreement

Close Investments Limited (the “Investment Manager”) was appointed under a management agreement dated 31 October 2003 which was revised in December 2005 for an initial fixed term to April 2009. The Investment Manager (authorised and regulated by the Financial Services Authority), is ultimately owned by Close Brothers Group plc, a merchant bank based in the UK.

Following the issue of the new C and D shares, under the revised Investment Management Agreement, the Investment Manager is entitled to a fee of 2 per cent (plus VAT) per annum of the net asset value of the Company, calculated quarterly on the last business day of each quarter (months ending November, February, May and August) subject to total annual running expenses not exceeding 3.5% of net assets, The annual fee is payable in arrears and covers all management, secretarial and administrative services. The Investment Manager can be given six months notice of termination of the contract after the initial fixed term period. This agreement has been extended to the new C and D shares.

Investment Management Performance Incentive
In order to provide the Investment Manager with an incentive to maximise the return to investors, the Company has entered into a performance incentive agreement with the Investment Manager. Under this agreement, which applies separately to the C and D shares, the increase in the adjusted Net Asset Values per share of the C and D shares must exceed the average annual base rate of the Royal Bank of Scotland plc plus 3 per cent over each financial period. The adjusted Net Asset Value includes capital dividends paid.

If the growth in the Net Asset Value per share exceeds the average annual base rate of the Royal Bank of Scotland plus 3 per cent, then 20 per cent of the excess will be payable to the Investment Manager subject to a minimum payment in respect of any financial period of 2 per cent of the aggregate capitalisation of the relevant share class as at the accounts date. This arrangement is cumulative so that deficits in any one period are required to be made up prior to payment of any subsequent performance incentive.

There is no performance fee due for the year under review.

Evaluation of the Investment Manager
The Board, through the Audit Committee, has evaluated the performance and remuneration of the Investment Manager, and compared this to the key targets set out in the prospectus to shareholders issued in December 2005. The Ordinary portfolio has achieved the minimum HM Revenue & Customs 70 per cent qualifying target required to maintain VCT status. The C and D portfolio was, at the end of the year, 44.68 per cent invested in qualifying investments and has until 28 February 2009, to achieve the minimum HM Revenue & Customs 70 per cent target. The Board has also reviewed the long term prospects of the current investments, the management contract and the services provided therein, and has benchmarked the performance of the Investment Manager to other service providers. The Board believes that it is in the shareholders’ interest as a whole, and of the Company, to continue the appointment of the Investment Manager for the forthcoming year.

Investment and co-investment
The Company co-invests with other venture capital trusts and funds managed by Close Investments Limited. Allocation of investments is on the basis of an allocation agreement which is based, inter alia, on a ratio of funds available for investments.

Auditors
During the year, the Board, advised by the Audit Committee, decided to put the audit of the Company out to tender. Following a formal selection process which considered expertise within the VCT market, depth of experience within the audit firm and value for money, the Board have decided to propose a resolution for the appointment of PKF (UK) LLP at the forthcoming Annual General Meeting.

Directors’ report and business review
(continued)

Auditors (continued)
In view of the proposed change in auditors, Deloitte and Touche LLP who are the auditors for the financial year ended 29 February 2008, have informed the Company of their intention not to seek reappointment at the forthcoming Annual General Meeting.

Substantial interests
As at 29 February 2008 and the date of this report, the Company has not been notified of any substantial interests in excess of 3 per cent of the issued share capital of the Company. There have been no disclosures in accordance with Disclosure and Transparency Rules made to the Company during the year ended 29 February 2008. There are no persons who hold securities carrying special rights with regard to the control of the Company.

Suppliers 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 29 February 2008 (2007: nil).

Annual General Meeting
The Annual General Meeting will be held at 10 Crown Place, London EC2A 4FT on 15 July 2008 at 3.00 pm. The notice of the Annual General Meeting is at the end of this document. The proxy form enclosed with this Report and Financial Statements permits shareholders to disclose votes ‘for’, ‘against’, ‘withheld’ and ‘discretionary’: 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 the resolution.

A summary of proxies lodged at the Annual General Meeting will be published at: www.closeventures.co.uk within the ‘Our Funds’ section by clicking on Close Second AIM VCT PLC.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting for which shareholder approval is required in order to comply with either the Companies Act or the Listing Rules of the Financial Services Authority.

Power to allot shares
Ordinary resolution number 6 in the notice of the meeting will request the authority to allot up to a maximum aggregate nominal amount of £37,778 representing 10 per cent of the issued Ordinary share capital of the Company and a maximum aggregate nominal amount of £41,071 representing 10 per cent of the issued C share capital and £60,132 representing 10 per cent of the issued D share capital of the Company. This authority will expire on 30 September 2009.

The Directors do not currently have any intention to allot shares, with the exception of reissuing Treasury shares where it is in the Company’s interest to do so.

Disapplication of pre-emption rights
Special resolution number 7 will request the authority to disapply pre-emption rights in circumstances of a rights or other pre-emptive issue, the allotment of Ordinary shares with an aggregate nominal value of up to £18,889 or C shares with an aggregate nominal value of up to £20,536 or D shares with an aggregate nominal value of £30,066 in each case representing up to 5 per cent of the issue share capital.

Purchase of own shares
Special resolution number 8 will request the authority to purchase an aggregate of 14.99 per cent of the Ordinary shares and C and D shares in issue subject to the provisions shown in the notice to the meeting attached to the back of the financial statements.

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 2007 authority, which was in similar terms. During the financial year under review the Company purchased 94,848 of its Ordinary shares for cancellation.)

Directors' report and business review
(continued)

Treasury shares

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulation 2003, shares purchased by the Company out of distributable profits can be held as Treasury shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 8 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 be authorised to allot relevant securities in accordance with Section 80 of the Companies Act 1985 (the "Act") and to empower Directors to allot equity securities for cash in accordance with Section 95 of the Act. These replace existing authorities and powers and will allow the Directors to sell Treasury shares at a price not less than that at which they were purchased. During the year the company purchased 113,656 Ordinary shares to be held in Treasury.

Changes to the Company's Articles of Association

At the Annual General Meeting, special resolution number 9 will be proposed to adopt new Articles of Association (the "New Articles") in order to update the Company's existing Articles of Association (the "Current Articles") and to benefit from these changes that have been brought into force by the Companies Act 2006. A further special resolution 'special resolution number 10' will be proposed to enable the Company to benefit from the conflict of interest provisions that will come into force on 1 October 2008 or such later date as section 175 of Companies Act 2006 provides.

The principal changes introduced in the New Articles are set out below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted below. A copy of the New Articles showing all the changes to the Current Articles will be available for inspection at the Company's registered office from the date of the Notice during normal business hours until the conclusion of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to the Annual General Meeting until its conclusion.

Principal Changes to the Company's Articles of Association

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which duplicate statutory provisions already contained in the Companies Act 2006 are being removed in line with the approach advocated by the Government that a company's constitution ought not to duplicate the statutory provisions contained in the Companies Act 2006. This includes, for example, provisions as to the form of resolutions, variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes being made to reflect this approach are detailed below.

2. Form of resolution

Under the Companies Act 2006, the concept of an extraordinary resolution has been abolished. As a result, requirements under the Current Articles for an extraordinary resolution will be replaced in the New Articles by the requirement for a special resolution.

The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions are, therefore, being removed in the New Articles.

3. Variation of class rights

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions are, therefore, being amended in the New Articles.

4. Convening general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform with the revised notice periods set out in the new provisions of the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Directors’ report and business review
(continued)

5. Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that they must be received no later than 48 hours before the meeting or, in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. A company’s articles cannot shorten these time limits by specifying that they should be received before the time limits provided for in the Companies Act 2006. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles are being amended to reflect all of these new provisions.

6. Conflicts of interest

The Companies Act 2006 sets out directors’ general duties which largely codify the existing law but with some changes. Under the Companies Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company’s interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors’ conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company’s success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board’s intention to report annually on the Company’s procedures for ensuring that the Board’s powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

7. Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors’ meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision is being removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It is being replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

8. Records to be kept

The provision in the Current Articles requiring the Board to keep accounting records is being amended to refer to the relevant provisions of the Companies Act 2006.

9. Provisions for employees on cessation of business

The New Articles are being amended to include a provision to give the directors the power to make provision for a person employed or formerly employed by the Company in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company. The power to make such provision may be exercised by the Company in general meeting. Directors may only exercise this power if they are authorised to do so by the Company’s articles. The inclusion of this provision in the New Articles will, therefore, give the directors the flexibility of exercising this power without the need to call a general meeting of the Company.

Directors’ report and business review
(continued)

10. Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information. Whilst the Company will be incorporating the new provisions of the Companies Act 2006 in relation to electronic and/or website communications, it does not yet intend to communicate with its Shareholders via such means. If and at such time as the Company deems it appropriate to communicate with Shareholders via electronic and/or website communications, it shall write to Shareholders, as described above, regarding such use.

11. Directors’ indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company’s activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director’s defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

Recommendation

Your Board believes the resolutions are in the best interests of the Company and its shareholders as a whole and, accordingly, unanimously recommend that you vote in favour of the resolutions.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Income Statement of the Company for that period. In preparing these 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 applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report and business review
(continued)

We confirm to the best of our knowledge:

- The Financial Statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company: and
- the Directors' report 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 they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case 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 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.

This disclosure is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

by Order of the Board

Close Ventures Limited
Company Secretary

10 Crown Place
London EC2A 4FT

13 June 2008

Directors' remuneration report

Introduction

This report is submitted in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to the Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

Unaudited information

Remuneration Committee

As at 29 February 2008, the Board comprised three non-executive Directors. The Board as a whole, considers the Directors' remuneration. Under the Listing Rules of the UK Listing Authority, where a Venture Capital Trust has no executive directors, it is not required to appoint a remuneration committee.

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.

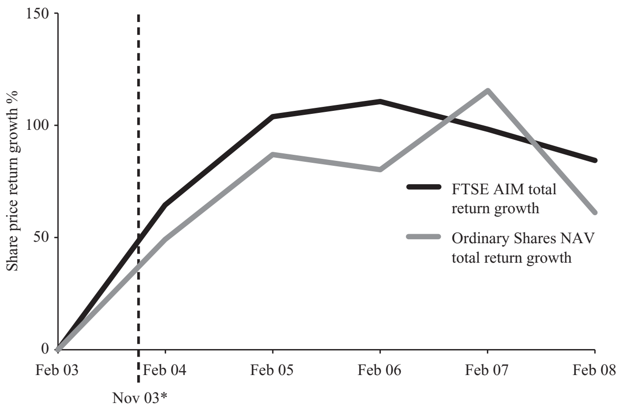
The maximum level of non-executive directors' remuneration is fixed by the Company's Articles of Association, not to exceed £150,000 per annum; amendment to this is by way of a special resolution subject to ratification by shareholders. No change in the level of fees is expected in the near future.

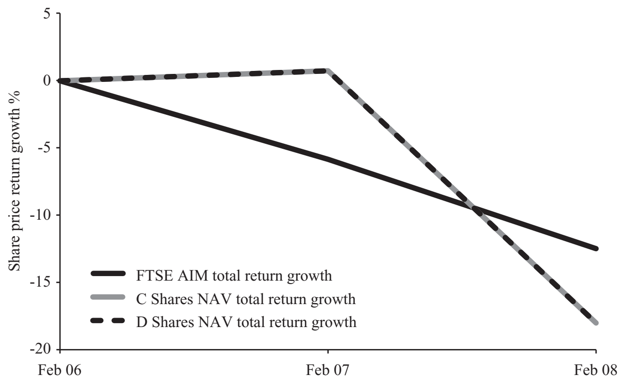
Performance graph

The graphs below show Close Second AIM VCT PLC's Ordinary and C and D share price return growth against the FTSE AIM Index growth, in both instances with dividends reinvested. The Directors consider this to be the most appropriate benchmark, but would remind investors that approximately 30 per cent of the FTSE AIM Index is attributable to resource or property sector stocks which venture capital trusts cannot invest in. The graph does not take into account the initial tax benefits on subcription received by shareholders. 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.

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

Share price total return growth relative to the FTSE AIM Index (in both cases with dividends reinvested)





source: Close Ventures Limited

* Close Investments Limited became the Investment Manager in November 2003.

Directors' remuneration report
(continued)

Service Contracts

None of the Directors has a service contract with the Company.

The Company's Articles of Association provide for the resignation and, if approved, re-election of one third of the Directors at each Annual General Meeting. At the forthcoming Annual General Meeting Sir Aubrey Brocklebank will retire by rotation and be proposed for re-election by shareholders.

Audited information

Amount of each Directors' emoluments and compensation

The following items have been audited:

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

Director	Paid to	**2008** **£**	2007 £
E A Kennedy	E A Kennedy (Brewin Dolphin Limited to 31 May 2007, thereafter paid personally)	**16,000**	15,917
Sir Aubrey Brocklebank	Aubrey Brocklebank & Associates	**13,000**	12,917
A J Ritchie	Ritchie & Co	**13,000**	12,917
J E C Fosh (resigned 16 July 2006)	J E C Fosh	**–**	8,058
		42,000	49,809

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 year ended 29 February 2008.

In addition to Directors' remuneration the Company paid annual premiums of £10,000 in respect of Directors' & Officers' Liability Insurance.

This report was approved by the Board of Directors on 13 June 2008.

by order of the Board
Close Ventures Limited
Company Secretary

10 Crown Place
London EC2A 4FT
13 June 2008

Corporate governance statement

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 and updated in June 2006 ("the Code").

The Board of Close Second AIM VCT PLC has also considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Close Second AIM VCT PLC.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

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 and this is likely to remain the position for the foreseeable future.

Board of Directors

The Board consists wholly of non-executive and independent Directors. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Investment Manager, the Company does not have a Chief Executive Officer.

Elizabeth Kennedy is the senior Independent Director and Chairman. Sir Aubrey Brocklebank and Alistair Ritchie are also independent Directors. 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 1. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Investment Manager. The Board has direct access to company secretarial advice and compliance services by the Investment Manager, who is responsible for ensuring that Board procedures are followed and applicable regulations 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.

The Board met four times during the year ended 29 February 2008. All Directors attended each meeting.

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 Investment 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 Investment Manager sets out the matters over which the Investment Manager has authority and limits beyond which Board approval must be sought.

The Investment 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 including the recommendation to shareholders for the appointment and remuneration of auditors;
- approval of the appropriate dividend to be paid to shareholders;

Corporate governance statement
(continued)

- the appointment, evaluation, removal and remuneration of the Investment Manager;
- the performance of the Company, including monitoring of the discount between the net asset value and the share price; and
- monitoring shareholder profile and considering shareholder communications.

Committees' and Directors' performance evaluation
Performance of the Board and the Directors is assessed on the following:

- attendance at Board and Committee meetings;
- the contribution made by individual Directors at, and outside of, Board and Committee meetings; and
- completion of a detailed internal assessment process and annual performance evaluation conducted by the Chairman.

The Board believes that it has the right balance of independence, skills, experience and knowledge for the effective governance of the Company. The Board considers any skills gaps in existence and takes action to remedy this when necessary. The Board therefore recommends Sir Aubrey Brocklebank for re-election at forthcoming the Annual General Meeting on the basis that he is considered to be independent, effective and demonstrates a strong commitment to his role.

Directors are offered training, both at the time of joining the Board and on other occasions where required.

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. Sir Aubrey Brocklebank 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 29 February 2008 and all members attended.

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

- 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 annually, approving their appointment, reappointment, remuneration, terms of engagement and providing an ongoing review of auditor independence and objectivity;
- monitoring and reviewing the external auditors' independence and objectivity and the effectiveness of the audit process;
- 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;
- meeting external auditors at least once a year without the presence of the Investment Manager;
- ensuring that all Directors of the Company, and staff of Investment Manager who provide services to the Company feel able to raise matters 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

Corporate governance statement
(continued)

- undertaking the duties of the Engagement Committee, and therefore reviewing the performance of the Investment 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 Report and Financial Statements, the Half-yearly Reports, and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of internal control systems by examining the Internal Controls Report produced by the Investment Manager;
- meeting with the Head of Internal Audit of Close Brothers Group plc;
- meeting with the external auditors and reviewing their findings; and
- undertaking a tender process for the provision of audit services to the Company, evaluating the tenders, and recommending the appointment of PKF (UK) LLP to the Board with a view to their appointment at the Annual General Meeting.

In addition, the Board, through the Audit Committee, reviewed the performance of the Investment Manager and made recommendations regarding their re-appointment to the Board.

Nomination Committee

The function of the nomination committee is carried out by the Board as a whole with Elizabeth Kennedy as Chairman. It is the policy of the Company that Directors are nominated for re-election on rotation every three years; the next re-election of Sir Aubrey Brocklebank is at the Annual General Meeting on 15 July 2008. The terms and conditions of Directors' appointment are available for inspection at the Annual General Meeting.

Internal control

In accordance with the principle C.2 of the Combined Code, the Board has established an ongoing process for identifying, evaluating and managing those 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 and updated in October 2005 (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 Investment 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 Investment 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 comes to the Investment Manager's and the Board's attention.

The Board has also performed a specific assessment for the purpose of this Report and Financial Statements. 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 Company has delegated the investment management and administration to Close Investments Limited, a subsidiary of Close Brothers Group plc, 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 Investments 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. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

Corporate governance statement
(continued)

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.

Relationships with shareholders

The Company's Annual General Meeting on 15 July 2008 will be used as an opportunity to communicate with private investors. The Board, including the Chairman of the Audit Committee, will be available to answer questions at the Annual General Meeting.

The Annual General Meeting will also include a presentation from the Investment Manager on the portfolio.

Shareholders are able to access the latest information on the Company via the Close Ventures Limited website (www.closeventures.co.uk).

Any queries relating to shareholdings and share certificates or changes to personal details can be directed to Capita Registrars plc:

Tel: 0871 664 0300 (calls cost 10 pence per minute plus network extras)

E-mail: ssd@capitaregistrars.com

Specific queries relating to the performance of the fund should be directed to Close Investments Limited:

Tel: 020 7426 4139

E-mail: enquiries@closeventures.co.uk

The Company's share buy back programme operates in the market through brokers. In order to sell shares, as they are quoted on the London Stock Exchange, it is recommended that shareholders contact the Investment Manager, Close Investments Limited (telephone number 020 7426 4139).

Statement of compliance

With the exception of the requirement to have a Remuneration Committee, the Directors consider that the Company has complied throughout the year ended 29 February 2008 with all the relevant provisions set out in Section 1 of the Code on Corporate Governance issued by the Financial Services Authority and with the AIC Code of Corporate Governance. The Company continues to comply with the Code as at the date of this report.

Independent Auditors' report
to the members of Close Second AIM VCT PLC

We have audited the financial statements of Close Second AIM VCT PLC for the year ended 29 February 2008 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes 1 to 22. 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.

The information given in the Directors' report and business review includes that specific information presented in other sections of the Report and Financial Statements that is cross-referred from the Directors' report and business review.

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 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Report and Financial Statements 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 misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Report and Financial Statements.

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 to be audited.

Independent Auditors' report
(continued)

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 29 February 2008 and of its loss 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 Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

13 June 2008

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

Income statement
for the year ended 29 February 2008

	Note	Ordinary shares 29 February 2008 Revenue £'000	Ordinary shares 29 February 2008 Capital £'000	Ordinary shares 29 February 2008 Total £'000	C & D shares 29 February 2008 Revenue £'000	C & D shares 29 February 2008 Capital £'000	C & D shares 29 February 2008 Total £'000	Total 29 February 2008 Revenue £'000	Total 29 February 2008 Capital £'000	Total 29 February 2008 Total £'000
Losses on investments	10	**–**	**(889)**	**(889)**	**–**	**(1,154)**	**(1,154)**	**–**	**(2,043)**	**(2,043)**
Investment income	3	**55**	**–**	**55**	**774**	**–**	**774**	**829**	**–**	**829**
Investment management fees	4	**(22)**	**(67)**	**(89)**	**(113)**	**(340)**	**(453)**	**(135)**	**(407)**	**(542)**
Other expenses	5	**(30)**	**–**	**(30)**	**(117)**	**–**	**(117)**	**(147)**	**–**	**(147)**
Return/(loss) on ordinary activities before taxation		**3**	**(956)**	**(953)**	**544**	**(1,494)**	**(950)**	**547**	**(2,450)**	**(1,903)**
Tax credit/(charge) on ordinary activities	6	**3**	**40**	**43**	**(130)**	**87**	**(43)**	**(127)**	**127**	**–**
Return/(loss) attributable to shareholders		**6**	**(916)**	**(910)**	**414**	**(1,407)**	**(993)**	**420**	**(2,323)**	**(1,903)**
Basic and diluted return/(loss) per share (pence)*	8	**0.08**	**(11.95)**	**(11.87)**	**2.05**	**(6.95)**	**(4.90)**			

* excluding Treasury shares.

The accompanying notes on pages 50 to 63 are an integral part of these financial statements.

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

The Company has no recognised gains or losses other than the results for the year as set out above, accordingly a Statement of Total Recognised Gains or Losses is not required.

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

Income statement
for the year ended 28 February 2007

		Ordinary shares 28 February 2007			C & D shares 28 February 2007			Total 28 February 2007		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	10	–	623	623	–	423	423	–	1,046	1,046
Investment income	3	62	–	62	760	–	760	822	–	822
Investment management fees	4	(29)	(87)	(116)	(113)	(338)	(451)	(142)	(425)	(567)
Other expenses	5	(55)	–	(55)	(117)	–	(117)	(172)	–	(172)
(Loss)/return on ordinary activities before taxation		(22)	536	514	530	85	615	508	621	1,129
Tax credit/(charge) on ordinary activities	6	10	37	47	(130)	83	(47)	(120)	120	–
(Loss)/return attributable to shareholders		(12)	573	561	400	168	568	388	741	1,129
Basic and diluted (loss)/return per share (pence)	8	(0.15)	7.35	7.20	2.15	0.90	3.05			

The accompanying notes on pages 50 to 63 are an integral part of these financial statements.

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

The Company has no recognised gains or losses other than the results for the year as set out above, accordingly a Statement of Total Recognised Gains or Losses is not required.

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

Balance sheet
as at 29 February 2008

	Note	Ordinary shares as at 29 February 2008 £'000	C & D shares as at 29 February 2008 £'000	Total as at 29 February 2008 £'000
Fixed asset investments				
Investments at fair value through profit or loss	9	**2,426**	**15,831**	**18,257**
Current assets				
Debtors	12	**48**	**85**	**133**
Cash at bank		**577**	**2,263**	**2,840**
		625	**2,348**	**2,973**
Creditors: amounts falling due within one year	13	**(15)**	**(114)**	**(129)**
Net current assets		**610**	**2,234**	**2,844**
Net assets		**3,036**	**18,065**	**21,101**
Capital and reserves				
Called up share capital	14	**383**	**1,012**	**1,395**
Special reserve		**7,333**	**18,077**	**25,410**
Capital redemption reserve		**61**	**–**	**61**
Own shares held in Treasury	15	**(44)**	**–**	**(44)**
Realised capital reserve		**(4,124)**	**(302)**	**(4,426)**
Unrealised capital reserve		**(162)**	**(937)**	**(1,099)**
Revenue reserve		**(411)**	**215**	**(196)**
Shareholders' funds		**3,036**	**18,065**	**21,101**
Net asset value per share (pence)*	16	**40.18**	**89.25**	

* excluding Treasury shares.

The notes on pages 50 to 63 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 June 2008 and signed on its behalf by:

Alastair Ritchie
Director

Balance sheet
as at 28 February 2007

	Note	Ordinary shares as at 28 February 2007 £'000	C & D shares as at 28 February 2007 £'000	Total as at 28 February 2007 £'000
Fixed asset investments				
Investments at fair value through profit or loss	9	4,263	19,174	23,437
Current assets				
Debtors	12	55	133	188
Cash at bank		581	286	867
		636	419	1,055
Creditors: amounts falling due within one year	13	(10)	(88)	(98)
Net current assets		626	331	957
Net assets		4,889	19,505	24,394
Capital and reserves				
Called up share capital	14	388	1,012	1,400
Special reserve		7,388	18,077	25,465
Capital redemption reserve		56	–	56
Realised capital reserve		(3,511)	(237)	(3,748)
Unrealised capital reserve		985	405	1,390
Revenue reserve		(417)	248	(169)
Shareholders' funds		4,889	19,505	24,394
Net asset value per share (pence)	16	62.97	96.36	

The notes on pages 50 to 63 form an integral part of these financial statements.

Reconciliation of movements in Shareholders' funds
for the year ended 29 February 2008

Ordinary shares	Called up share capital £'000	Special reserve £'000	Capital redemption reserve £'000	Own shares held in Treasury £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000	Total £'000
As at 28 February 2007	**388**	**7,388**	**56**	**–**	**(3,511)**	**985**	**(417)**	**4,889**
Net return after taxation for the year	**–**	**–**	**–**	**–**	**231**	**(1,147)**	**6**	**(910)**
Dividends paid to shareholders	**–**	**–**	**–**	**–**	**(844)**	**–**	**–**	**(844)**
Ordinary shares purchased and held in Treasury	**–**	**–**	**–**	**(44)**	**–**	**–**	**–**	**(44)**
Share purchased for cancellation	**(5)**	**(55)**	**5**	**–**	**–**	**–**	**–**	**(55)**
As at 29 February 2008	**383**	**7,333**	**61**	**(44)**	**(4,124)**	**(162)**	**(411)**	**3,036**
As at 28 February 2006	404	7,564	40	–	(3,849)	1,296	(405)	5,050
Net return after taxation for the year	–	–	–	–	884	(311)	(12)	561
Dividends paid to shareholders	–	–	–	–	(546)	–	–	(546)
Share purchased for cancellation	(16)	(176)	16	–	–	–	–	(176)
As at 28 February 2007	388	7,388	56	–	(3,511)	985	(417)	4,889

Reconciliation of movements in Shareholders' funds
for the year ended 29 February 2008 (continued)

C & D shares	Called up share capital £'000	Share premium £'000	Special reserve £'000	Realised capital reserve £'000	Unrealised capital reserve £'000	Revenue reserve £'000	Total £'000
As at 28 February 2007	**1,012**	**–**	**18,077**	**(237)**	**405**	**248**	**19,505**
Net return after taxation for the year	**–**	**–**	**–**	**(65)**	**(1,342)**	**414**	**(993)**
Dividends paid to shareholders	**–**	**–**	**–**	**–**	**–**	**(447)**	**(447)**
As at 29 February 2008	**1,012**	**–**	**18,077**	**(302)**	**(937)**	**215**	**18,065**
As at 28 February 2006	–	–	–	–	–	–	–
Net return after taxation for the year	–	–	–	(237)	405	400	568
Dividends paid to shareholders	–	–	–	–	–	(152)	(152)
Issue of shares (net of expenses)	1,012	18,115	–	–	–	–	19,127
Transfer of reserves*	–	(18,115)	18,115	–	–	–	–
Costs of cancelling share premium	–	–	(38)	–	–	–	(38)
As at 28 February 2007	1,012	–	18,077	(237)	405	248	19,505

* The transfer arises from the Court approval to cancel the share premium account on 19 September 2006.

Cash flow statement
for the year ended 29 February 2008

	Note	Ordinary shares 29 February 2008 £'000	C & D shares 29 February 2008 £'000	Total 29 February 2008 £'000
Operating activities				
Investment income		**38**	**738**	**776**
Deposit interest received		**22**	**75**	**97**
Investment management fees paid		**(85)**	**(427)**	**(512)**
Other cash receipts/(payments)		**16**	**(155)**	**(139)**
Net cash (outflow)/inflow from operating activities	17	**(9)**	**231**	**222**
Capital expenditure and financial investment				
Purchase of qualifying investments		**(221)**	**(5,362)**	**(5,583)**
Purchase of non-qualifying investments		**–**	**(313)**	**(313)**
Disposal of qualifying investments		**868**	**375**	**1,243**
Disposal of non-qualifying investments		**301**	**7,489**	**7,790**
Net cash inflow from capital expenditure and financial investment		**948**	**2,189**	**3,137**
Equity dividends paid				
Revenue dividends paid		**–**	**(447)**	**(447)**
Capital dividends paid		**(844)**	**–**	**(844)**
		(844)	**(447)**	**(1,291)**
Net cash inflow before financing		**95**	**1,973**	**2,068**
Financing				
Issue of equity net of expenses		**–**	**4**	**4**
Purchase of shares to be held in Treasury		**(44)**	**–**	**(44)**
Cancellation of shares		**(55)**	**–**	**(55)**
Net cash (outflow)/inflow from financing		**(99)**	**4**	**(95)**
(Decrease)/increase in cash in the year	18	**(4)**	**1,977**	**1,973**

The notes on pages 50 to 63 form an integral part of these financial statements.

Cash flow statement
for the year ended 28 February 2007

	Note	Ordinary shares 28 February 2007 £'000	C & D shares 28 February 2007 £'000	Total 28 February 2007 £'000
Operating activities				
Investment income received		31	529	560
Deposit interest received		28	110	138
Investment management fees paid		(129)	(443)	(572)
Other cash payments		(105)	(93)	(198)
Net cash (outflow)/inflow from operating activities	17	(175)	103	(72)
Capital expenditure and financial investment				
Purchase of qualifying investments		(321)	(2,926)	(3,247)
Purchase of non-qualifying investments		(1)	(16,008)	(16,009)
Disposal of qualifying investments		1	184	185
Disposal of non-qualifying investments		1,629	–	1,629
Net cash inflow/(outflow) from capital expenditure and financial investment		1,308	(18,750)	(17,442)
Equity dividends paid				
Revenue dividends paid		–	(152)	(152)
Capital dividends paid		(546)	–	(546)
		(546)	(152)	(698)
Net cash inflow/(outflow) before financing		587	(18,799)	(18,212)
Financing				
Issue of equity net of expenses		–	19,085	19,085
Cancellation of shares		(183)	–	(183)
Net cash (outflow)/inflow from financing		(183)	19,085	18,902
Increase in cash in the year	18	404	286	690

The notes on pages 50 to 63 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, in accordance with applicable law and United Kingdom 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. Accounting policies have been applied consistently in the current and prior years.

True and fair override

The Company is no longer an investment company within the meaning of S266 of the Companies Act 1985. However it conducts its affairs as a venture capital trust for taxation purposes under Part 6 of the Income Taxes Act 2007. The absence of S266 status does not preclude the Company from presenting its accounts in accordance with the AITC's SORP, and furthermore the Directors consider it appropriate to continue to present the accounts in this manner as it is consistent with the sector within which it operates. The Directors therefore consider that these departures from accounting standards and the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies, are necessary to give a true and fair view. The departures have no effect on the return for the year.

2 Accounting policies

Investments

In accordance with Financial Reporting Standard ("FRS") 26 "Financial Instruments: Measurement", equity investments units in an authorised UK Smaller Companies unit trust and debt securities are designated as fair value through profit or loss ("FVTPL").

Qualifying investments, non-qualifying AIM investments and non-qualifying listed investments are valued at the closing bid prices or last traded price at the end of the accounting period. The total column of the Income Statement represents the Company's profit and loss account. 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's SORP.

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.

The Directors are conscious of the fact that because shares are traded on AIM this does not guarantee their liquidity. The nature of AIM investments and units in an authorised UK smaller company unit trust are such that the prices can be volatile and realisation may not achieve current book value, especially when such a sale represents a significant proportion of that Company's market capital. Nevertheless, on the grounds that the investments are not intended for immediate realisation, the Directors regard bid or last traded prices as the most objective and appropriate method of valuation.

Investment income

Dividends receivable on quoted equity shares and units in an authorised UK smaller company unit trust are taken to revenue on an ex-dividend basis. Returns on listed debt securities and cash on deposit are recognised on an accruals basis using the interest rate applicable to the investment or deposit at the time.

Investment management fees and other expenses

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

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment; and
- expenses are allocated between capital and revenue where a connection with maintenance or enhancement of the value of the investments held can be demonstrated. In respect of the Investment Manager's fee, 75 per cent has been allocated to the realised capital reserve and 25 per cent to revenue in the Income Statement.

Notes to the financial statements
(continued)

Taxation
Taxation is applied on a current basis in accordance with FRS 16 "Current Tax", and is based on the return before taxation for the year. Taxation associated with capital expenses is applied in accordance with the SORP. In accordance with FRS 19 "Deferred Tax", deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

Reserves
The realised capital reserve contains gains and losses on the realisation of investments, capital dividends paid to shareholders and investment management fees allocated to the capital reserve and taxation thereon. The unrealised capital reserve contains increases and decreases in the valuation of investments held at the year end. The special reserve is distributable and is primarily used for the cancellation of the Company's share capital. The capital redemption reserve accounts for amounts by which the issued capital is diminished through the repurchase of the Company's own shares.

Dividends
In accordance with FRS 21 "Events after the balance sheet date", dividends declared by the Company are accounted for in the period paid or when approved by the shareholders at an Annual General Meeting.

C & D shares
Until such time as the C shares are converted into Ordinary shares and the D shares are distributed in specie in 2009, all investments and returns attributable to these classes of shares will be separately identifiable from the existing Ordinary shares. All residual expenses will be allocated on the basis of total funds raised for each class of share.

3 Investment income

	Year to 29 February 2008			**Year to 28 February 2007**		
	Ordinary shares £'000	**C & D shares £'000**	**Total £'000**	**Ordinary shares £'000**	**C & D shares £'000**	**Total £'000**
Dividend income	**17**	**23**	**40**	19	1	20
Floating rate note interest	**15**	**653**	**668**	15	641	656
Bank deposit interest	**23**	**82**	**105**	28	112	140
Management fee rebates	**–**	**16**	**16**	–	6	6
Total income	**55**	**774**	**829**	62	760	822
Total income comprises						
Dividends	**17**	**39**	**56**	19	7	26
Interest	**38**	**735**	**773**	43	753	796
	55	**774**	**829**	62	760	822

All of the Company's income is derived from operations based in the United Kingdom.

Notes to the financial statements
(continued)

4 Investment management fees

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares £'000	C & D shares £'000	Total £'000	Ordinary shares £'000	C & D shares £'000	Total £'000
Charged to revenue	**22**	**113**	**135**	29	113	142
Charged to capital	**67**	**340**	**407**	87	338	425
Total	**89**	**453**	**542**	116	451	567

Under the Investment Management Agreement referred to on page 28 of this Report and Financial Statements, the Investment Manager (Close Investments Limited) is entitled to a fee of 2% (plus VAT) per annum of Net Asset Value, calculated quarterly on the last business day of each quarter (months ending November, February, May and August). The fee is payable in arrears.

5 Other expenses

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares £'000	C & D shares £'000	Total £'000	Ordinary shares £'000	C & D shares £'000	Total £'000
Directors' emoluments (including VAT or NIC)	**10**	**38**	**48**	12	45	57
Auditors' remuneration (including irrecoverable VAT) for:						
– audit fees	**3**	**12**	**15**	4	18	22
Tax services provided to the Company	**4**	**15**	**19**	6	13	19
Bank charges and safe custody fees	**1**	**3**	**4**	1	3	4
Other expenses	**12**	**49**	**61**	32	38	70
Total	**30**	**117**	**147**	55	117	172

6 Tax (credit)/charge on ordinary activities

	Ordinary shares Year to 29 February 2008			C & D shares Year to 29 February 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	**(3)**	**–**	**(3)**	**130**	**–**	**130**
Tax attributable to capital expenses	**–**	**(40)**	**(40)**	**–**	**(87)**	**(87)**
	(3)	**(40)**	**(43)**	**130**	**(87)**	**43**

	Ordinary shares Year to 28 February 2007			C & D shares Year to 28 February 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	(10)	–	(10)	130	–	130
Tax attributable to capital expenses	–	(37)	(37)	–	(83)	(83)
	(10)	(37)	(47)	130	(83)	47

Notes to the financial statements
(continued)

6 Tax (credit)/charge on ordinary activities (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2007: 30%). The actual tax charge for the current and previous year differs from the amount resulting from applying the standard rate, for the reasons set out in the following reconciliation.

	Ordinary shares Year to 29 February 2008			C & D shares Year to 29 February 2008		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Return/(loss) on ordinary activities before taxation	**3**	**(956)**	**(953)**	**544**	**(1,494)**	**(950)**
Tax on profit/(loss) at the standard rate of 30%	**1**	**(287)**	**(286)**	**163**	**(448)**	**(285)**
Factors affecting the charge						
Non-taxable losses on investments	**–**	**267**	**267**	**–**	**346**	**346**
Non-taxable income	**(5)**	**–**	**(5)**	**(12)**	**–**	**(12)**
Marginal relief adjustment	**1**	**(3)**	**(2)**	**(21)**	**15**	**(6)**
Excess management expenses	**–**	**(17)**	**(17)**	**–**	**–**	**–**
	(3)	**(40)**	**(43)**	**130**	**(87)**	**43**

	Ordinary shares Year to 28 February 2007			C & D shares Year to 28 February 2007		
	Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
(Loss)/return on ordinary activities before taxation	(22)	536	514	530	85	615
Tax on (loss)/profit at the standard rate of 30%	(7)	161	154	159	25	184
Factors affecting the charge						
Non-taxable gains on investments	–	(187)	(187)	–	(126)	(126)
Non-taxable income	(5)	–	(5)	–	–	–
Marginal relief adjustment	2	–	2	(29)	18	(11)
Excess management expenses	–	(11)	(11)	–	–	–
	(10)	(37)	(47)	130	(83)	47

(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% (2007: 30%) and allocating the relief in accordance with the SORP.

(iii) No deferred tax asset or liability has arisen in the year.

(iv) The Company has not recognised a deferred tax asset on timing differences relating to the management expenses going forward due to the uncertainty surrounding its recovery. The amount of this unrecognised asset is £231,000 (2007: £248,000). The asset would be recovered if the Company made sufficient taxable gains in the future to utilise these losses.

Notes to the financial statements
(continued)

7 Dividends

	Year to 29 February 2008			Year to 28 February 2007		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dividends paid on equity shares:						
– Dividends of 11.00 pence per Ordinary share (2007: 7.00 pence) paid August 2007 and January 2008	**–**	**844**	**844**	–	546	546
– Dividends of 2.21 pence per C & D share (2007: 0.75 pence) paid August 2007 and January 2008	**447**	**–**	**447**	152	–	152
	447	**844**	**1,291**	152	546	698

In addition to the above dividends the Board has declared the following first dividends for the year ending 28 February 2009:

– 1.00 pence per Ordinary share to be paid out of realised capital profits.

– 1.00 pence per C & D share to be paid out of revenue.

In accordance with FRS 21 these dividends have not been accrued as a liability in these financial statements.

The dividends paid out of realised capital profits are subject to HM Revenue & Customs approval and the payment and record dates of the Ordinary shares dividend will be announced on the London Stock Exchange RNS Services. The C & D shares dividend will be paid on 25 July 2008 to shareholders on the register on 27 June 2008.

8 Return per share

	Year to 29 February 2008			Year to 28 February 2007		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
Basic (pence per share)						
– Ordinary shares	**0.08**	**(11.95)**	**(11.87)**	(0.15)	7.35	7.20
– C & D shares	**2.05**	**(6.95)**	**(4.90)**	2.15	0.90	3.05

Ordinary shares

The revenue return per Ordinary share is based on the net profit on ordinary activities after taxation of £6,000, (2007: net loss of £12,000), whilst the capital return is based on the capital loss on ordinary activities after taxation of £916,000 (2007: capital gain £573,000). This is in respect of 7,668,121 Ordinary shares (2007: 7,804,710 shares), being the weighted average number of Ordinary shares, excluding shares held in Treasury, in issue during the year.

There are no dilutive elements and hence the basic return per share is the same as the diluted return per share.

C & D shares

The revenue return per C & D share is based on the revenue return on ordinary activities after taxation of £414,000 (2007: £400,000), whilst the capital return is based on the capital loss on ordinary activities after taxation of £1,407,000 (2007: capital gain £168,000). This is in respect of 20,240,793 C & D shares (2007: 18,603,604 shares), being the weighted average number of C & D shares in issue during the year.

There are no dilutive elements and hence the basic return per share is the same as the diluted return per share.

Notes to the financial statements
(continued)

9 Fixed asset investments

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares	**C & D shares**	**Total**	**Ordinary shares**	**C & D shares**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Qualifying AIM investments	**2,370**	**7,084**	**9,454**	3,910	3,013	6,923
Non-qualifying AIM investments	**56**	**271**	**327**	53	–	53
Investments in collective investment schemes	**–**	**1,057**	**1,057**	–	1,157	1,157
Floating interest rate securities	**–**	**7,419**	**7,419**	300	15,004	15,304
Total	**2,426**	**15,831**	**18,257**	4,263	19,174	23,437

	Ordinary shares			
	Qualifying AIM	**Non-qualifying AIM**	**Floating rate notes**	**Total investment**
	£'000	**£'000**	**£'000**	**£'000**
Valuation basis				
Opening valuation at 1 March 2007	3,910	53	300	4,263
Purchases at cost	221	–	–	221
Sales – proceeds	(868)	(1)	(300)	(1,169)
– realised gains on disposal	258	–	–	258
(Decrease)/increase in unrealised appreciation	(1,151)	4	–	(1,147)
Closing valuation at 29 February 2008	2,370	56	–	2,426
Historic cost basis				
Opening book cost at 1 March 2007	2,904	74	300	3,278
Purchases at cost	221	–	–	221
Disposals at cost	(610)	(1)	(300)	(911)
Closing book cost at 29 February 2008	2,515	73	–	2,588
Opening unrealised gains/(losses)	1,006	(21)	–	985
(Decrease)/increase in unrealised appreciation	(1,151)	4	–	(1,147)
Closing unrealised losses	(145)	(17)	–	(162)

Notes to the financial statements
(continued)

9 Fixed asset investments (continued)

	C & D shares				
	Qualifying AIM £'000	Non-qualifying AIM £'000	Investments in collective investment schemes £'000	Floating rate notes £'000	Total investment £'000
Valuation basis					
Opening valuation at 1 March 2007	3,013	–	1,157	15,004	19,174
Purchases at cost	5,362	313	–	–	5,675
Sales – proceeds	(375)	(2)	–	(7,487)	(7,864)
– realised gains/(losses) on disposal	206	–	–	(18)	188
Decrease in unrealised appreciation	(1,122)	(40)	(100)	(80)	(1,342)
Closing valuation at 29 February 2008	7,084	271	1,057	7,419	15,831
Historic cost basis					
Opening book cost at 1 March 2007	2,760	–	1,000	15,009	18,769
Purchases at cost	5,362	313	–	–	5,675
Disposals at cost	(169)	(2)	–	(7,505)	(7,676)
Closing book cost at 29 February 2008	7,953	311	1,000	7,504	16,768
Opening unrealised gains/(losses)	253	–	157	(5)	405
Decrease in unrealised appreciation	(1,122)	(40)	(100)	(80)	(1,342)
Closing unrealised (losses)/gains	(869)	(40)	57	(85)	(937)

All fixed asset investments are held at fair value through profit or loss. A full list of the portfolio holdings by their aggregate market values is set out on pages 13 to 16 of this report.

Transaction costs incidental to the acquisitions and disposals of investments totalled £3,000 (2007: £2,500) in the year.

10 (Losses)/gains on investments

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares £'000	C & D shares £'000	Total £'000	Ordinary shares £'000	C & D shares £'000	Total £'000
Realised gains on disposals net of expenses	**258**	**188**	**446**	934	18	952
(Decrease)/increase in unrealised appreciation	**(1,147)**	**(1,342)**	**(2,489)**	(311)	405	94
Total (losses)/gains for the year	**(889)**	**(1,154)**	**(2,043)**	623	423	1,046

11 Significant shareholdings

The Company has a holding of 3 per cent or more in the following investments:

	Share Class	% Held
Animalcare Group PLC	Ordinary	4.5%
Atlantic Global PLC	Ordinary	3.3%
Fishworks PLC	Ordinary	3.3%
Twenty PLC	Ordinary	5.2%

The principal activities of these companies are described on pages 13 to 16 of this report.

Notes to the financial statements
(continued)

12 Debtors

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares £'000	C & D shares £'000	Total £'000	Ordinary shares £'000	C & D shares £'000	Total £'000
Prepayments and accrued income	**5**	**85**	**90**	9	133	142
Inter class debtor	**43**	**–**	**43**	46	–	46
Total	**48**	**85**	**133**	55	133	188

The Directors consider that the carrying value of debtors approximates to their fair value.

13 Creditors: amounts falling due within one year

	Year to 29 February 2008			Year to 28 February 2007		
	Ordinary shares £'000	C & D shares £'000	Total £'000	Ordinary shares £'000	C & D shares £'000	Total £'000
Accruals	**15**	**71**	**86**	10	42	52
Inter class creditor	**–**	**43**	**43**	–	46	46
Total	**15**	**114**	**129**	10	88	98

The Directors consider that the carrying value of creditors approximates to their fair value.

14 Called up share capital

	29 February 2008 £'000	28 February 2007 £'000
Authorised		
36,000,000 (2007: 36,000,000) Ordinary shares of 5p each	**1,800**	1,800
25,000,000 (2007: 25,000,000)'C' Ordinary shares of 5p each	**1,250**	1,250
20,000,000 (2007: 20,000,000)'D' Ordinary shares of 5p each	**1,000**	1,000
	4,050	4,050
Allotted, called-up and fully paid (including Treasury shares)		
7,669,349 (2007: 7,764,197) Ordinary shares of 5p each	**383**	388
8,214,295 (2007: 8,214,295) 'C' Ordinary shares of 5p each	**411**	411
12,026,498 (2007: 12,026,498) 'D' Ordinary shares of 5p each	**601**	601
	1,395	1,400

The Company repurchased for cancellation 94,848 Ordinary shares (2007: 316,555 shares) during the year at a cost of £55,000 (2007: £176,000). This represented approximately 1.22 per cent of the issued Ordinary share capital at 28 February 2007.

Notes to the financial statements
(continued)

14 Called up share capital (continued)

The assets of C shares and D shares are managed as a separate pool from the Ordinary shares.

(i) On or around 30 May 2009, the D share assets and liabilities will be separated from those other share classes. At this point, D shareholders can elect to convert to C shares. Following approval of the Distribution in specie at a general meeting, the assets will be substantially invested in AIM stocks and will then be distributed in specie to the remaining D shareholders.

(ii) On or around 12 June 2009, the C shares will convert to Ordinary shares on the basis of the respective net assets of each of those two share classes.

The rights of members to receive dividends is derived from the net income attributable to the net assets of each class of share.

On a winding up, prior to the conversion, the holders of the C shares and D shares will be entitled to the capital and assets attributable to the C shares and D shares and shall rank pari passu in their entitlements, and the holders of the Ordinary shares shall be entitled to the capital and assets attributable to the Ordinary shares.

15 Own shares held in Treasury

	29 February 2008 £'000	28 February 2007 £'000
113,656 (2007: Nil) Ordinary shares	**(44)**	–
	(44)	–

During the year the Company purchased 113,656 Ordinary shares at a cost of £44,000 to be held in Treasury. This represented approximately 1.46 per cent of the issued Ordinary share capital at 28 February 2007.

16 Net asset value per share

Ordinary shares

Net asset value per share is based on the net assets attributable to Ordinary shareholders of £3,036,000 (2007: £4,889,000) and on 7,555,693 (2007: 7,764,197) Ordinary shares in issue, excluding shares held in Treasury, at the year end.

C & D shares

Net asset value per share is based on the net assets attributable to C & D shareholders of £18,065,000 (2007: £19,505,000) and on 20,240,793 (2007: 20,240,793) C & D shares in issue at the year end.

17 Reconciliation of cash (outflow)/inflow from operating activities

	29 February 2008		28 February 2007	
	Ordinary shares £'000	C & D shares £'000	Ordinary shares £'000	C & D shares £'000
Net revenue gain/(loss) before finance costs and taxation	**3**	**544**	(22)	530
Investment management fees charged to capital	**(67)**	**(340)**	(87)	(338)
Decrease/(increase) in operating debtors	**50**	**44**	(2)	(130)
Increase/(decrease) in operating creditors	**5**	**(17)**	(64)	41
Net cash (outflow)/inflow from operating activities	**(9)**	**231**	(175)	103

Notes to the financial statements
(continued)

18 Reconciliation of net cash flow to net funds

	29 February 2008		28 February 2007	
	Ordinary shares £'000	**C & D shares £'000**	**Ordinary shares £'000**	**C & D shares £'000**
Opening net funds	**581**	**286**	177	–
Net cash (outflow)/inflow	**(4)**	**1,977**	404	286
Closing net funds	**577**	**2,263**	581	286

19 Capital and financial instruments risk management

Financial assets and liabilities

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

The principal risks the Company faces in its portfolio management activities are:

- investment (or market) risk (which comprises investment and cash flow interest rate risk);
- credit risk; and
- liquidity risk.

The Board regularly reviews and agrees policies for managing each of these risks. There have been no changes in the nature of the risks that the Company has faced during the past year, and apart where noted below, there have been no changes in the objectives, policies or processes for managing risks during the past year. The key risks are summarised below:

Investment risk

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio, details of which are shown on pages 13 to 16. Investment risk is the exposure of the Company to the revaluation and devaluation of investments. The main driver of investment risk is the operational and financial performance of the investee company. The Investment Manager receives financial information from investee companies, this enables the close identification, monitoring and management of investment risk.

The Investment Manager and the Board formally review investment risk both at the time of initial investment and at quarterly Board meetings.

The Board monitors the prices at which sales of investments are made to ensure that profits to the Company are maximised.

The maximum investment risk as at the Balance sheet date is the value of the fixed asset investment portfolio which is £2,426,000 for Ordinary shares (2007: £4,263,000) and £15,831,000 for C & D shares (2007: £19,174,000). Fixed asset investments form 80 per cent of the Ordinary share net asset value as at 29 February 2008 (2007: 87 per cent) and 88 per cent of the C & D share net asset value as at 29 February 2008 (2007: 98 per cent).

More details regarding the classification of fixed asset investments are shown in Note 9.

Investment price risk

Investment price risk is the risk that the fair value of future investment cashflows will fluctuate due to factors specific to an investment instrument or to a market in similar instruments.

The Company's investment risk primarily comprises the equity value of its AIM and PLUS quoted investments.

Notes to the financial statements
(continued)

19 Financial instruments and risk management (continued)

The investments the Company holds are, in the main, thinly traded and as such the prices are more volatile than those of more widely traded securities. In addition, the ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for Venture Capital Trusts.

The Investment Manager considers each investment purchase to ensure that an acquisition will enable the Company to continue to have an appropriate spread of investment price risk and that an appropriate risk reward profile is maintained.

It is not the Company's policy to use derivative instruments to mitigate investment price risk, as the Board believes that the effectiveness of such instruments does not justify the costs involved.

The Ordinary shares' sensitivity to a 1 per cent increase or decrease in the equity valuations (keeping all other variables constant) would be an increase or decrease in net asset value of £24,260 (2007: £42,630) and for the C & D shares would be an increase or decrease of £158,310 (2007: £191,740).

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 the profit before tax for the year by approximately £131,000 (2007: £108,000)

The company does not have any interest bearing liabilities.

The Company holds floating rate note securities and money on deposit, which earn interest at variable rates and the income may rise or fall depending on changes to interest rates. It is not the Board's policy to hedge against interest rate movements.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company is exposed to credit risk through its investment floating rate notes, and through the holding of cash on deposit with banks.

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 Investment Manager seeks to limit credit risk to the Company.

The Board formally reviews credit risk as part of its overall review of investment and other risks at quarterly Board meetings.

The Ordinary shares' total gross credit risk as at 29 February 2008 is limited to £nil (2007: £300,000) of floating rate notes and £577,000 (2007: £581,000) cash deposits with banks.

The C and D shares' total gross credit risk as at 29 February 2008 is limited to £7,419,000 (2007: £15,004,000) of floating rate notes and £2,263,000 (2007: £286,000) cash deposits with banks.

The cash held by the Company is held with the HSBC Bank plc. Credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision, with high credit ratings assigned by international credit-rating agencies.

Since the year end, the Company has an informal policy of limiting counterparty banking and floating rate note risk to approximately 20 per cent of net asset value with any one counterparty.

Liquidity risk

Liquid assets are held as cash on current account, cash on deposit or short term money market account.

The Company has no committed borrowing facilities as at 29 February 2008 (2007: £nil) and had Ordinary share cash balances of £577,000 (2007: £581,000) and C & D share cash balances of £2,263,000 (2007: £286,000). The main cash outflows are for new investments, which are within the control of the Company. The Investment Manager formally reviews the cash requirements of the Company on a monthly basis, and the Board on a quarterly basis as part of its review of management accounts and forecasts. All the Company's financial liabilities are short term in nature and are £15,000 (2007: £10,000) in respect of the Ordinary shares and £114,000 (2007: £88,000) in respect of the C and D shares as at 29 February 2008.

In view of this, the Board considers that the Company is subject to low liquidity risk.

Notes to the financial statements
(continued)

19 Financial instruments and risk management (continued)

Financial instruments

All of the the Company's financial assets and liabilities as at 29 February 2008 are stated at fair value as determined by the Directors. The Company's financial liabilities are all non-interest bearing. It is the Directors' opinion that the fair value of the financial liabilities approximates the book value and all are payable within one year.

The interest rate profile of the Company's financial assets and liabilities as at 29 February 2008, all denominated in pounds sterling, was as follows:

	Floating rate	Non-interest bearing	Total
Ordinary shares	**£'000**	**£'000**	**£'000**
Equity shares	**–**	**2,426**	**2,426**
Floating rate interest securities	**–**	**–**	**–**
Cash	**577**	**–**	**577**
Other net current assets*	**–**	**31**	**31**
Total Assets	**577**	**2,457**	**3,034**

	Floating rate	Non-interest bearing	Total
C & D shares	**£'000**	**£'000**	**£'000**
Equity shares	**–**	**7,355**	**7,355**
Floating rate interest securities	**7,419**	**–**	**7,419**
Units in authorised unit trust	**–**	**1,057**	**1,057**
Cash	**2,263**	**–**	**2,263**
Other net current liabilites*	**–**	**(32)**	**(32)**
Total Assets	**9,682**	**8,380**	**18,062**

* Other net current assets and liabilities exclude prepayments which under FRS29 are not classified as financial assets.

The interest rate profile of the Company's financial assets and liabilities as at 28 February 2007, all denominated in pounds sterling, was as follows:

	Floating rate	Non-interest bearing	Total
Ordinary shares	**£'000**	**£'000**	**£'000**
Equity shares	–	3,963	3,963
Floating rate interest securities	300	–	300
Cash	581	–	581
Other net current assets*	–	44	44
Total Assets	881	4,007	4,888

Notes to the financial statements
(continued)

19 Financial instruments and risk management (continued)

C & D shares	Floating rate £'000	Non-interest bearing £'000	Total £'000
Equity shares	–	3,013	3,013
Units in authorised unit trust	1,157	–	1,157
Floating rate interest securities	15,004	–	15,004
Cash	286	–	286
Other net current assets*	–	42	42
Total Assets	16,447	3,055	19,502

* Other net current assets exclude prepayments which under FRS29 are not classified as financial assets.

The cash at bank interest rate is based on HSBC Global Investor Services' mid rate less 0.5% updated daily. No interest is receivable for balances less than £25,000.

The maturity value of the floating rate note investments held at fair value is as follows:

	29 February 2008		28 February 2007	
	Ordinary shares £'000	C & D shares £'000	Ordinary shares £'000	C & D shares £'000
Less than one year	**–**	**2,482**	300	–
1–2 years	**–**	**–**	–	5,000
2–3 years	**–**	**4,937**	–	2,503
3–5 years	**–**	**–**	–	7,501
Total	**–**	**7,419**	300	15,004

The contractual re-pricing of the floating rate notes held in the portfolio will occur within one year (2007: within one year)

Floating rate assets predominantly bear interest at rates based on quarterly LIBOR.

Other net-current assets and liabilities are all non-interest bearing. It is the Directors' opinion that the fair value of the other net current assets and liabilities approximates to the book value and all are payable within one year.

Financial liabilities

Primarily the Company finances its operations through its issued capital and existing reserves. The only financial liabilities of the Company are creditors which are due within one year. No interest is paid on these liabilities and they are all in sterling.

20 Contingencies, guarantees and financial commitments

There are no contingencies, guarantees and financial commitments of the Company as at 29 February 2008 (2007: nil) which have been accrued for, except those funds scheduled for investment.

21 Transactions with related parties and the investment manager

Elizabeth Kennedy is a divisional director of Brewin Dolphin Limited, the Company's brokers. Subject to this exception, no Director was party to, or had an interest in, any contract or arrangement with the Company at any time during the period under review or as at the date of this report. During the year Directors' fees were paid to Brewin Dolphin Limited as disclosed on page 35. At the financial year end, the amount due to Brewin Dolphin Limited disclosed as creditors was nil.

Notes to the financial statements
(continued)

21 Transactions with related parties and the investment manager (continued)

Close Investments Limited as Investment Manager of the Company is considered to be a related party by virtue of its management contract with the Company (details disclosed on page 28 of this report). During the year services of a total value of £542,000 were purchased by the Company from Close Investments Limited. At the financial year end, the amount due to Close Investments Limited disclosed as creditors was £40,000. Details of their remuneration can be found in note 4 of these financial statements.

As at 29 February 2008, the Company held an investment in the C & D share portfolio in Close Special Situations Fund, a unit trust which is also managed by Close Investments Limited a subsidiary of Close Brothers Group plc, the ultimate parent company of the Investment Manager. This investment was valued at £1,057,000 as at 29 February 2008 (cost £1,000,000).

Buybacks of shares for cancellation during the year were transacted through Winterflood Securities Limited, a subsidiary of Close Brothers Group plc, the ultimate parent company of the Investment Manager, Close Investments Limited. A total of 94,848 Ordinary shares were purchased at a cost of £54,768. The average price paid was 58 pence per Ordinary share.

Some of the buybacks of shares to be held in Treasury were also transacted through Winterflood Securities Limited. A total of 46,656 Ordinary shares were purchased at a cost of £19,597. The average price paid was 42 pence per Ordinary share.

22 Post balance sheet events

Since 29 February 2008, the Company has completed the following investments:

- Invested £2,000 in Pressure Technologies (C & D share portfolio)
- Invested £902,000 in Maelor (C & D share portfolio)
- Invested £571,000 in Essentially Group (C & D share portfolio)

Since 29 February 2008, the Company has completed the following disposals:

- Freedom 4 Communications for proceeds of £67,000 (Ordinary share portfolio)
- Close Special Situations Fund for proceeds of £109,000 (C & D share portfolio)

On 13 May 2008, Hatpin PLC announced that the company had gone into administration. The cost of this investment (held by the C & D shares) is £246,000 and the value included in the financial statements is £115,000. The Directors consider that the investment is unlikely to have any value.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Close Second AIM VCT PLC (the "Company") will be held at 3.00 p.m. on 15 July 2008 at 10 Crown Place, London EC2A 4FT for the purpose of dealing with the following business, of which items 6 to 10 are special business and to consider and, if thought fit, pass the following resolutions, of which numbers 1 to 6 will be proposed as ordinary resolutions and numbers 7 to 10 as special resolutions.

Ordinary Business:

1. To receive and adopt the Company's accounts and the reports of the Directors and Auditors for the year ended 29 February 2008.
2. To appoint PKF (UK) LLP as auditors of the Company from conclusion of the meeting to the conclusion of the next meeting at which accounts are to be laid
3. To authorise the Directors to agree the auditors' remuneration.
4. To re-elect Sir Aubrey Brocklebank, who retires by rotation, as a Director.
5. To approve the Directors' remuneration report for the year ended 29 February 2008.

Special Business:

6 That the directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum aggregate nominal amount of £138,981, which comprises 10 per cent of the Ordinary share capital excluding shares held in Treasury (equal to £37,778), and 10 per cent of the C share capital (equal to £41,071) and 10 per cent of the D share capital (equal to £60,132), such authority to expire on 30 September 2009, 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.

7 That subject to and conditional on the passing of resolution number 6, 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 6 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, bonus issue, open offer or other offer of securities in favour of the holders of Ordinary, C or D shares on the register of members at such record date as the Directors shall determine where the equity securities respectively attributable to the interests of the Ordinary, C or D shareholders are proportionate (as nearly may be) to the respective numbers of the Ordinary, C or D shares held by them on any such record date subject to such exclusions or other arrangements as the Directors may deem necessary, fractional entitlement 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;

(b) otherwise than pursuant to sub-paragraph 6(a) above up to an aggregate nominal amount of £18,889, equal to 5 per cent of the Ordinary share capital excluding shares held in Treasury, £20,536 equal to 5 per cent of C share capital and £30,066 equal to 5 per cent of the D share capital;

and shall expire on 30 September 2009, 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.

In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory.

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 6" were omitted.

Notice of Annual General Meeting
(continued)

8. 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 and of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, of Ordinary Shares of 5p each ("Ordinary Shares"), C Shares of 5p each ("C Shares") and D Shares of 5p each ("D Shares") in the capital of the Company on such terms as the Directors think fit, and where such shares are held as Treasury shares, the Company may use them for the purposes set out in section 162D of the Companies Act 1985, including for the purpose of its employee share schemes, provided that:

   (a) the maximum aggregate number of shares authorised to be purchased is 1,132,598 Ordinary Shares and 1,213,322 C Shares and 1,802,772 D Shares (representing 14.99 per cent of the issued Ordinary, C and D share capital as at 29 February 2008);

   (b) the minimum price which may be paid for a share is 5p;

   (c) the maximum price, exclusive of any expenses, which may be paid on the exercise of this authority will not exceed the higher of (a) 105 per cent of the average of the middle market quotations for the shares, as derived from the London Stock Exchange Daily Official List, over the five business days immediately preceding the date of purchase; and (b) the higher of the price of the last independent trade and the highest independent bid on the London Stock Exchange;

   (d) this authority expires, unless previously revoked or varied, 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.

9. Changes to the Current Articles

That, with immediate effect, the articles of association of the Company contained in the document produced to the Annual General Meeting (and signed by the Chairman for the purposes of identification) be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Current Articles.

10. Changes to the New Articles

That, subject to resolution 9 set out in this Notice of the Annual General Meeting of the Company convened for 15 July 2008 being passed and with effect on and from 1 October 2008 or such later date as section 175 of the Companies Act 2006 shall be brought into force (i) article 94 of the New Articles adopted pursuant to resolution 9 be deleted in its entirety and articles 94 and 95 as set out in the document produced to the Annual General Meeting (and signed by the Chairman for the purposes of identification) be substituted therefor and the remaining articles be re-numbered and (ii) article 102 of the New Articles adopted pursuant to resolution 9 be deleted in its entirety and article 103 as set out in the document produced to the Annual General Meeting (and signed by the Chairman for the purposes of identification) be substituted therefor.

By order of the Board
Close Ventures Limited
Company Secretary

Registered Office
7 Drumsheugh Gardens
Edinburgh
EH3 7QH

13 June 2008

Notice of Annual General Meeting
(continued)

Notes

1. This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 to enjoy information rights.
2. Only holders of Ordinary, C or D Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the meeting. A member so entitled may appoint (a) proxy(ies), who need not be (a) member(s), to attend, speak and vote on his/her behalf. A proxy form is enclosed with this Notice. To be valid a proxy appointment must reach the office of the Company's Registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not less than 48 hours before the time fixed for the meeting or any adjournment thereof.
3. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered member who hold shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those Shareholders on the register of members of the Company as at 3.00 pm on 13 July 2008 (or, if the meeting is adjourned, members on the register of members not later than 48 hours before the time fixed for the adjourned meeting) are entitled to attend and vote at the meeting in respect of the shares registered in their names at that time. Subsequent changes to the register shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the Registered Office of the Company during normal business hours from the date of this Notice until the conclusion of the meeting, and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion. In addition, a copy of the new and the revised articles of association will be available for inspection at the Company's registered office from the date of this Notice and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion.
6. Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company 's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

Notice of Annual General Meeting
(continued)

Notes for the completion of Form of Proxy

1. If you will not be attending the Annual General Meeting ("AGM"), or may not do so, you can appoint another person (a "proxy") to exercise all or any of your rights to attend, speak and vote at the AGM on your behalf. Completing this Form of Proxy does not prevent you from attending and voting in person.
2. If you wish to appoint a person other than the Chairman as your proxy, please insert the full name of the proxy (in block capitals) in the space provided and delete the words "the Chairman of the meeting or". A proxy need not be a member of the Company. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box provided the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a member, the full voting entitlement for that designated account).
3. You may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you. Please indicate in the box provided if the proxy appointment is one of multiple appointments being given. If you wish to appoint more than one proxy, each proxy must be appointed on a separate Form of Proxy and please enter in the box provided the number of shares in respect of which the proxy is appointed. You may photocopy the enclosed Form of Proxy the required number of times before completing it. All Forms of Proxy must be signed and returned together in the same envelope.
4. Unless you give specific instructions on how to vote on a particular resolution, your proxy may vote as he or she thinks fit on any motion to amend a resolution or to adjourn the AGM, or any other resolution proposed at the AGM.
5. 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.
6. To be valid, this proxy, together with any power of attorney under which it is signed or a duly certified copy thereof, should reach the office of the Company's Registrar, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR by 3.00 pm on 13 July 2008.
7. Proxy appointment and instructions, however submitted, must be received by Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR by 3.00 pm on 13 July 2008.
8. If the member is a corporation, the proxy should be given under the common seal or under the hand of an officer or attorney duly authorised in writing.
9. In the case of joint holders, any joint holder may sign this Form of Proxy, but the vote of the person whose name appears first in the register of members in respect of the holding or his proxy will be accepted to the exclusion of the votes of other joint holders or their proxies.
10. Should any other resolution be proposed at the AGM, the proxy may vote as he or she thinks fit.
11. Any amendments to this Form of Proxy must be initialled.
12. All enquiries concerning this form should be directed to the Company's Registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR.

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