
PHOENIX VCT

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 OCTOBER 2005

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Financial summary

For the year ended 31 October 2005

	Ordinary Share 31 October 2005	Ordinary Share 31 October 2004	'C' Share 31 October 2005
Net assets	£11,229,000	£12,405,000	£4,946,000
Net (loss)/profit before tax	£(47,000)	£71,000	(£26,000)
Share price at end of period	100.0p	100.0p	100.0p
(Loss)/earnings per share	(0.4)p	0.7p	(0.8)p
Net asset value per share (pre dividends)	107.15p	113.55p	94.7p
Net asset value per share (post dividends)	100.5p	110.9p	94.7p
Dividend per share	4.0p	2.5p	–
Cumulative dividends	6.65p	2.65p	–

Phoenix VCT plc (“Phoenix”) is a Venture Capital Trust (“VCT”). The investment manager is Octopus Asset Management Limited (“Octopus”). The Company was launched in November 2002 and raised over £11.3 million (£10.8 million net of expenses) through an offer for subscription. The Company invests in AIM-listed companies and aims to generate attractive long-term returns to shareholders.

Owing to the strong performance of the fund and the number of high quality investment opportunities we were seeing, we raised more money for Phoenix in the last tax year. This fund raising took the form of a ‘C’ Share issue (i.e. the issue of a new class of share) and reached £5.1 million (£5 million net of expenses) by the closing date of 30 June 2005. As mentioned in the interim report, in the future we will be splitting out the performance of the different classes of shares.

Chairman's statement

I am disappointed not to be reporting another uplift in the Net Asset Value for shareholders in what has been a volatile period for stock markets, culminating in the 9.6% fall in the AIM index in October. Four holdings in particular have performed poorly and more information on these investments is included in the Investment Manager's Review.

Within the Ordinary Share portfolio, we continued to make a number of new investments in AIM companies during the year ended 31 October 2005. We also locked in profits from a number of investments that had performed well. In total £2,368,000 of investments were sold over the period generating a profit of £783,000.

In the few months since the 'C' Share fund raising, which raised £5 million (net of expenses), we have made a number of investments in AIM companies.

As you are aware, in line with our patient approach, the uninvested money within the fund, totalling £6.9 million at 31 October 2005, is primarily held in money market funds until the team is confident that they have found the right investment opportunities. This generated £143,000 of income for the Ordinary Share portfolio and £74,000 of income for the 'C' Share portfolio.

Further information regarding the investment performance of the Ordinary Share portfolio and the 'C' Share portfolio is provided within the Investment Manager's Review.

Net Asset Value per share ("NAV")

Ordinary Share Portfolio

As at 31 October 2005, the Company had a portfolio of 31 investments in AIM listed companies with a value of £8.7 million and a net asset value per share of 100.5p. Additionally, at the end of the period, the Ordinary Share portfolio was 76.4% invested in qualifying holdings.

The table below shows the movement in the NAV of the Ordinary Shares and lists the dividends that have been paid since the launch of the fund.

Ordinary Shares

Period ended	NAV	Dividend	NAV + cumulative dividends
31 October 2003	100.7p	0.15p	100.85p
30 April 2004	111.7p	–	111.85p
31 October 2004	110.9p	2.50p	113.55p
30 April 2005	117.1p	4.00p	123.75p
31 October 2005	100.5p	–	107.15p

'C' Share Portfolio

As at 31 October 2005, Phoenix had a portfolio of 8 investments in AIM listed companies with a value of £719,000 and a net asset value per share of 94.7p. Additionally, at the end of the period, the 'C' Share portfolio was 14.1% invested in qualifying holdings.

Dividend

Ordinary Share Portfolio

As you are aware, one of the advantages of a VCT is that any gains can be paid out as tax-free income to our investors. Our strong performance at the interim stage meant that we were able to pay out a 4p per share tax free dividend in August 2005 to the holders of Ordinary Shares. However, in the second half of the year, we realised a loss on our investment in SP Holdings, which means that the fund is not in a position to pay a final dividend. While this is disappointing, we believe that the portfolio is well positioned going forward and we remain committed to maximising tax-free dividends to our investors.

'C' Share Portfolio

As the C Share portfolio recorded a small loss for the period to October 2005, the directors do not propose the payment of a dividend for the holders of 'C' Shares.

Chairman's statement (continued)

Qualifying status

The Directors believe that Phoenix VCT continues to comply with conditions laid down by HM Revenue & Customs for maintaining its approval as a Venture Capital Trust.

Share price and buy-back facility

The Board has adopted a share buy-back policy whereby the Company, when able, will buy-back shares at no more than a 10% discount to the prevailing NAV. This is designed to prevent the shares from trading at a wide discount to NAV. Shareholders should note that if they sell their shares within three years of the original purchase, they will lose any tax advantages that had been obtained.

In the period under review, the Company repurchased 63,410 Ordinary Shares at an average price of 106.7p. No 'C' Shares were bought back.

Outlook

Although most of the key economic indicators are reasonably strong, with inflation and unemployment continuing to stay at comparatively low levels, consumer confidence is expected to remain under pressure. As a result of this, we will monitor the portfolio's exposure to the UK consumer. However, it is important to recognise that smaller-companies are often able to exploit growth opportunities regardless of the underlying economic environment.

Although the portfolio's recent performance has been disappointing, we believe that the portfolio is well-placed to deliver attractive returns to shareholders over the medium-term. Our managers continue to see a healthy pipeline of potential investment opportunities and will remain focused on companies with a strong management team, good track record, and attractive growth prospects. We look forward to updating you on our progress.

Stephen Hazell-Smith, Chairman

18 January 2005

Details of Directors

Stephen Hazell-Smith (52 – Chairman) has more than 15 years experience managing similar funds at some of Europe's leading fund management companies including Mercury Asset Management and GT Management. Most recently, Stephen worked at Close Investment Limited, where he launched and co-managed the Close Brothers AIM VCT (launched in 1998) and the Beacon Investment Trust ("Beacon") which was launched in 1994. Whilst Stephen was co-managing Beacon it was the best performing UK smaller companies fund over the five years ended 31 December 2000. In 2002, Stephen joined Hoodless Brennan & Partners as Non-Executive Chairman where he took an active role in advising until September 2004. From December 2004, Stephen has been Chairman of PLUS Markets Group plc.

Matthew Cooper (39) is the chairman of Octopus Asset Management Limited ("Octopus"), the Company's Investment Manager. Prior to joining Octopus, Matt was the Principal Managing Director of Capital One Bank (Europe) plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to two million customers, generating revenues of over £275 million and employing over 2,000 people. He is also director of Eclipse VCT plc, Eclipse VCT 2 plc, Eclipse VCT 3 plc and Eclipse VCT 4 plc, other venture capital trusts managed by Octopus.

Tony Morgan (74 – Senior Independent Director) spent seven years as chairman and chief executive of the highly successful quoted and multi-national company, Purle Bros., until its merger with the Redland Group when he joined their main board. He was later a partner and shareholder in a joint venture with Wimpey Construction developing their substantial environmental business throughout the UK. He then led the management buy-out (as Chairman) of an industrial service company which he floated and then merged with Compagnie General des Eaux. He is currently a Non-Executive Director of a number of private companies and is Chairman of the charity Youth at Risk.

Details of Advisers

Secretary and Registered Office

Celia L Whitten FCIS
8 Angel Court
London
EC2R 7HP

Registered Number

4575572

Investment Manager

Octopus Asset Management Limited (“Octopus”)
8 Angel Court
London
EC2R 7HP

Independent Auditors

Grant Thornton UK LLP
1 Westminster Way
Oxford
OX2 0PZ

VCT Status Advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Stockbrokers

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds
LS1 4LX

Cash Asset Managers

UBS
1 Curzon Street
London
W1J 5UB

Bankers

HSBC Bank plc
31 Holborn
London
EC1N 2HR

Solicitors

Brown Rudnick Berlack Israels LLP
8 Clifford Street
London
W1S 2LQ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Shareholder information

The Company

Phoenix is a Venture Capital Trust. The investment manager is Octopus. The Company was launched in November 2002 and raised over £10.8 million through an offer for subscription. Subsequent further fund raising took place in the form of a 'C' Share issue, between 1 February 2005 and the closing date of 30 June 2005 a further £5 million was raised.

The objective of Phoenix is to invest in a broad range of AIM-listed businesses in order to generate capital growth over the long-term.

Octopus, founded in 2000 by a team of fund managers from Mercury Asset Management, is a rapidly growing fund management company committed to bringing innovative, high-return fund management products to the broadest possible market. The Octopus team prides itself not only on its history of excellent investment returns but also on the level of service that it provides to its investors. Octopus currently manages £110 million on behalf of approximately 7,000 investors.

Venture Capital Trusts

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unquoted companies in the UK. The Finance Act 2004 introduced changes to VCT legislation that are designed to make VCTs even more attractive to investors. The tax benefits available to eligible investors in VCTs include:

- up-front income tax relief of 40% (20% up to 5 April 2004)
- exemption from income tax on dividends paid
- exemption from capital gains tax on disposals of shares in VCTs

Phoenix has been provisionally approved as a VCT by the Inland Revenue. In order to maintain its approval the company must comply with certain requirements on a continuing basis. Within three years from the date of provisional approval at least 70% of the Company's investments must comprise "qualifying holdings" of which

at least 30% must be in eligible ordinary shares. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment.

Financial Calendar

The Company's financial calendar is as follows:

23 February 2006	Annual General Meeting
July 2006	Interim report for six months to 30 April 2006 published
February 2007	Final dividend and preliminary results for year to 31 October 2006 announced; annual report and financial statements published
March 2007	2006 final dividend paid

Share Price and Buy-Back Facility

The Company's mid-market share price currently stands at 100p for Ordinary Shares and 100p for 'C' Shares. We will be asking shareholders at the annual general meeting to renew the Board's powers to purchase shares in the market for cancellation. Phoenix has a share buy-back facility, committing to buy-back shares at no more than a 10% discount to the prevailing NAV. This should assist the marketability of the shares and help prevent the shares from trading at a wide discount to NAV.

In the period under review the Company repurchased a total of 63,410 shares as set out in Note 13 on page 37.

Shareholders should note that if they sell their shares within three years of original purchase they forfeit any tax relief obtained. If you need to sell your shares, for whatever reason, please contact Octopus Asset Management on 020 7710 2800.

The Company's share price is published daily in the Financial Times. The Company's FT-SE actuarial classification is Investment Companies.

Investment Manager's review

Personal Service

At Octopus, we pride ourselves not only on our team's strong track record but also on our personalised customer service. We believe in open communication and our regular investment updates are designed to keep you involved and informed.

If you have any questions about this review, or if it would help to speak to one of the fund managers, please do not hesitate to contact Octopus on 020 7710 2800.

Simon Rogerson, Chief Executive

Octopus Asset Management

Introduction

The strong pipeline of new companies joining AIM has continued throughout 2005. As at 31 October 2005, there were 1,330 companies listed on AIM with a combined market value of £47.5 billion. This compares to 958 companies as at 31 October 2004, with a combined market value of £27.7 billion.

Review of Ordinary Share Portfolio

As at 31 October 2005, Phoenix VCT had a total of 31 holdings and has, to date, sold six investments for a profit. As at the period end, 76.4% of the fund was invested in VCT qualifying investments.

A total of 16 new holdings were added to the Ordinary Share portfolio over the year. Two of these, Cello Group and Tanfield Group, are currently the largest holdings within the portfolio. We also actively took profits during the period. Holdings in three portfolio companies were disposed of in their entirety; Alternative Networks, Deal Group Media and Glisten, which between them contributed realised gains of £806,000 during the year. The holdings in Media Square, TRL Electronics and BBI Holdings were reduced in size, taking the total realised gains for the year to £1,183,000. This takes the total profits realised from the Ordinary Share portfolio to £1,788,000 since launch.

The downward movement in the NAV of the Ordinary Shares during the period was disappointing. The bulk of the reduction in the NAV since the interim results was driven by the poor performance of a few holdings. First, SP Holdings, a marketing and merchandising company,

was forced to call in the administrators during the summer. This was caused by a delay in the receipt of a large order, which pushed the company into a position where it was not able to meet its working capital requirement. The share price performance of Augean has also been disappointing. This has been due to a reduction in expectations for the short-term profitability of Augean following the delays in the issue of licences by the Environment Agency. We believe that the strong underlying characteristics of the company will be reflected in an improved performance over the next twelve months. Two other holdings that have experienced poor share price performance during the year are Real Good Food Group, which suffered from a weakening in stock market sentiment towards the company following its merger with Napier Brown, and Armour Group, on concerns over the potential impact on the company of a slowdown in consumer spending.

The deal flow of VCT qualifying investments remains strong and we anticipate that we will make further investments over the current financial year for the Ordinary Share portfolio, whilst also taking advantage of strength in the share prices of existing holdings to take profits where appropriate.

Review of 'C' Share Portfolio

As at 31 October 2005, the 'C' Share portfolio had investments in a total of eight companies. As at the period end, 14.1% of the fund was invested in VCT qualifying investments.

We are in the early stages of building the 'C' Share portfolio following the fundraising that occurred in the first half of 2005. During the current financial year, we will continue to make investments for the 'C' Share portfolio as we focus on the HM Revenue & Customs requirement under the VCT legislation for the 'C' Share portfolio to be 70% invested in qualifying companies by 31 October 2007.

Valuation of Investments

All investments are in the Ordinary Share capital of companies traded on AIM. These are stated at middle market prices.

AIM Listed Qualifying Investments

	Ordinary Shares Valuation		'C' Shares Valuation		Total Valuation	
	Book Cost £'000	at Mid Price £'000	Book Cost £'000	at Mid Price £'000	Book Cost £'000	at Mid Price £'000
Cello Group plc	500	605	–	–	500	605
Tanfield Group plc	300	570	160	152	460	722
Media Square plc	302	532	–	–	302	532
BBI Holdings plc	248	492	–	–	248	492
Concateno plc	500	450	–	–	500	450
Public Recruitment Group plc	500	434	–	–	500	434
Bond International Software plc	170	431	–	–	170	431
Augean plc	500	417	–	–	500	417
Disperse Technologies plc	500	403	160	145	660	548
TRL Electronics plc	253	384	–	–	253	384
Staffline Recruitment Group plc	300	384	–	–	300	384
Real Good Food Group plc	500	355	–	–	500	355
Access Intelligence plc	500	325	–	–	500	325
Armour Group plc	293	286	–	–	293	286
Strategic Thought Group plc	194	263	68	92	262	355
Tissue Science Laboratories plc	246	261	–	–	246	261
fountains plc	240	238	–	–	240	238
Zetar plc	158	233	–	–	158	233
Top Ten Holdings plc	200	210	–	–	200	210
SectorGuard plc	200	193	100	97	300	290
Brooks Macdonald Group plc	156	173	–	–	156	173
Sovereign Oilfield Group plc	140	168	62	75	202	243
Inditherm plc	200	122	–	–	200	122
Screen FX plc	244	114	–	–	244	114
Belgravium Technologies plc	68	94	23	31	91	125
Air Music & Media Group plc	200	90	–	–	200	90
Abcam plc	89	89	44	44	133	133
Asfare Group plc	95	89	–	–	95	89
4Less Group plc	200	67	–	–	200	67
DawMed Systems plc	79	54	–	–	79	54
Bright Futures Group plc	125	49	–	–	125	49
InterQuest Group plc	–	–	75	65	75	65
Total Qualifying Investments	8,200	8,575	692	701	8,892	9,276
AIM Listed Non-Qualifying Investments						
Zetar plc	90	89	–	–	90	89
Sovereign Oilfield Group plc	38	45	15	18	53	63
Total Non-Qualifying Investments	128	134	15	18	143	152

Investment Manager's review (continued)

Ordinary Share Portfolio

VCT Qualifying Investments

Ten Largest Holdings

Cello Group plc

Cello Group was created as a vehicle to identify and acquire well-established media services companies operating in niche markets. In October 2004, the company's flotation on AIM raised £15 million in order to acquire three businesses and provide working capital for further growth.

<i>Initial Investment</i>	<i>October 2004</i>
<i>Cost (£'000)</i>	500
<i>Valuation as at 31.10.05 (£'000)</i>	605
Equity held	1.82%

Audited Financial Information

	<i>Period ended 31 December 2004</i>
	<i>£million</i>
<i>Sales</i>	9.4
<i>Profit before tax</i>	1.3
<i>Retained profits</i>	0.9
<i>Net assets</i>	33.5

Tanfield Group plc

Tanfield Holdings supplies assembly and technical engineering services and owns Smith Electric Vehicles (SEV), which manufactures zero emission vehicles for the dairy, airport and delivery markets.

<i>Initial Investment</i>	<i>December 2004</i>
<i>Cost (£'000)</i>	300
<i>Valuation as at 31.10.05 (£'000)</i>	570
Equity held	1.66%

Audited Financial Information

	<i>Period ended 31 December 2004</i>
	<i>£million</i>
<i>Sales</i>	11.8
<i>Loss before tax</i>	(6.0)
<i>Retained losses</i>	(6.0)
<i>Net assets</i>	5.9

Media Square plc

Media Square is an acquisitive marketing services and communications company. Phoenix first invested during September 2003 and the company has successfully completed a number of fund raisings since in order to complete further acquisitions.

<i>Initial Investment</i>	<i>September 2003</i>
<i>Cost (£'000)</i>	302
<i>Valuation as at 31.10.05 (£'000)</i>	532
Equity held	0.70%

Audited Financial Information

	<i>Period ended 31 October 2004</i>
	<i>£million</i>
<i>Sales</i>	12.6
<i>Profit before tax</i>	1.5
<i>Retained profits</i>	1.3
<i>Net assets</i>	31.1

BBI Holdings plc

British Biocell International develops and manufactures rapid result non-invasive diagnostic tests for the point of care market. The company derives income from the manufacture and supply of gold colloids, bespoke contract product development and the manufacture of diagnostic tests for industry partners.

<i>Initial Investment</i>	<i>April 2004</i>
<i>Cost (£'000)</i>	248
<i>Valuation as at 31.10.05 (£'000)</i>	492
Equity held	2.48%

Audited Financial Information

	<i>Period ended 31 March 2005</i>
	<i>£million</i>
<i>Sales</i>	4.6
<i>Profit before tax</i>	0.1
<i>Retained profits</i>	0.09
<i>Net assets</i>	5.5

Concateno plc

Concateno is a newly incorporated company, established to acquire and manage water businesses in both the UK and international markets. The company, which is yet to complete its first acquisition, raised £5m and floated on AIM during April 2005.

<i>Initial Investment</i>	<i>April 2005</i>
<i>Cost (£'000)</i>	500
<i>Valuation as at 31.10.05 (£'000)</i>	450
Equity held	10.00%

Audited Financial Information

First audited financial information will be available for the period to 31 March 2006

Public Recruitment Group plc

Public Recruitment Group floated on AIM in April 2004, raising £9 million in order to pursue acquisition opportunities. The company provides qualified personnel to the education, healthcare and social care markets.

<i>Initial Investment</i>	<i>April 2004</i>
<i>Cost (£'000)</i>	500
<i>Valuation as at 31.10.05 (£'000)</i>	434
Equity held	1.48%

Audited Financial Information

Period ended 31 December 2004

£million

<i>Sales</i>	53.8
<i>Profit before tax</i>	0.9
<i>Retained profits</i>	0.5
<i>Net assets</i>	14.4

Bond International Software plc

Bond International Software is a provider of specialist software to the international recruitment and human resources industries.

<i>Initial Investment</i>	<i>March 2004</i>
<i>Cost (£'000)</i>	170
<i>Valuation as at 31.10.05 (£'000)</i>	431
Equity held	1.69%

Audited Financial Information

Period ended 31 December 2004

£million

<i>Sales</i>	9.6
<i>Profit before tax</i>	1.9
<i>Retained profits</i>	1.5
<i>Net assets</i>	8.5

Augean plc

Augean was incorporated in September 2004 in order to acquire assets in the waste sector. The company raised a further £100 million on AIM during November 2004 in order to complete the purchase of two hazardous waste landfill sites, the content of which is becoming subject to increasing legislation via Europe. Further acquisitions are anticipated.

<i>Initial Investment</i>	<i>December 2004</i>
<i>Cost (£'000)</i>	500
<i>Valuation as at 31.10.05 (£'000)</i>	417
Equity held	0.42%

Audited Financial Information

Period ended 31 December 2004

£million

<i>Sales</i>	0.9
<i>Loss before tax</i>	(0.4)
<i>Retained losses</i>	(0.4)
<i>Net assets</i>	112.3

Disperse Group plc

Disperse Group is a specialist personal care and cosmetics business operating in the health and beauty market. The company has recently acquired two branded cosmetics companies; Elizabeth French and Woods of Windsor.

<i>Initial Investment</i>	<i>July 2004</i>
<i>Cost (£'000)</i>	500
<i>Valuation as at 31.10.05 (£'000)</i>	403
Equity held	3.35%

Audited Financial Information

Period ended 31 August 2004

£million

<i>Sales</i>	2.8
<i>Loss before tax</i>	(1.0)
<i>Retained losses</i>	(0.8)
Net assets	7.5

Investment Manager's review (continued)

TRL Electronics plc

TRL Electronics is a specialist defence electronics group focused on the protection against terrorism and subversive threats, organised crime and drug trafficking. The company designs and develops a range of intercept, surveillance, electronic warfare and communications products, which are supplied directly and indirectly to military and government security organisations around the world.

<i>Initial Investment</i>	<i>July 2004</i>
<i>Cost (£'000)</i>	253
<i>Valuation as at 31.10.05 (£'000)</i>	384

Equity held **0.78%**

Audited Financial Information

	<i>Period ended 31 March 2005</i>
	<i>£million</i>
<i>Sales</i>	22.1
<i>Loss before tax</i>	(1.0)
<i>Retained losses</i>	(1.7)
<i>Net assets</i>	13.0

'C' Share Portfolio

VCT Qualifying Investments

All Holdings

Tanfield Group plc

Tanfield Holdings supplies assembly and technical engineering services and owns Smith Electric Vehicles (SEV), which manufactures zero emission vehicles for the dairy, airport and delivery markets.

<i>Initial Investment</i>	<i>May 2005</i>
<i>Cost (£'000)</i>	160
<i>Valuation as at 31.10.05 (£'000)</i>	152

Equity held **0.44%**

Audited Financial Information

	<i>Period ended 31 December 2004</i>
	<i>£million</i>
<i>Sales</i>	11.8
<i>Loss before tax</i>	(6.0)
<i>Retained losses</i>	(6.0)
<i>Net assets</i>	5.9

Disperse Group plc

Disperse Group is a specialist personal care and cosmetics business operating in the health and beauty market. The company has recently acquired two branded cosmetics companies; Elizabeth French and Woods of Windsor.

<i>Initial Investment</i>	<i>June 2005</i>
<i>Cost (£'000)</i>	160
<i>Valuation as at 31.10.05 (£'000)</i>	145

Equity held **1.21%**

Audited Financial Information

	<i>Period ended 31 August 2004</i>
	<i>£million</i>
<i>Sales</i>	2.8
<i>Loss before tax</i>	(1.0)
<i>Retained losses</i>	(0.8)
<i>Net assets</i>	7.5

Strategic Thought Group plc

Strategic Thought provides leading risk management software and specialist consultancy and technical services to global corporations.

<i>Initial Investment</i>	<i>July 2005</i>
<i>Cost (£'000)</i>	68
<i>Valuation as at 31.10.05 (£'000)</i>	92

Equity held **0.22%**

Audited Financial Information

First audited information will be available for the period to 31 March 2006

SectorGuard plc

Security specialist SectorGuard provides manned guarding, mobile patrolling and key holding services to corporate clients.

<i>Initial Investment</i>	<i>July 2005</i>
<i>Cost (£'000)</i>	100
<i>Valuation as at 31.10.05 (£'000)</i>	97

Equity held **0.99%**

Audited Financial Information

	<i>Period ended 30 September 2004</i>
	<i>£million</i>
<i>Sales</i>	14.0
<i>Profit before tax</i>	0.9
<i>Retained profits</i>	0.5
<i>Net assets</i>	4.7

Sovereign Oilfield Group plc

Sovereign is an Aberdeen based oil services group. The company has three main divisions covering the provision of senior engineering personnel, the design and manufacture of diamond drill bits and fabrication services.

<i>Initial Investment</i>	<i>August 2005</i>
<i>Cost (£'000)</i>	62
<i>Valuation as at 31.10.05 (£'000)</i>	75
Equity held	0.31%

Audited Financial Information

First audited financial information will be available for the period to 31 March 2006

InterQuest Group plc

InterQuest is a group of specialist IT staffing companies. The company joined AIM in May 2005 in order to pursue a buy and build strategy.

<i>Initial Investment</i>	<i>May 2005</i>
<i>Cost (£'000)</i>	75
<i>Valuation as at 31.10.05 (£'000)</i>	65
Equity held	0.53%

Audited Financial Information

First audited information will be available for the period to 31 December 2005

Abcam plc

Abcam is an internet based company focused on the development and distribution of high quality antibodies, with extensive technical data, to universities, research institutes and pharmaceutical companies.

<i>Initial Investment</i>	<i>October 2005</i>
<i>Cost (£'000)</i>	44
<i>Valuation as at 31.10.05</i>	44
Equity held	0.08%

Audited Financial Information

Period ended 30 June 2005

£million

<i>Sales</i>	12.1
<i>Profit before tax</i>	3.0
<i>Retained profits</i>	1.0
<i>Net assets</i>	3.2

Belgravium Technologies

Belgravium designs, develops and installs real time data capture systems aimed at the logistics, fuel distribution and airline industries.

<i>Initial Investment</i>	<i>October 2005</i>
<i>Cost (£'000)</i>	23
<i>Valuation as at 31.10.05</i>	31
Equity held	0.16%

Audited Financial Information

Period ended 31 December 2004

£million

<i>Sales</i>	3.9
<i>Profit before tax</i>	0.8
<i>Retained profits</i>	0.3
<i>Net assets</i>	2.4

Company Name

% Equity held by Phoenix VCT	% Equity held by other Funds*
-------------------------------------	--------------------------------------

Cello Group plc	1.82%	3.47%
Tanfield Group plc	2.10%	3.26%
Media Square plc	0.70%	0.49%
BBI Holdings plc	2.48%	0.42%
Bond International Software plc	1.69%	0.89%
Augean plc	0.42%	0.64%
Disperse Technologies plc	4.56%	1.26%
TRL Electronics plc	0.78%	0.12%
Staffline Recruitment Group plc	1.80%	1.06%
Access Intelligence plc	8.50%	2.70%
Strategic Thought Group plc	0.85%	0.22%
Tissue Science Laboratories plc	0.50%	0.50%
fountains plc	1.29%	2.65%
Zetar plc	1.60%	2.44%
Brooks Macdonald Group plc	1.14%	0.83%
Belgravium Technologies plc	0.64%	0.96%
Abcam plc	0.23%	0.39%
DawMed Systems plc	1.70%	2.20%
InterQuest Group plc	0.53%	4.39%

*Other funds managed by the same Investment Manager, Octopus Asset Management Limited.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 October 2005.

Activities and status

The principal activity of the Company is investing in AIM-listed companies.

Investment company status was revoked on 23 March 2004. The accounts have been drawn up to include a statutory profit and loss account, a statement of total recognised gains and losses and a note of historical cost profits and losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance).

The Chairman's Statement on pages 3 and 4 includes a review of the Company's activities and future prospects. The Directors have managed the affairs of the Company with the intention of maintaining its status as an approved Venture Capital Trust for the purposes of S842AA of the Income and Corporation Taxes Act 1988. The Company was not at any time up to the date of this report a close company within the meaning of S414 of the Act.

Results and dividend

	Ordinary Shares 31 October 2005	Ordinary Shares 31 October 2004	'C' Shares 31 October 2005
Net (loss)/profit attributable to shareholders for the year	£(47,000)	£71,000	(26,000)
Appropriations:			
Interim dividend paid – 4.0p (2004 – nil) per share	£446,000	–	–
Final dividend proposed – nil (2004 – 2.50p) per share	–	£281,000	–

Dividends paid are able to exceed net profits due to the availability of distributable reserves.

Directors

According to the register of Directors' interests, the Directors of Phoenix during the year and their interests in the issued Ordinary Shares of 10p were as follows:

	31 October 2005	31 October 2004
Mr S Hazell-Smith (Chairman)	25,500	25,500
Mr M Cooper	10,300	10,300
Mr T Morgan	3,060	3,060

There have been no changes in the Directors' share interests between 31 October 2005 and the date of this report.

Mr S Hazell-Smith retires by rotation and being eligible offers himself for re-election.

The Board has considered provision A.7.2 of the Combined Code 2003 and believes that Mr S Hazell-Smith continues to be effective and to demonstrate commitment to his role, the Board and the Company. They therefore have no hesitation in recommending him for re-election at the forthcoming Annual General Meeting.

Directors' and officers' liability insurance

The Company has, as permitted by S310(3) of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Creditor payment policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The Company does not follow any code or standard with regard to creditor payment practice. At 31 October 2005 there were no trade creditors.

Management

Octopus acts as investment manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in Note 3 to the financial statements. Mr M Cooper is a Director of Octopus.

Open offers and offers for subscription

During the year to 31 October 2005 a total of 5,221,188 'C' Shares and 52,935 Ordinary Shares were allotted (2004 : 1,203,077 Ordinary Shares).

Purchase and cancellation of own shares

During the year, the Company purchased 63,410 Ordinary Shares for cancellation at prices between 100p and 116p each for cancellation (2004 : 65,725 shares at prices between 90p and 100p each).

Fixed assets

Movements in fixed asset investments during the year are set out in Note 9 to the financial statements.

International Financial Reporting Standards ('IFRS')

As the Company is not part of a group it is not mandatory for it to comply with IFRS. Additionally, the Company does not anticipate that it will voluntarily adopt the IFRS.

Substantial shareholdings

So far as the Directors are aware, there were no individual shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Annual General Meeting

Notice convening the 2006 annual general meeting of the Company and a form of proxy in respect of that meeting can each be found at the end of this document.

Independent auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors at the forthcoming annual general meeting in accordance with section 385 of the Companies Act 1985.

By order of the Board

Celia L Whitten FCIS

Secretary

18 January 2006

Directors' remuneration report

Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 October 2005.

Consideration by the Directors of matters relating to Directors' remuneration

The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect. The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the year (although the Directors expect from time to time to review the fees paid to the boards of directors of other Venture Capital Trusts).

Statement of the Company's policy on Directors' remuneration

The Board consists entirely of Non-Executive Directors, who meet at least four times a year and on other occasions as necessary, to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole.

Each Director has a service contract. Each Director has a notice period of three months and a Director may resign by notice in writing to the Board at any time. None of the Directors is entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

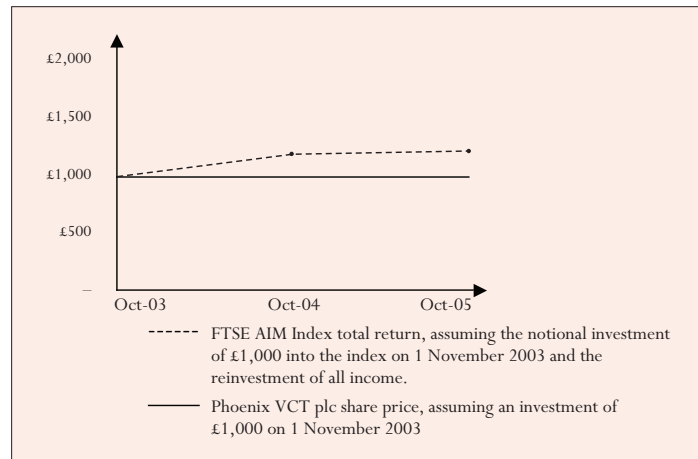
	Date of contract	Unexpired term of contract at 31 October 2005 months	Annual rate of Directors' fees £
Mr S Hazell-Smith (Chairman)	11 November 2002	n/a	15,000
Mr M Cooper	11 November 2002	n/a	10,000
Mr T Morgan	11 November 2002	n/a	10,000

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid higher fees than the other Directors in recognition of the Chairman's more onerous role. The policy is to review these rates from time to time, although such review will not necessarily result in any changes to the rates.

Company performance

The graph below compares the total return (assuming all income is reinvested) to ordinary shareholders in the Company over the period from November 2003 to October 2005 with the total return from a notional investment in the FTSE AIM index over the same period. This index is considered to be the most appropriate broad equity market index for comparative purposes. However, the Directors wish to point out that VCTs are not free to invest in all of the companies traded on AIM.

Performance Graph



Directors' emoluments

Amount of each Director's emoluments (information subject to audit)

	Year ended 31 October 2005	Period ended 31 October 2004
	£	£
Mr S Hazell-Smith (Chairman)	15,000	15,000
Mr M Cooper	10,000	10,000
Mr T Morgan	10,000	10,000
	35,000	35,000

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Directors personally. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. No other remuneration or compensation was paid or payable by the Company during the period to any of the current Directors.

By Order of the Board

C L Whitten FCIS

Secretary

18 January 2006

Corporate governance

The Company is committed to maintaining high standards in corporate governance. However, the Directors agree with the preamble to the Combined Code on Corporate Governance published by the UK Listing Authority in July 2003 which acknowledges that some provisions may have less relevance for investment companies and, in particular, consider some areas inappropriate to the size and nature of the business of the Company. Accordingly the provisions not complied with and the reasons why are outlined at the end of this report in the Compliance Statement.

Board of Directors

The Company has a board of three non-executive Directors, two of whom are considered to be independent. Matthew Cooper is not considered to be independent due to his role as Chairman of the Company's Investment Manager. The Board meets regularly on a quarterly basis, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board. The Board has a formal schedule of matters specifically reserved for its decision.

During the year four board meetings were held. All of the Directors attended these meetings with the exception of Matt Cooper who was unable to attend two of them. Additionally, two audit committee meetings were held with all members attending.

The full Board met four times during the year to review investment performance and the Board or a committee of it met on other occasions to authorise share issues and repurchases.

The Company's Articles of Association require that one third of the Directors should retire by rotation each year and seek re-election at the annual general meeting and that Directors appointed by the board should seek re-appointment at the next annual general meeting. All Directors therefore submit themselves for re-election at least every three years.

The Board has appointed two committees to make recommendations to the Board in specific areas:

Audit Committee

Mr Stephen Hazell-Smith (Chairman)

Mr Tony Morgan

- deals with matters relating to audit, financial reporting and internal control systems. The committee meets as required and has direct access to Grant Thornton UK LLP, the Company's auditors. The committee met twice in relation to the year ended 31 October 2005. The meetings took place to consider the interim accounts and the full year reports and to review the operational systems and controls.

The audit committee reviews the nature and extent of non-audit services supplied by the external auditors of the Company, seeking to balance objectivity and value for money.

Nomination Committee

Mr Stephen Hazell-Smith (Chairman)

Mr Matt Cooper

- considers the selection and appointment of Directors and makes recommendations to the board as to the level of Directors' fees. The Board does not have a separate Remuneration Committee as the Company has no employees or Executive Directors. The committee meets as required and did not meet during the year.

Internal control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. The Board regularly reviews financial results and investment performance with its investment managers.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to investments. Octopus regularly reconciles the client asset register with the physical documents. Secretarial matters have been delegated to Celia Whitten of Woodside Secretaries Limited.

The Directors confirm that they have established a continuing process throughout the period and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out in accordance with the Turnbull guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

Risk management

The Company invests its funds primarily in AIM-listed equities, which by their nature may entail a higher degree of risk than investments in larger listed companies. The Directors aim to limit this risk through careful selection of a spread of investments.

Octopus carries out management of liquid funds in accordance with the policy guidelines laid down and regularly reviewed by the Board. In general the guidelines require that uninvested cash will be held in money market funds. The Company has no borrowing facilities nor has it entered into derivative transactions.

Directors' responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and detect fraud and other irregularities.

Going concern

After making the necessary enquiries, the Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. The Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Relations with shareholders

The Board recognise the value of maintaining regular communications with shareholders. In addition to the formal business of the annual general meeting, an opportunity is given to all shareholders to question the Board and the investment managers on matters relating to the company's operation and performance. Proxy voting figures for each resolution are announced at the annual general meeting.

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 8 Angel Court, London, EC2R 7HP. Alternatively, the investment managers are happy to answer any questions you may have and can be contacted on 020 7710 2800.

Corporate governance (continued)

Compliance statement

The Listing Rules require the Board to report on compliance with the 48 Combined Code provisions throughout the accounting year. With the exception of the limited items outlined below, the Directors consider that the Company has complied throughout the period under review with the provisions set out in Section 1 of the Combined Code of Corporate Governance published by the UK Listing Authority in July 2003:

1. New directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise (A5.1).
2. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its committees, the individual directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise (A1.3, A6.1).
3. The Company has two independent Directors, Mr Stephen Hazell-Smith and Mr Tony Morgan, as defined by the Combined Code issued in July 2003. Mr Cooper holds directorships of other companies with the same investment manager and with the investment manager itself. The Board considers that all directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code (A1.3, A2.1).
4. The Company does not have a chief executive officer. The Board does not consider this necessary for the size of the company (A3.3).
5. The Company does not conduct a formal review as to whether there is a need for an internal audit function. The Directors do not consider that an internal audit would be an appropriate control for a venture capital trust (C3.5).
6. The Audit Committee is chaired by Mr Hazell-Smith, whom the board regards as independent (C3.1).
7. As all the Directors are non-executive, it is not considered appropriate to appoint a Remuneration Committee (B2.1).
8. The Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting (D1.2).

Independent auditors' report to the members of Phoenix VCT plc

We have audited the financial statements of Phoenix VCT plc for the year ended 31 October 2005 which comprise the profit and loss account, statement of total recognised gains and losses, note of historical cost profits and losses, the balance sheet, the cash flow statement, and notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information

specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the financial summary, Chairman's Statement, details of Directors, shareholder information, investment manager's review, Directors' report, the unaudited part of the Directors' remuneration report and the corporate governance statement. 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 other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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

Independent auditors' report to the members of Phoenix VCT plc (continued)

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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 October 2005 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.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

18 January 2006

Profit and loss account

For the year ended 31 October 2005

		Ordinary Shares Year ended 31 October 2005	'C' Shares Period ended 31 October 2005	Total Year ended 31 October 2005
	Notes	£'000	£'000	£'000
Profit on realisation of investments	9	256	–	256
Investment income	2	165	74	239
Investment management fees	3	(291)	(54)	(345)
Other expenses	4	(177)	(46)	(223)
Loss on ordinary activities before taxation		(47)	(26)	(73)
Taxation on loss on ordinary activities	6	–	–	–
Loss on ordinary activities after taxation		(47)	(26)	(73)
Dividends	7	(446)	–	(446)
Transfer from reserves	14	(493)	(26)	(519)
Loss per share	8	(0.4)p	(0.8)p	

Profit and loss account

For the year ended 31 October 2004

		Ordinary Shares Year ended 31 October 2004	'C' Shares Year ended 31 October 2004	Total Year ended 31 October 2004
	Notes	£'000	£'000	£'000
Profit on realisation of investments	2	241	–	241
Investment income	3	265	–	265
Investment management fees	4	(259)	–	(259)
Other expenses		(176)	–	(176)
Profit on ordinary activities before taxation	6	71	–	71
Taxation on loss on ordinary activities		–	–	–
Profit on ordinary activities after taxation	7	71	–	71
Dividends	14	(281)	–	(281)
Transfer from reserves	8	(210)	–	(210)
Earnings per share		0.7p	–	

Statement of total recognised gains and losses

For the year ended 31 October 2005

		Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
	Notes			
Loss on ordinary activities after taxation		(47)	(26)	(73)
Unrealised (loss)/gain on revaluation of investments	9	(675)	12	(663)
Total loss recognised during the year		(722)	(14)	(736)

Statement of total recognised gains and losses

For the year ended 31 October 2004

		Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Profit on ordinary activities after taxation		71	—	71
Unrealised gain on revaluation of investments		1,294	—	1,294
Total gain recognised during the period		1,365	—	1,365

Note of historical cost profits and losses

For the year ended 31 October 2005

	Notes	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Loss on ordinary activities before taxation		(47)	(26)	(73)
Realisation of prior years' net unrealised gains on investment	14	527	—	527
Historical cost profit/(loss) on ordinary activities before taxation		480	(26)	454
Historical cost profit/(loss) on ordinary activities after dividends and taxation		34	(26)	8

Note of historical cost profits and losses

For the year ended 31 October 2004

	Notes	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Profit on ordinary activities before taxation		71	—	71
Realisation of prior years' net unrealised gains on investment		363	—	363
Historical cost profit on ordinary activities before taxation		434	—	434
Historical cost profit on ordinary activities after dividends and taxation		153	—	153

Balance sheet

As at 31 October 2005

	Notes	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Fixed asset investments	9	8,709	719	9,428
Current assets:				
Investments	10	1,865	4,030	5,895
Debtors	11	19	5	24
Cash		745	287	1,032
		2,629	4,322	6,951
Creditors: amounts falling due within one year	12	(109)	(95)	(204)
Net current assets		2,520	4,227	6,747
Total assets less current liabilities		11,229	4,946	16,175
Capital and reserves:				
Share capital	13	1,118	522	1,640
Share premium	14	54	4,438	4,492
Special distributable reserve	14	9,587	–	9,587
Capital redemption reserve	14	9	–	9
Revaluation reserve	14	381	12	393
Profit and loss account	14	80	(26)	54
Shareholders' funds		11,229	4,946	16,175
Net asset value per share	16	100.5p	94.7p	

The statements were approved by the Directors on 18 January 2006 and are signed on their behalf by:

Mr Stephen Hazell-Smith
Chairman

Balance sheet

As at 31 October 2004

	Notes	Ordinary Shares 31 October 2004 £'000	'C' Shares 31 October 2004 £'000	Total 31 October 2004 £'000
Fixed asset investments	9	6,698	—	6,698
Current assets:				
Investments	10	5,841	—	5,841
Debtors	11	106	—	106
Cash		62	—	62
		6,009	—	6,009
Creditors: amounts falling due within one year	12	(302)	—	(302)
Net current assets		5,707	—	5,707
Total assets less current liabilities		12,405	—	12,405
Capital and reserves:				
Share capital	13	1,119	—	1,119
Share premium	14	9,655	—	9,655
Capital redemption reserve	14	2	—	2
Revaluation reserve	14	1,583	—	1,583
Profit and loss account		46	—	46
Shareholders' funds		12,405	—	12,405
Net asset value per share	16	110.9p	—	

The statements were approved by the Directors on 18 January 2006 and are signed on their behalf by:

Mr Stephen Hazell-Smith
Chairman

Cash flow statement

For the year ended 31 October 2005

		Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
	Notes			
Net cash (outflow)/inflow from operating activities	17	(409)	64	(345)
Financial investment:				
Purchase of listed securities		(4,798)	(707)	(5,505)
Sale of listed securities		2,368	–	2,368
Net cash outflow from financial investment		(2,430)	(707)	(3,137)
Equity dividends paid		(446)	–	(446)
Management of liquid resources:				
Return of/(investment in) cash investments		3,976	(4,030)	(54)
Financing:				
Issue of own shares		59	5,112	5,171
Purchase of own shares		(67)	–	(67)
Share issue expenses		–	(152)	(152)
Net cash (outflow)/inflow from financing		(8)	4,960	4,952
Increase in cash resources	18	683	287	970

Cash flow statement

For the year ended 31 October 2004

		Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
	Notes			
Net cash outflow from operating activities	17	(269)	—	(269)
Financial investment:				
Purchase of listed securities		(3,940)	—	(3,940)
Sale of listed securities		1,251	—	1,251
Net cash outflow from financial investment		(2,689)	—	(2,689)
Equity dividends paid		(15)	—	(15)
Management of liquid resources:				
Return of cash investments		1,626	—	1,626
Financing:				
Issue of own shares		1,323	—	1,323
Purchase of own shares		(64)	—	(64)
Share issue expenses		(53)	—	(53)
Net cash inflow from financing		1,206	—	1,206
Decrease in cash resources	18	(141)	—	(141)

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards.

The principal accounting policies have remained unchanged from those set out in the Company's 2004 financial statements.

Investments

Investments in AIM-listed companies are stated at middle market prices. Current asset investments are held at the lower of cost and net realisable value.

Profits or losses on realisation of investments and permanent diminutions in the value of investments are reflected in the profit and loss account. Unrealised gains and losses on investments are reflected in the statement of total recognised gains and losses and included in the revaluation reserve.

Profits or losses on realisation of investments are calculated by reference to the carrying amount of such investments with previously unrealised gains or losses being transferred from the revaluation reserve to the profit and loss reserve on disposal.

Income

Investment income includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account on the ex-dividend date. Fixed returns on debt and money market securities are recognised on the accruals basis.

Expenses

All expenses are accounted for on the accruals basis. Expenses are charged to the profit and loss account with the exception of expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate. Expenses not directly attributable to a particular portfolio are split pro rata based on the net assets of both the Ordinary and 'C' Shares.

Taxation

Corporation tax payable is applied to profits chargeable to corporation tax, if any, at the current rate.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and money market funds repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

2 Income

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Interest receivable on bank balances and money market funds	143	74	217
Dividends receivable	22	–	22
	165	74	239

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Interest receivable on bank balances and money market funds	262	–	262
Dividends receivable	3	–	3
	265	–	265

3 Management Fees

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Investment management fee	248	46	294
Irrecoverable VAT thereon	43	8	51
	291	54	345

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Investment management fee	220	–	220
Irrecoverable VAT thereon	39	–	39
	259	–	259

Octopus provides investment management and accounting and administration services to the Company under a management agreement which runs for a period of five years with effect from 24 March 2005 and may be terminated at any time thereafter by not less than twelve months' notice given by either party.

Notes to the financial statements *continued*

4 Other expenses

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Accounting and administrative services	31	18	49
Directors' remuneration	28	7	35
Auditors' remuneration – audit services	10	5	15
– taxation compliance	5	3	8
Legal and professional services	38	3	41
Other expenses	65	10	75
	177	46	223

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Accounting and administrative services	26	–	26
Directors' remuneration	35	–	35
Auditors' remuneration – audit services	10	–	10
– taxation compliance	3	–	3
Legal and professional services	43	–	43
Other expenses	59	–	59
	176	–	176

5 Directors' Remuneration

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
S Hazell-Smith (Chairman)	12	3	15
M Cooper	8	2	10
T Morgan	8	2	10
	28	7	35

5 Directors' Remuneration *continued*

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
S Hazell-Smith (Chairman)	15	—	15
M Cooper	10	—	10
T Morgan	10	—	10
	35	—	35

None of the Directors received any other remuneration or benefit during the period. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the period was 3.

6 Tax on ordinary activities

Ordinary Shares

The corporation tax charge for the period was £nil. (2004 : £nil)

Factors affecting the tax charge for the current period

The current tax charge for the period differs from the standard rate of corporation tax in the UK (19%). The differences are explained below.

	2005 £'000	2004 £'000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(47)	71
Current tax at 19%	(9)	13
Income not liable to tax	(49)	(46)
Expenses not deductible for tax purposes	4	2
Excess management charges	54	31
Total current tax charge	—	—

Notes to the financial statements *continued*

6 Tax on ordinary activities *continued*

'C' Shares

The corporation tax charge for the period was £nil. (2004 : £nil)

Factors affecting the tax charge for the current period

The current tax charge for the period differs from the standard rate of corporation tax in the UK (19%). The differences are explained below.

	2005 £'000	2004 £'000
Current tax reconciliation		
Loss on ordinary activities before tax	(26)	—
Current tax at 19%	(5)	—
Expenses not deductible for tax purposes	1	—
Excess management charges	4	—
Total current tax charge	—	—

Excess management expenses of £529,000 (2004 : £229,000) have been carried forward at 31 October 2005 and are available to offset against future taxable income subject to agreement with the Inland Revenue. These have not been recognised as deferred tax assets due to uncertainty as to their recoverability.

Due to the company's status as a Venture Capital Trust, and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, the company has not provided any deferred tax on any capital gains arising on the revaluation of investments

7 Dividends

Ordinary Shares

	Year ended 31 October 2005 £'000	Year ended 31 October 2004 £'000
Interim dividend per share – 4.0p (2004 – nil)	446	—
Final dividend per share – nil (2004 – 2.50p)	—	281

There were no dividends payable in respect of the 'C' Shares.

8 Earnings per share

Ordinary Share

The loss per share is based on a loss from ordinary activities after tax of £(47,000) and on 11,171,000 shares, being the weighted average number of shares in issue during the period (2004 : £71,000 and 10,887,536 shares).

'C' Share

The loss per share is based on a loss from ordinary activities after tax of £(26,000) and on 3,436,012 shares, being the weighted average number of shares in issue during the period (2004 : nil).

There are no potentially dilutive capital instruments in issue and, therefore, no diluted return per share figures are relevant.

9 Fixed asset investments

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Cost as at 1 November 2004	5,115	—	5,115
Unrealised gain at 1 November 2004	1,583	—	1,583
Valuation at 1 November 2004	6,698	—	6,698
Movement in year:			
Purchases at cost	4,798	707	5,505
Disposal proceeds	(2,368)	—	(2,368)
Profit on realisation of investments	656	—	656
Write down of investment	(400)	—	(400)
Net unrealised gain/(loss) on revaluation	(675)	12	(663)
Valuation as at 31 October 2005	8,709	719	9,428
Cost as at 31 October 2005	8,328	707	9,035
Unrealised gain at 31 October 2005	381	12	393
	8,709	719	9,428

Further details of these investments are provided in the Investment Manager's Review.

10 Current asset investments

Current asset investments at 31 October 2005 and 2004 comprised money market securities.

Notes to the financial statements *continued*

11 Debtors

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Prepayments and accrued income	19	5	24

	Ordinary Shares 31 October 2004 £'000	'C' Shares 31 October 2004 £'000	Total 31 October 2004 £'000
Prepayments and accrued income	106	—	106

12 Creditors: amounts falling due within one year

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Accruals	109	95	204

	Ordinary Shares 31 October 2004 £'000	'C' Shares 31 October 2004 £'000	Total 31 October 2004 £'000
Accruals	21	—	21
Proposed dividend	281	—	281
	302	—	302

13 Share capital

	31 October 2005 £'000	31 October 2004 £'000
Authorised:		
Equity – 30,000,000 Ordinary Shares of 10p	3,000	3,000
Equity – 10,000,000 'C' Shares of 10p	1,000	–
Total	4,000	3,000

	31 October 2005 £'000	31 October 2004 £'000
Authorised:		
Equity – 11,176,407 (2004 : 11,186,882) Ordinary Shares of 10p	1,118	1,119
Equity – 5,221,188 (2004 : Nil) 'C' Shares of 10p	522	–
Total	1,640	1,119

The 'C' Share funds will be managed as a separate pool of assets until they are converted into new Ordinary Shares. The effect of this is that the net asset value of the Ordinary Shares will be unaffected by the issue of the 'C' Shares. The 'C' Shares will be converted into new Ordinary Shares based on the net asset value as at the 31 October 2008, or with effect from the close of business on the day on which the Directors resolve that force majeure circumstances have arisen or are imminent if sooner, in the ratio which the net asset value attributable to each 'C' Share at 31 October 2008 bears to the net asset value then attributable to each existing Ordinary Share. The Ordinary Shares and the C Shares rank pari passu as to the rights to attend and vote at any general meeting of the Company. The rights of the shareholders to receive dividends is derived from the net income attributable to the net assets of each class of share.

During the year ended 31 October 2005, the Company issued 12,390 and 40,545 Ordinary Shares of 10p each for cash at prices of 113p and 116p respectively and issued 5,221,188 'C' Shares of 10p at a price of 100p. The Company also repurchased 63,410 Ordinary Shares for cancellation during the year ended 31 October 2005. The nominal value of the Shares repurchased was £6,341 representing 0.57% of the issued share capital. The shares were repurchased as per the schedule below:

Shares	Price
28,125	£1.00
19,000	£1.16
10,025	£1.05
3,260	£1.13
3,000	£1.10
63,410	

Notes to the financial statements *continued*

14 Reserves

Ordinary Shares

	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Balance per 2004 financial statements	9,655	—	2	1,583	46
Cancellation of share premium account	(9,655)	9,655	—	—	—
Issue of shares	54	—	—	—	—
Repurchase of shares	—	(68)	7	—	—
Realisation of prior years net unrealised gains on investments	—	—	—	(527)	527
Net unrealised loss on revaluation of investments	—	—	—	(675)	—
Retained loss for the year	—	—	—	—	(493)
	54	9,587	9	381	80

'C' Shares

	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000
Opening balance	—	—	—
Issue of shares	4,590	—	—
Share issue costs	(152)	—	—
Net unrealised gain on revaluation of investments	—	12	—
Retained loss for the year	—	—	(26)
	4,438	12	(26)

14 Reserves continued

<i>Total</i>	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Balance per 2004 financial statements	9,655	—	2	1,583	46
Cancellation of share premium account	(9,655)	9,655	—	—	—
Issue of shares	4,644	—	—	—	—
Share issue costs	(152)	—	—	—	—
Repurchase of shares	—	(68)	7	—	—
Realisation of prior years net unrealised gains on investments	—	—	—	(527)	527
Net unrealised loss on revaluation of investments	—	—	—	(663)	—
Retained loss for the year	—	—	—	—	(519)
	4,492	9,587	9	393	54

Following the Company's petition, which was heard on 12 January 2005, the Companies Court ordered that the special resolution passed by the shareholders on 26 February 2004 to effect the cancellation of the share premium account be confirmed. The Order relating to the same was duly registered by the Registrar of Companies on 14 January 2005.

15 Reconciliation of movements in shareholders' funds

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Shareholders' funds at 1 November 2004	12,405	—	12,405
Total (loss)/gain recognised in year	(722)	(14)	(736)
Repurchase of ordinary share capital	(67)	—	(67)
Issue of redeemable non-voting preference shares	—	(50)	(50)
Redemption of redeemable non-voting preference shares	—	50	50
Net proceeds of share issues	59	4,960	5,019
Dividends	(446)	—	(446)
Shareholders' funds at 31 October 2005	11,229	4,946	16,175

Notes to the financial statements *continued*

15 Reconciliation of movements in shareholders' funds *continued*

	Ordinary Shares 31 October 2004 £'000	'C' Shares 31 October 2004 £'000	Total 31 October 2004 £'000
Shareholders' funds at 1 November 2003	10,115	–	10,115
Total (loss)/gain recognised in year	1,365	–	1,365
Repurchase of ordinary share capital	(64)	–	(64)
Net proceeds of share issues	1,270	–	1,270
Dividends	(281)	–	(281)
Shareholders' funds at 31 October 2004	12,405	–	12,405

16 Net asset value per share

Ordinary Shares

The calculation of net asset value per share as at 31 October 2005 is based on net assets of £11,229,000 divided by the 11,176,407 Ordinary Shares in issue at that date (2004 : £12,405,000 and 11,186,882 shares).

'C' Shares

The calculation of net asset value per share as at 31 October 2005 is based on net assets of £4,946,000 divided by the 5,221,188 'C' Shares in issue at that date.

17 Reconciliation of operating profit to cash flow from operating activities

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Loss on ordinary activities before tax	(47)	(26)	(73)
Profit on disposal of fixed asset investments	(256)	–	(256)
Decrease/(increase) in debtors	87	(5)	82
(Decrease)/increase in creditors	(193)	95	(98)
Net cash (outflow)/inflow from operating activities	(409)	64	(345)

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Profit on ordinary activities before tax	71	–	71
Profit on disposal of fixed asset investments	(241)	–	(241)
Increase in debtors	(88)	–	(88)
Decrease in creditors	(11)	–	(11)
Net cash outflow from operating activities	(269)	–	(269)

18 Reconciliation of net cash flow to movement in net funds

	Ordinary Shares Year ended 31 October 2005 £'000	'C' Shares Period ended 31 October 2005 £'000	Total Year ended 31 October 2005 £'000
Increase in cash in year	683	287	970
Movement in liquid resources	(3,976)	4,030	54
Opening net funds	5,903	–	5,903
Closing net funds	2,610	4,317	6,927

	Ordinary Shares Year ended 31 October 2004 £'000	'C' Shares Year ended 31 October 2004 £'000	Total Year ended 31 October 2004 £'000
Decrease in cash in year	(141)	–	(141)
Movement in liquid resources	(1,626)	–	(1,626)
Opening net funds	7,670	–	7,670
Closing net funds	5,903	–	5,903

19 Analysis of changes in net funds

<i>Ordinary Shares</i>	At 31 October 2004 £'000	Cashflows £'000	At 31 October 2005 £'000
Cash at bank	62	683	745
Current asset investments	5,841	(3,976)	1,865
	5,903	(3,293)	2,610

<i>'C' Shares</i>	At 31 October 2004 £'000	Cashflows £'000	At 31 October 2005 £'000
Cash at bank	–	287	287
Current asset investments	–	4,030	4,030
	–	4,317	4,317

<i>Total</i>	At 31 October 2004 £'000	Cashflows £'000	At 31 October 2005 £'000
Cash at bank	62	970	1,032
Current asset investments	5,841	54	5,895
	5,903	1,024	6,927

Notes to the financial statements *continued*

20 Financial instruments

Management of risk

As a Venture Capital Trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing in accordance with the Company's investment strategy.

The Company's financial instruments may comprise:

- shares in AIM listed companies
- cash, liquid resources and short term debtors and creditors that arise from the Company's operations.

The main risks arising from the Company's financial instruments are market price risk, liquidity risk and interest rate risk. There is no exposure to foreign currency risk.

Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions by way of price movements. The potential risk is continuously monitored by the investment manager and reported on a regular basis to the board.

Liquidity risk

The funds raised since incorporation are currently used to fund the Company's primary objective of investing in AIM listed companies which accord with its investment strategy. As at 31 October 2005 some 78% (2004 : 54%), of the Ordinary Share funds raised and 15% of 'C' Shares funds raised have been utilised in this investment process. Remaining funds were primarily represented by cash and liquid resources shown as current asset investments in the balance sheet.

Interest rate risk

The Company finances its operations through share capital raised and retained profits including both realised and unrealised capital profits. At the year end and throughout the year, the Company had no liabilities that were subject to interest rate risk and had no borrowing facilities. The Company's financial assets are invested in short term money market funds. The weighted average interest rate on such funds was approximately 4% during the year (2004 : 4%).

Fair values of financial assets and liabilities

There was no material difference between the fair values of financial assets and liabilities and their book values at the balance sheet date.

21 Related party transactions

Matt Cooper, a non-executive Director of Phoenix VCT plc, is a Director of Octopus. Phoenix VCT plc has employed Octopus throughout the period as investment manager. Phoenix VCT plc has paid Octopus £248,000 (2004 : £220,000) for Ordinary Shares and £46,000.00 (2004 : nil) for 'C' Shares in the period as a management fee and there is £nil outstanding at the balance sheet date. The management fee is payable quarterly in advance and is based on 2.0% of the net asset value calculated at annual intervals as at 31 October. Octopus also provides accounting and administrative services to the company for a fee of £25,000 for Ordinary Shares and £25,000 for 'C' Shares per annum, which increases annually in line with the movement in RPI. There was £nil outstanding at the balance sheet date for the accounting and administrative services.

In addition, Octopus is entitled to an annual performance related incentive fee in the event that performance criteria in relation to the increase in net assets, after adding back distributions, are exceeded. No performance fee is payable until after 31 October 2005.

As part of the terms of engagement, Octopus are entitled to payments relating to share issue costs. As no Ordinary Share capital was issued during the year there were no payments (2004 : £53,000). £107,000 (2004 : nil) was paid to Octopus in respect of the issue costs associated with the 'C' Share capital issued during the period.

22 Contingent liabilities

There were no contingent liabilities at 31 October 2005 (2004: none).

23 Capital commitments

There were no capital commitments at 31 October 2005 (2004: none).

Notice of Annual General Meeting

NOTICE is hereby given that the third Annual General Meeting of Phoenix VCT plc will be held at 3.00 p.m. on 23 February 2006 at the offices of Octopus Asset Management Limited, 8 Angel Court, London EC2R 7HP for the following purposes:

Ordinary Business

1. To receive, consider and adopt the Report of the Directors and Accounts for the year ended 31 October 2005.
2. To approve the Directors' remuneration report for the year ended 31 October 2005.
3. To re-elect Mr Stephen John Hazell-Smith, who retires by rotation, as a Director of the Company.
4. To re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to agree their remuneration.

Special Business

To consider and if thought fit pass Resolution 6 as an Ordinary Resolution and Resolutions 6 & 7 as Special Resolutions

5. That the Directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of the authorised but as yet unissued share capital of the Company from time to time provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 5, whichever is the first to occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such offer or agreement notwithstanding that the authority conferred hereby has expired, and the expression "relevant securities" and reference to the allotment of relevant securities shall bear the same respective meanings as in Section 80 of the Act.
6. That conditional upon the passing of Resolution 5 above, the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities wholly for cash pursuant to the authority conferred by Resolution 5 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 in connection with or pursuant to either, (i) an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlement or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange, and/or, (ii) an offer of up to an aggregate nominal value of 10% of the issued share capital of the Company at any one time as at the date of such allotment, and in either case such power shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 6, whichever is the first to occur, 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 pursuant to any such offer or agreement notwithstanding that the power conferred hereby has expired, and the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in Section 94 of the Act.

7. That the Company generally and unconditionally authorised, pursuant to Section 166 of the Act, to make market purchases (as defined in Section 163 of the Act) of up to 1,118,688 Ordinary Shares of 10 pence each and 522,118 'C' Shares of 10 pence each in the capital of the Company on such terms and in such manner as the Directors of the Company may from time to time determine, provided that the amount paid for each share (exclusive of expenses) shall not be more than 5% above the average of the middle market quotation for the Company's Ordinary Shares as derived from the Daily Official List of London Stock Exchange Plc for the 5 business days before the purchase is made, and in any event not less than 10 pence per Ordinary Share; and the authority herein contained shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 7, whichever is the first to occur, provided that the Company may, before such expiry, make a contract to purchase its own shares which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuant of such contract as if the authority hereby conferred had not expired.

By order of the Board

Celia L Whitten FCIS

Company Secretary

Registered Office:

8 Angel Court

London

EC2R 7HP

18 January 2006

Notes:

- (i) A member entitled to vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company.
- (ii) A form of proxy is enclosed. To be effective, the instrument appointing a proxy (together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority) must be deposited at or posted to the office of the registrars of the Company, Capita IRG (Proxies) at PO Box 25, Beckenham, Kent BR3 4BR so as to be received not less than 48 hours before the time fixed for the Meeting. Completion and return of the form of proxy will not preclude a member from attending or voting at the Meeting in person if or she so wishes.
- (iii) Members who hold their shares in uncertificated form must be entered in the Company's register of Members 48 hours before the Meeting to be entitled to attend or vote at the Meeting. Such shareholders may only cast votes in respect of Ordinary Shares held by them at such time.

Copies of the service contracts of each of the Directors, and the register of directors' interests in shares of the Company under section 325 of the Companies Act 1985, will be available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.



Form of Proxy

Relating to 2006 Annual General meeting of Phoenix VCT plc

I/We
BLOCK CAPITALS PLEASE

of

being a member of Phoenix VCT plc, hereby appoint.....

or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the annual general meeting of the company to be held on 23 February 2006, notice of which was sent to shareholders with the directors' report and the accounts for the year ended 31 October 2005, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number	For	Against	Withheld
1. To receive, consider and adopt the financial statements for the year ended 31 October 2005			
2. To approve the Directors' remuneration report			
3. To re-elect Mr Stephen John Hazell-Smith as a director			
4. To re-appoint Grant Thornton UK LLP as auditors and authorise the directors to agree their remuneration			
5. To authorise the directors to allot shares under section 80 (Ordinary Resolution)			
6. To disapply Section 89(1) of the Companies Act 1985 and allot shares on a non rights issue basis (Special Resolution)			
7. To authorise the directors to make market purchases of its own shares (Special Resolution)			

Signed: Dated: 2006

Notes

1. A member wishing to appoint a person other than the Chairman of the meeting as proxy should insert the name and address of such person in the space provided.
2. Use of the proxy form does not preclude a member from attending and voting in person.
3. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
4. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
5. To be valid, the proxy form must be received by the Registrars at PO Box 25, Beckenham, Kent BR3 4BR no later than 48 hours before the commencement of the meeting.



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The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4BR

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