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# PHOENIX VCT

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ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 OCTOBER 2006



**OCTOPUS**  
INVESTMENTS



# Contents

	<i>Page</i>
Financial summary .....	<i>3</i>
Chairman's statement .....	<i>4</i>
Investment manager's review .....	<i>6</i>
Valuation of investments .....	<i>8</i>
Directors' report .....	<i>14</i>
Directors' remuneration report .....	<i>16</i>
Corporate governance .....	<i>19</i>
Report of the independent auditor .....	<i>22</i>
Profit and loss account .....	<i>24</i>
Balance sheet .....	<i>26</i>
Cash flow statement .....	<i>28</i>
Notes to the financial statements .....	<i>30</i>
Notice of annual general meeting .....	<i>45</i>
Proxy form .....	<i>47</i>



# Financial summary

For the year ended 31 October 2006

	<b>Ordinary Shares</b> <b>31 October 2006</b>	Ordinary Shares 31 October 2005 (restated)*
Net assets	£11,211,000	£10,942,000
Net profit/(loss) before tax	£712,000	(£773,000)
Earnings/(loss) per share	6.4p	(6.9)p
Net asset value per share	103.8p	97.9p
Dividends per share (proposed and paid)	4.35p	6.5p
Cumulative dividends since launch	11.00p	6.65p
	<b>'C' Shares</b> <b>31 October 2006</b>	'C' Shares 31 October 2005 (restated)*
Net assets	£5,495,000	£4,917,000
Net profit/(loss) before tax	£567,000	(£43,000)
Earnings/(loss) per share	12.0p	(1.3)p
Net asset value per share	105.1p	94.2p
Dividends per share (proposed)	1.0p	–
Cumulative dividends since launch	1.0p	–

Phoenix VCT plc ("Phoenix" or "Fund") is a venture capital trust ("VCT"). The Fund invests in AIM-quoted companies and aims to generate attractive long-term returns to shareholders. The Investment Manager is Octopus Investments Limited ("Octopus"). Phoenix was launched in November 2002 and raised over £11.3 million (£10.8 million net of expenses) through an offer for subscription.

Phoenix raised further funds in 2005 in the form of a 'C' Share issue (i.e. the issue for subscription of a new class of share referred to as 'C' Shares). In total, Phoenix raised £5.1 million (£5 million net of expenses) by the closing date of the offer on 30 June 2005.

In these results, as in previous reports, we will be splitting out and commenting on the progress and performance of each of the different classes of shares.

\* Comparative figures have been extracted from the statutory accounts for the period ended 31 October 2005 and have been restated in accordance with FRS21 in respect of declared dividends and FRS26 in respect of the valuation of quoted investments and the treatment of investments as at fair value through profit and loss as disclosed in note 1.

## Chairman's statement

I am delighted to be reporting an uplift in the Net Asset Value ("NAV") of both the Ordinary and 'C' Shares of Phoenix during what has been a volatile period for AIM. It is worth emphasising, however, that much of the market's volatility over the past year has been as a result of performance within sectors in which Phoenix does not invest including overseas companies, the natural resources sectors and online gaming companies.

### Performance

The Ordinary Share portfolio has continued to make new investments in VCT qualifying AIM-quoted companies. During the period under review, the Manager completed 9 new and a number of top-up investments, investing a total of £2,101,000, while £2,194,000 of investments were sold, realising a profit of £844,000.

It was the first full year of trading for the 'C' Share portfolio, which completed 12 new and a number of top-up investments totalling £1,531,000. During the period the 'C' Share portfolio sold £160,000 of investments, realising a profit of £43,000.

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

Continuing with our patient approach, the uninvested money within the fund, totalling £4,491,000 at 31 October 2006, is primarily held in money market funds until the Manager is confident that the right investment opportunities have been identified. This generated £82,000 of income for the Ordinary Share portfolio and £231,000 of income for the 'C' Share portfolio.

### Update since the year end

In the three months to 31 January 2007, both the Ordinary and 'C' Share portfolios disposed of their respective holdings in Disperse Group plc, which experienced a significant downturn in trading over the

Christmas period. This realised a loss of £490,000 within the ordinary share portfolio and £158,000 within the 'C' share portfolio. During the same period the Managers also realised several gains totalling £853,000, resulting in a net realised gain of £94,000 for the Ordinary Share portfolio and £111,000 for the 'C' Share portfolio. There has also been strong performance in both portfolios, driven in particular by Tanfield and Worthington Nicholls.

Following the realisations and the strong overall performance of the portfolios, the NAV as at 31 January 2007 was 116.4p per share for the Ordinary Shares and 117.2p per share for the 'C' Shares. This represents a substantial increase in the NAV for both portfolios compared to the figures for 31 October 2006.

### Net Asset Value

#### Ordinary Share Portfolio

As at 31 October 2006, the Fund had a portfolio of 36 investments in AIM listed companies with a value of £9 million and a NAV per share of 103.8p. At the end of the period, the Ordinary Share portfolio was 82.6% 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.

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
30 April 2006	104.6p	1.00p	112.25p
31 October 2006	103.8p	–	111.45p

At 31 January 2007 the NAV had increased to 116.4p per share, taking the total return (net asset value and paid dividends) to 124.05p per share.

**'C' Share Portfolio**

As at 31 October 2006, the Phoenix 'C' Share portfolio consisted of 19 investments in AIM listed companies with a combined value of £2.5 million and a NAV per share of 105.1p. At the end of the period, the 'C' Share portfolio was 45.9% invested in qualifying holdings.

Period ended	NAV
30 April 2005	94.9p
31 October 2005	94.2p
30 April 2006	100.1p
31 October 2006	105.1p

At 31 January 2007 the NAV has increased to 117.2p per share.

**Dividend****Ordinary Share Portfolio**

One of the advantages of a VCT is that all gains can be paid out as tax-free income to our investors. In August 2006, the Fund paid an interim dividend of 1p per share to the holders of Ordinary Shares. Due to the progress made by the portfolio during the second half, the Board proposes the payment of a final dividend of 3.35p per share, taking the total tax-free dividends for the year to 4.35p and a cumulative total of 11p since the launch of the Fund. This dividend, if approved by the shareholders at the Annual General Meeting, will be paid on 28 March 2007 to shareholders on the register of members relating to the Ordinary Shares on 2 March 2007.

**'C' Share Portfolio**

The Board is pleased to propose a 1p per share final dividend to the holders of 'C' Shares for its first full year of trading. This dividend, if approved by the shareholders at the Annual General Meeting, will be paid on 28 March 2007 to shareholders on the register of members relating to the 'C' Shares on 2 March 2007.

It remains the intention of the Board to maintain the payment of tax-free dividends to shareholders, when appropriate.

**Qualifying status**

The Directors believe that Phoenix VCT continues to comply with the conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT and have retained PricewaterhouseCoopers LLP, one of the UK's leading firms of accountants, to advise in this area.

**Share price and buy-back facility**

The Board has adopted a share buy-back policy whereby the Fund, 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 Fund repurchased 671,177 Ordinary Shares and 120,370 'C' Shares at average prices of 94p and 95p respectively.

**Outlook**

The Bank of England reacted to the headline Retail Price Index inflation figure reaching its highest level for 15 years with a 0.25% rate rise in interest rates in January. The largest inflationary contributors were utility prices, which have now stabilised and are expected to ease over the coming months. We believe this will provide the breathing space for the Bank of England to adopt more of a 'wait and see' policy for the remainder of the quarter, particularly in view of record levels of unsecured personal debt.

The markets have to date shrugged off the recent interest rate rise as investors continue to focus on merger and acquisition activity. Octopus has been acutely aware of the deterioration of consumer confidence and has positioned the portfolio accordingly. Octopus continues to assess new investment opportunities and believes the portfolio is well positioned to deliver attractive returns for shareholders over the medium-term.

**Stephen Hazell-Smith, Chairman**

15 February 2006

# Investment manager's review

## Introduction

The strong pipeline of companies joining AIM has continued throughout 2006. As at 31 October 2006, there were 1,582 companies listed on AIM with a combined market value of £79.5 billion. This compares to 1,330 companies as at 31 October 2005, with a combined market value of £47.5 billion.

## Review of Ordinary Share Portfolio

At 31 October 2006, the Ordinary Share portfolio had a total of 36 holdings with 82.6% of the portfolio invested in VCT qualifying investments.

A total of 9 new holdings were added to the Ordinary Share portfolio during the year:

**Worthington Nicholls Group** installs and maintains air conditioning, heating, ventilation and chilled water systems, principally for clients in the leisure and retail sectors.

**Autoclenz** is the UK's leading provider of valeting services to automotive retailers, car auction houses and car rental companies. The company also provides specialist decontamination services.

**Clarity Commerce Solutions** is a developer of software for the retail and leisure sectors and is the leading provider of cinema ticketing systems.

**Ovum** is a leading provider of research, market analysis and advisory services to the global information, communication and technology sectors.

**Cohort** was established to acquire suppliers of specialist technical services to the defence and security sectors. The company is focused on command, control, computing, communications and intelligence systems and crisis management for non-military customers.

**Jelf Group** is a corporate intermediary offering commercial insurance, healthcare and financial services to small and medium sized enterprises.

**Brulines** is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed and tenanted pub sectors.

**Invocas** is a leading Scotland-based debt solutions and corporate insolvency business. The company specialises in the processing and management of Protected Trust Deeds, the Scottish equivalent of an Individual Voluntary Agreement.

**Plethora Solutions** targets the diagnosis, treatment and management of urological disease. The company aims to license its products to major pharmaceutical companies.

We also continued to take profits over the period. Holdings in five portfolio companies were disposed of in their entirety; Armour Group, Air Music & Media, TRL Electronics, Belgravium Technologies and Abcam. TRL Electronics received a cash offer from a US defence electronics company during the year at a 177% premium to the original purchase price. The holdings in Sovereign Oilfield Services, Bond International Software, Zetar, Tanfield, Media Square, BBI Holdings and Worthington Nicholls were all reduced, taking the total realised gains for the year to £844,000. Since the financial year end Ovum has also received a cash offer from a competitor at a 58% premium to the original purchase price.

The most significant contributors to performance during the period were TRL Electronics, Tanfield and Worthington Nicholls. The latter two are the largest holdings in the portfolio and we remain excited about the prospects for both companies. Bond International Software and BBI Holdings have also both continued to perform well. On the negative side, Screen FX had a difficult year as revenues were slower to materialise than originally expected. The company has since raised further capital that it expects will take it through to profitability. Public Recruitment Group has also had a difficult year. However the company has now confirmed that trading has stabilised and that its banking facilities have been reorganised, which we believe will give the company a good base to move forward.

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

### Review of 'C' Share Portfolio

At 31 October 2006, the 'C' Share portfolio had investments in a total of 19 companies. As at the year end, 45.9% of the portfolio was invested in VCT qualifying investments.

The 'C' Share portfolio has made good progress over the year, having completed a further 12 new investments in qualifying holdings. Of the 12 investments made 9 were along side the Ordinary Share portfolio and are mentioned above, the remaining three investments are outlined below.

**BBI Holdings** develops and manufactures rapid result, non invasive diagnostic tests for the point of care market.

**Access Intelligence** is a provider of business critical information, advice and services to businesses and public bodies on a subscription basis.

**Concateno** is acquiring and consolidating businesses in the life science testing sector. The company has completed two recent acquisitions; Medscreen and Altrix Healthcare.

We have begun to take profits in a number of companies. The holdings in both Abcam and Belgravium Technologies were sold in their entirety and the holdings in Sovereign Oilfield Services and Worthington Nicholls were both reduced following strong share price performance, taking the total realised gains for the year to £43,000.

During the current financial year, we have continued 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.

### 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 Investments

15 February 2007

## Valuation of investments

All investments are in the ordinary share capital of companies quoted on AIM, carry full voting rights and are stated at Bid price.

### Ordinary Share portfolio

AIM-quoted investments	Date of first investment	Book cost £'000	Valuation £'000	Market sector
Tanfield Group plc	December 04	205	866	Industrial Engineering
Worthington Nicholls plc	June 06	463	795	Support Services
Cello Group plc	October 04	501	611	Media & Entertainment
BBI Holdings plc	April 04	191	527	Life Sciences
Concateno plc	April 05	500	455	General Financial
Staffline Recruitment Group plc	December 05	301	432	Support Services
Augean plc	December 04	500	384	Support Services
Autoclenz Holdings plc	December 05	425	377	Support Services
Bond International Software plc	March 04	105	365	Software & Computer Services
Zetar plc	April 05	161	354	Food Producers
Access Intelligence plc	December 04	500	350	Support Services
Clarity Commerce Solutions plc	April 06	367	338	Software & Computer Services
Disperse Group plc	July 04	500	333	Personal Goods
Media Square plc	April 04	254	307	Media & Entertainment
Brooks Macdonald Group plc	March 05	156	237	General Financial
Ovum plc	March 06	150	231	Support Services
Real Good Food Company plc	January 04	500	219	Food Producers
SectorGuard plc	August 05	200	214	Support Services
Top Ten Holdings plc	October 03	200	206	Leisure Hotels
Sovereign Oilfield Group plc	September 05	140	205	Oil Services & Equipment
Cohort plc	February 06	135	185	Aerospace & Defense
fountains plc	July 04	240	182	Support Services
Public Recruitment Group plc	April 04	500	154	Support Services
Strategic Thought Group plc	July 05	194	149	Software & Computer Services
Brulines (Holdings) plc	October 06	123	142	Support Services
Jelf Group plc	March 06	77	124	General Financial
Invocass Group plc	January 06	80	110	General Financial
Plethora Solutions Holdings plc	January 06	122	106	Life Sciences
Asfare Group plc	December 03	95	98	Support Services
Tissue Science Laboratories plc	March 05	246	88	Life Sciences
Screen FX plc	January 05	344	62	Media & Entertainment
Inditherm plc	December 03	200	60	Industrial Engineering
Bright Futures Group plc	October 04	125	40	General Financial
DawMed Systems plc	November 03	79	28	Healthcare Services
4 Less Group plc	April 04	200	22	General Financial
<b>Total Qualifying Investments</b>		<b>9,079</b>	<b>9,356</b>	

% of equity held	Date of last accounts	Turnover £million	Profit/(loss) before tax £million	Net assets £million	% of equity held by other funds managed by Octopus Investments
0.53	31 December 05	22.4	2.0	11.8	3.98
0.97	First accounts due for the period to 30 September 06	–	–	–	4.61
1.44	31 December 05	52.1	4.2	45.5	5.06
1.51	31 March 06	6.4	1.1	7.2	1.62
1.34	31 March 06	–	(0.6)	–	1.33
1.80	31 December 06	61.5	2.5	31.6	4.71
0.42	31 December 05	26.1	(6.7)	104.7	1.62
3.27	31 December 05	24.3	1.8	0.9	8.28
0.93	31 December 05	13.9	2.7	11.8	–
0.74	30 April 06	57.9	2.5	15.8	1.55
4.55	30 November 05	1.9	(0.01)	5.5	5.82
2.78	31 March 06	18.9	0.9	10.3	–
3.36	31 December 05	24.2	(0.2)	10.8	1.24
0.38	28 February 06	126.4	2.3	58.6	1.09
1.14	30 June 06	8.2	0.8	3.1	0.81
0.56	31 March 06	18.8	0.4	16.2	2.15
0.57	31 December 05	117.7	(0.4)	66.9	–
1.85	30 September 05	16.4	0.8	8.2	–
0.78	31 March 06	23.7	2.4	21.5	0.65
0.61	31 March 06	15.0	0.4	9.5	–
0.37	30 April 06	17.8	1.4	8.9	1.26
1.29	30 September 05	35.2	0.9	12.4	2.63
1.12	31 December 05	80.2	1.7	19.4	–
0.62	31 March 06	11.2	2.4	7.4	0.21
0.41	First audited accounts due for the period to 31 March 07	–	–	–	1.81
0.30	30 September 05	11.5	1.0	4.4	0.47
0.25	31 March 06	6.1	2.4	2.5	0.85
0.22	31 December 05	0.02	(5.6)	5.8	0.14
1.90	31 March 06	4.9	0.4	4.0	–
0.27	31 December 05	10.2	(2.4)	11.2	0.27
1.65	31 December 05	0.5	(3.6)	2.3	–
4.70	31 December 05	1.0	(1.3)	2.8	–
4.35	31 December 05	3.5	(3.1)	1.3	–
1.71	30 September 05	6.2	0.03	1.1	2.20
2.30	31 March 06	278.8	(0.6)	1.5	–

## Valuation of investments *continued*

### 'C' Share portfolio

AIM-quoted investments	Date of first investment	Book cost £'000	Valuation £'000	Market sector
Worthington Nicholls plc	June 05	266	458	Support Services
Tanfield Group plc	May 05	164	348	Industrial Engineering
Access Intelligence plc	October 06	150	175	Support Services
Clarity Commerce Solutions plc	April 06	183	169	Software & Computer Services
BBI Holdings plc	December 05	115	156	Life Sciences
Autoclenz Holdings plc	December 05	169	150	Support Services
Ovum plc	March 05	94	144	Support Services
Brulines (Holdings) plc	October 06	111	128	Support Services
Disperse Group plc	June 05	160	120	Personal Goods
Cohort plc	February 06	85	116	Aerospace & Defence
InterQuest Group plc	May 05	77	108	Support Services
SectorGuard plc	August 05	100	107	Support Services
Concateno plc	April 05	85	91	General Financial
Sovereign Oilfield Group plc	September 05	62	91	Oil Services Equipment & Distributionx
Jelf Group Plc	March 06	51	82	General Financial
Plethora Solutions Holdings plc	January 06	81	70	Life Sciences
Invocas Group plc	March 06	50	68	General Financial
Strategic Thought Group plc	July 05	68	52	Software & Computer Services
Screen FX plc	December 06	50	24	Media & Entertaining
<b>Total Qualifying Investments</b>		<b>2,121</b>	<b>2,666</b>	

% of equity held	Date of last accounts	Turnover £million	Profit/(loss) before tax £million	Net assets £million	% of equity held by other funds managed by Octopus Investments
0.82	First audited accounts due for the period to 30 September 06	–	–	–	4.57
0.28	31 December 05	22.4	2.0	11.8	4.14
2.28	30 November 05	1.9	(0.01)	5.5	5.82
1.49	31 March 06	18.9	0.9	10.3	–
0.47	31 March 06	6.4	1.1	7.2	1.63
1.30	31 December 05	24.3	1.8	0.9	8.28
0.40	31 March 06	18.3	0.4	16.2	2.15
0.38	First audited accounts due for the period to 31 March 07	–	–	–	1.80
1.21	31 December 05	24.2	(0.2)	10.8	1.24
0.23	30 April 06	17.8	1.4	8.9	1.26
0.48	31 December 05	27.6	1.4	8.9	3.95
0.92	30 September 05	16.4	0.8	8.2	–
0.27	31 March 06	–	(0.6)	–	0.99
0.27	31 March 06	15.0	6.4	9.5	–
0.20	30 September 05	11.5	1.0	4.4	0.47
0.14	31 December 05	0.02	(5.6)	5.8	0.14
0.16	31 March 06	6.1	2.4	2.5	0.85
0.22	31 March 06	11.2	2.4	7.4	0.21
1.26	31 December 05	0.5	(3.6)	2.3	–

## Details of Directors

**Stephen Hazell-Smith** (53 – 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. Since December 2004, Stephen has been Chairman of PLUS Markets Group plc.

**Matthew Cooper** (40) is the chairman of Octopus Investments 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, Eclipse VCT 4 plc, Apollo VCT 1, Apollo VCT 2 and Octopus Protected VCT, other venture capital trusts managed by Octopus.

**Tony Morgan** (75 – 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 Investments 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

# Directors' report

The Directors present their report and the audited financial statements for the year ended 31 October 2006.

## Activities and status

The principal activity of the Fund 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 4 and 5 includes a review of the Fund's activities and future prospects, further details are also provided within the Investment manager's review on pages 6 and 7. The Directors have managed the affairs of the Fund 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 Fund 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 dividends

	Ordinary Shares 31 October 2006	Ordinary Shares 31 October 2005
Net profit/(loss) attributable to shareholders for the year	£712,000	(£773,000)
Appropriations:		
Interim dividend paid – Ordinary 1p (2005 : 4.0p) per share	£110,000	£446,000
Final dividend proposed – Ordinary 3.35p (2005 : 2.5p) per share	£369,000	£281,000

	'C' Shares 31 October 2006	'C' Shares 31 October 2005
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Net profit/(loss) attributable to shareholders for the year	£567,000	£(26,000)
Appropriations:		
Interim dividend paid – 'C' nil (2005 : nil) per share	–	–
Final dividend proposed – 'C' 1p (2005 : nil) per share	£52,000	–

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

The proposed dividend if approved by shareholders will be paid on 28 March 2007 to shareholders on the register on 2 March 2007.

## 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 2006	31 October 2005
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 2006 and the date of this report.

Mr M Cooper 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 M Cooper continues to be effective and to demonstrate commitment to his role, the Board and the Fund. The Board therefore has no hesitation in recommending him for re-election at the forthcoming Annual General Meeting. Mr Cooper is a director of Octopus. See "Management" below.

## Financial risk management objectives and policies

As a venture capital trust, the Fund's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of quoted and unquoted UK companies which meet the relevant criteria for Venture Capital Trusts.

Further details of the Fund's risk management policies are provided in note 20 to the financial statements.

## Directors' and officers' liability insurance

The Fund 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 Fund.

## Creditor payment policy

The Fund'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 Fund does not follow any code or standard with regard to creditor payment practice. At 31 October 2006 there were no trade creditors.

## Management

Octopus acts as investment manager to the Fund. The principal terms of the Fund'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 2006 a total of 296,543 Ordinary Shares and 127,567 'C' Shares were allotted (2005 : 52,935 Ordinary Shares and 5,221,188 'C' Shares).

## Purchase and cancellation of own shares

During the year, the Fund purchased 671,177 Ordinary Shares for cancellation at prices between 90p and 97p each and 120,370 'C' Shares at 95p each for cancellation (2005 : 63,410 Ordinary Shares at prices between 100p and 116p 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 Fund is not part of a group it is not mandatory for it to comply with IFRS. Additionally, the Fund 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 Fund's issued share capital at the date of this report.

## Annual General Meeting

Notice convening the 2007 annual general meeting of the Fund 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. The Board believes that the auditors continue to be effective and provide value for money to the Fund. They therefore have no hesitation in recommending their reappointment.

By order of the Board

**Celia L Whitten FCIS**

Secretary

15 February 2007

# 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 2006.

## 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 Fund'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 Fund'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 on their retirement by rotation 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 are entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

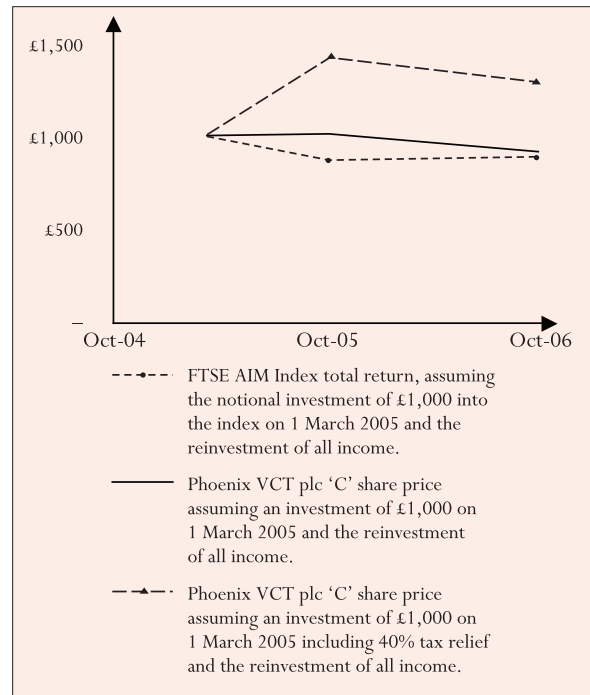
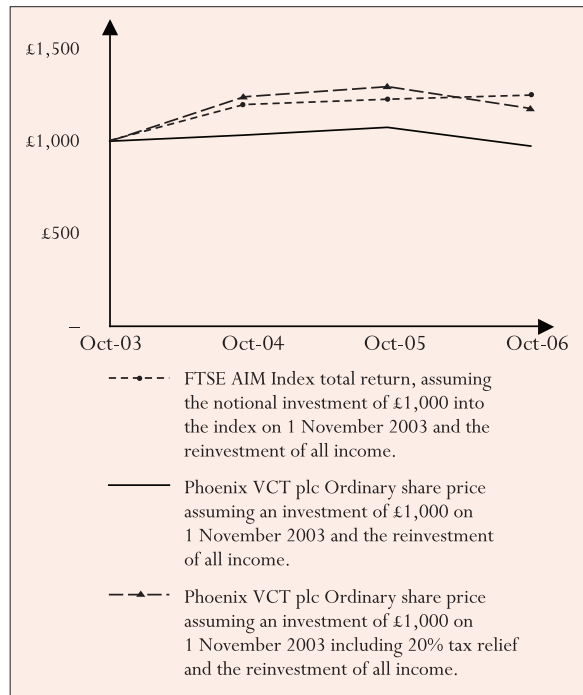
	Date of contract	Unexpired term of contract at 31 October 2006 months	Annual rate of Directors' fees £
Mr S Hazell-Smith (Chairman)	11 November 2002	n/a	17,500
Mr M Cooper	11 November 2002	n/a	13,500
Mr T Morgan	11 November 2002	n/a	13,500

The Fund's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Fund'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 Fund over the period from November 2003 to October 2006 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 the companies listed on AIM.

## Performance Graphs



## Directors' emoluments

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

	Year ended 31 October 2006	Year ended 31 October 2005
	£	£
Mr S Hazell-Smith (Chairman)	17,500	15,000
Mr M Cooper	13,500	10,000
Mr T Morgan	13,500	10,000
	44,500	35,000

The Fund'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 Fund during the period to any of the current Directors.

By Order of the Board

**C L Whitten FCIS**

Secretary

15 February 2007

# Shareholder information

## The Fund

Phoenix is a Venture Capital Trust. The investment manager is Octopus. The Fund 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, which raised a further £5 million between 1 February 2005 and the closing date of 30 June 2005.

The objective of Phoenix is to invest in a broad range of AIM-quoted 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 more than £200 million on behalf of approximately 10,000 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 were designed to make VCTs even more attractive to investors. The tax benefits available to eligible investors in VCTs included:

- 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 HM Revenue & Customs. In order to maintain its approval the Fund must comply with certain requirements on a continuing basis. Within three years from the date of provisional approval at least 70% of the Fund'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 Fund's financial calendar is as follows:

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

## Share Price and Buy-Back Facility

The Fund's mid-market share price currently stands at 97p 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 Fund repurchased a total of 671,177 Ordinary Shares and 120,370 'C' Shares as set out in the Directors' Report on Page 14.

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 Investments on 020 7710 2800.

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

# Corporate governance

The Fund is committed to maintaining high standards in corporate governance. The Directors consider that the Fund has, throughout the year under review, complied with the provisions set out in section 1 of the 2006 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement on page 21.

## Board of Directors

The Fund 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 Fund'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 the following were held:

- **5 full board meetings**

All directors attended all meetings with the exception of Matthew Cooper who was unable to attend one of those meetings.

- **2 Audit Committee meetings**

All Members attended

Additional meetings were held as required to address specific issues including considering recommendations from the investment manager, share issues, repurchases and final approval of the interim and full year accounts. A brief biographical summary of each Director is given on page 12.

The Fund's Articles of Association require that one third of 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 are required to submit themselves for re-election at least every three years. This practice was followed during the year under review.

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

## Audit Committee:

Tony Morgan (Chairman)  
Stephen Hazell-Smith

The Audit committee 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 Fund's auditors. The committee met twice in relation to the year ended 31 October 2006 and reviewed the operational systems and controls.

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

## Nomination Committee:

Stephen Hazell-Smith (Chairman)  
Tony Morgan

The nomination committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees. It has not yet been necessary for the Committee to meet and so terms of reference will be agreed if and when appropriate.

## Internal control

The Directors have overall responsibility for keeping under review the effectiveness of the Fund's systems of internal controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Fund'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.

## Corporate governance *continued*

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

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Fund 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 Revised Guidance for Directors on the Combined Code issued in October 2005, previously Turnbull guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

### Risk management

The Fund invests its funds primarily in UK smaller companies, 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 securities. The Fund has no borrowing facilities nor has it entered into derivative transactions.

### Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the 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 directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Fund 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 Fund 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 Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Fund's auditors are unaware; and

- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## Going concern

After making the necessary enquiries, the Directors confirm that they are satisfied that the Fund 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

Shareholders have the opportunity to meet the Board at the AGM. In addition to the formal business of the AGM, the Board is available to answer any questions a shareholder may have.

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 team at Octopus is happy to answer any questions you may have and can be contacted on 020 7710 2800.

## Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Fund has complied throughout the accounting year to 31 October 2006 with the provisions set out in Section 1 of the Combined Code.

1. The non-executive directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
2. 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.
3. Due to the size of the Board and the nature of the Fund'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.
4. The Fund does not have a Remuneration Committee as all the Directors are non-executive and it is not considered appropriate.
5. The Fund 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.
6. The Fund 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.
7. The Fund does not have a website.

# Report of the independent auditor to the members of Phoenix VCT plc

We have audited the financial statements of Phoenix VCT plc for the year ended 31 October 2006 which comprise the profit and loss account, the 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 Fund'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 Fund'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 Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditor

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 (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, 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 and whether the information given in the Directors' report is consistent with the financial statements. We also

report to you if, in our opinion, the Fund 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 with the Fund is not disclosed.

We review whether the Corporate Governance Statement reflects the Fund's compliance with the nine provisions of the 2003 FRC 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 group'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, investment manager's review, details of Directors, Directors' report, the unaudited part of the Directors' remuneration report, shareholder information, 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 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund'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.

## 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 Fund's affairs as at 31 October 2006 and of its profit 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 for the year ended 31 October 2006.

**GRANT THORNTON UK LLP**  
**REGISTERED AUDITORS**  
**CHARTERED ACCOUNTANTS**  
**OXFORD**

15 February 2007

## Profit and loss account

For the year ended 31 October 2006

	Notes	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Gain on disposal of investments held at fair value	9	844	43	887
Unrealised gain on fair value of investments	9,10	183	480	663
Investment income	2	126	238	364
Investment management fees	3	(262)	(116)	(378)
Other expenses	4	(179)	(78)	(257)
Profit on ordinary activities before taxation		712	567	1,279
Taxation on profit on ordinary activities	6	–	–	–
Profit on ordinary activities after taxation	14	712	567	1,279
Earnings per share	8	6.4p	12.0p	

## Profit and loss account

For the period ended 31 October 2005

	Notes	(restated)* Ordinary Shares £'000	(restated)* 'C' Shares £'000	(restated)* Total £'000
Gain on disposal of investments held at fair value	9	104	–	104
Unrealised loss on fair value of investments	9,10	(574)	(17)	(591)
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		(773)	(43)	(816)
Taxation on loss on ordinary activities	6	–	–	–
Loss on ordinary activities after taxation	14	(773)	(43)	(816)
Loss per share	8	(6.9)p	(1.3)p	

\* Comparative figures have been extracted from the statutory accounts for the period ended 31 October 2005 and have been restated in accordance with FRS 21 in respect of declared dividends and FRS 26 in respect of the valuation of quoted investments and the treatment of investments as at fair value through profit and loss as disclosed in note 1.

## Note of historical cost profits and losses

For the year ended 31 October 2006

	Notes	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Profit on ordinary activities before taxation		712	567	1,279
Realisation of prior years' net unrealised gains on investment		321	11	332
Historical cost profit on ordinary activities before taxation		1,033	578	1,611
Historical cost profit on ordinary activities after taxation		1,033	578	1,611

## Note of historical cost profits and losses

For the period ended 31 October 2005

	(restated)* Ordinary Shares £'000	(restated)* 'C' Shares £'000	(restated)* Total £'000
Loss on ordinary activities before taxation	(773)	(43)	(816)
Realisation of prior years' net unrealised gains on investment	680	–	680
Historical cost loss on ordinary activities before taxation	(93)	(43)	(136)
Historical cost loss on ordinary activities after taxation	(93)	(43)	(136)

\* Comparative figures have been extracted from the statutory accounts for the period ended 31 October 2005 and have been restated in accordance with FRS 21 in respect of declared dividends and FRS 26 in respect of the valuation of quoted investments and the treatment of investments as at fair value through profit and loss as disclosed in note 1.

# Balance sheet

As at 31 October 2006

	Notes	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Fixed asset investments	9	9,356	2,666	12,022
<b>Current assets:</b>				
Investments	10	417	2,189	2,606
Debtors	11	155	159	314
Cash		1,299	586	1,885
		1,871	2,934	4,805
<b>Creditors: amounts falling due within one year</b>	12	(16)	(105)	(121)
<b>Net current assets</b>		1,855	2,829	4,684
<b>Total assets less current liabilities</b>		11,211	5,495	16,706
<b>Capital and reserves:</b>				
Share capital	13	1,080	523	1,603
Share premium	14	323	4,436	4,759
Special distributable reserve	14	8,846	–	8,846
Capital redemption reserve	14	76	12	88
Revaluation reserve	14	277	463	741
Profit and loss account		609	61	670
<b>Shareholders' funds</b>		11,211	5,495	16,706
<b>Net asset value per share</b>	16	103.8p	105.1p	

The statements were approved by the Directors on 15 February 2007 and are signed on their behalf by:

Mr Stephen Hazell-Smith  
Chairman

# Balance sheet

As at 31 October 2005

	Notes	(restated)* Ordinary Shares £'000	(restated)* 'C' Shares £'000	(restated)* Total £'000
Fixed asset investments	9	8,422	690	9,112
<b>Current assets:</b>				
Investments		1,865	4,030	5,895
Debtors	11	19	5	24
Cash		745	287	1,032
		2,629	4,322	6,951
<b>Creditors: amounts falling due within one year</b>	12	(109)	(95)	(204)
<b>Net current assets</b>		2,520	4,227	6,747
<b>Total assets less current liabilities</b>		10,942	4,917	15,859
<b>Capital and reserves:</b>				
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	94	(17)	77
Profit and loss account		80	(26)	54
<b>Shareholders' funds</b>		10,942	4,917	15,859
<b>Net asset value per share</b>	16	97.9p	94.2p	

\* Comparative figures have been extracted from the statutory accounts for the period ended 31 October 2005 and have been restated in accordance with FRS 21 in respect of declared dividends and FRS 26 in respect of the valuation of quoted investments and the treatment of investments as at fair value through profit and loss as disclosed in note 1.

# Cash flow statement

For the year ended 31 October 2006

	Notes	Ordinary Shares £'000	'C' Shares £'000	Total £'000
<b>Net cash outflow from operating activities</b>	17	(544)	(182)	(726)
<b>Financial investment:</b>				
Purchase of listed securities		(2,101)	(1,531)	(3,632)
Sale of listed securities		2,194	160	2,354
<b>Net cash inflow/(outflow) from financial investment</b>		93	(1,371)	(1,278)
<b>Dividends paid</b>		(110)	–	(110)
<b>Management of liquid resources:</b>				
Return of cash investments		1,448	1,841	3,289
<b>Financing:</b>				
Issue of own shares		308	125	433
Purchase of own shares		(632)	(114)	(746)
Share issue expenses		(9)	–	(9)
<b>Increase in cash resources</b>	18	554	299	853

# Cash flow statement

For the year ended 31 October 2005

	Notes	(restated)* Ordinary Shares £'000	(restated)* 'C' Shares £'000	(restated)* Total £'000
<b>Net cash (outflow)/inflow from operating activities</b>	17	(129)	64	(65)
<b>Financial investment:</b>				
Purchase of listed securities		(4,798)	(707)	(5,505)
Sale of listed securities		2,368	–	2,368
<b>Net cash outflow from financial investment</b>		(2,430)	(707)	(3,137)
<b>Equity dividends paid</b>		(726)	–	(726)
<b>Management of liquid resources:</b>				
Return/(purchase) of cash investments		3,976	(4,030)	(54)
<b>Financing:</b>				
Issue of own shares		59	5,112	5,171
Purchase of own shares		(67)	–	(67)
Share issue expenses		–	(152)	(152)
<b>Increase in cash resources</b>	18	683	287	970

# Notes to the financial statements

## 1 Accounting policies

### *Basis of accounting*

The Fund is required to prepare financial statements which comply with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial information provided in the Fund's annual report and accounts for the year ended 31 October 2006 has been prepared on a consistent basis with the accounting policies as disclosed in the Fund's annual report and accounts for the period ended 31 October 2005 except for such changes as are required by the new FRSs. These changes arise from the adoption of FRS 21 "Events after the Balance Sheet Date" and FRS 26 "Financial Instruments: Measurement".

The nature and effect of these changes are explained below and the comparative figures for the period ended 31 October 2005 have been restated accordingly.

Under FRS 21, if an entity declares dividends after the balance sheet date, such dividends are no longer recognised as a liability at the year end. Therefore, the dividend of £446,000 that was shown as proposed in the 2005 Interim Report and Accounts has been added back to the profit and loss account and deducted from creditors in the comparative figures for the period ended 31 April 2005, and has been recognised as paid in the period ended 31 October 2005. Also the dividend of £281,000 that was proposed in the Annual Report and Accounts for the period to 31 October 2004 has been added back to the profit and loss account and deducted from creditors and recognised as paid in the period ended 31 October 2005.

### *Fixed asset investments*

Under FRS 26, quoted investments are valued at bid price rather than mid-market price. The Fund's investments have been designated by the Directors as being stated at fair value through profit and loss ("FVTPL") for the purposes of FRS 26. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date (that is the balance sheet date). The effect of this is to decrease the valuations at which such investments are stated in the balance sheet and to decrease the unrealised gains on investments. This change resulted in reduction of £287,000 in the valuation of Ordinary share fixed asset investments at 31 October 2005 respectively and a corresponding decrease in the unrealised revaluation reserve at those dates. This change also resulted in a reduction of £29,000 in the valuation of 'C' share fixed asset investments at 31 October 2005 and a corresponding decrease in the unrealised revaluation reserve at these dates.

The Fund invests in financial assets with a view to profiting from their total return through income and capital growth. These investments are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy. Accordingly as permitted by FRS 26, the investments are designated as at fair value through profit and loss. Unrealised gains or losses on valuation are now recognised through the profit and loss account.

### *Current asset investments*

Current asset investments comprise money market deposits and are shown at amortised cost.

### *Income*

Investment income comprises interest earned on bank balances and money market securities and includes income tax withheld at source. Dividend income is shown net of any related tax credit.

## 1 Accounting policies *continued*

Dividends receivable are brought into account on the ex-dividend date. Fixed returns on debt and money market securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

### *Expenses*

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue with the exception of the investment management fee, which has been charged 25% to the revenue account and 75% to the realised capital reserve to reflect, in the Directors' opinion, the expected long term split of returns in the form of income and capital gains respectively from the investment portfolio.

### *Taxation*

Corporation tax payable is provided on taxable profits at the current rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Fund's effective rate of tax for the accounting period.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

## 2 Income

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Interest receivable on bank balances and money market funds	82	231	313
Dividends receivable	44	7	51
	126	238	364

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

## Notes to the financial statements *continued*

### 3 Management Fees

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Investment management fee	223	99	322
Irrecoverable VAT thereon	39	17	56
	262	116	378

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

Octopus provides investment management and accounting and administration services to the Fund 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.

### 4 Other expenses

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Accounting and administrative services	33	31	64
Directors' remuneration	29	13	42
Auditors' remuneration – audit services	16	3	19
– non-audit services: taxation compliance	4	1	5
Legal and professional services	31	8	39
Other expenses	66	22	88
	179	78	257

#### 4 Other expenses *continued*

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 31 October 2005 £'000
Accounting and administrative services	31	18	49
Directors' remuneration	28	7	35
Auditors' remuneration – audit services	10	3	13
– non-audit services: taxation compliance	2	–	2
Legal and professional services	41	8	49
Other expenses	65	10	75
	177	46	223

#### 5 Directors' Remuneration

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
S Hazell-Smith (Chairman)	13	5	18
M Cooper	8	4	12
T Morgan	8	4	12
	29	13	42

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

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

## Notes to the financial statements *continued*

### 6 Tax on ordinary activities

#### *Ordinary Shares*

The corporation tax charge for the year was £nil. (2005 : £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.

	2006 £'000	2005 £'000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	712	(773)
Current tax at 19%	135	(146)
Income not liable to tax	(195)	(89)
Excess management charges	60	235
Total current tax charge	–	–

#### *'C' Shares*

The corporation tax charge for the year was £nil. (2005 : £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.

	2006 £'000	2005 £'000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	567	(43)
Current tax at 19%	108	(8)
Income not liable to tax	(99)	3
Excess management charges	(9)	5
Total current tax charge	–	–

Excess management expenses of £857,000 (2005 : £529,000) have been carried forward at 31 October 2006 and are available to offset against future taxable income subject to agreement with the HM Revenue & Customs. These have not been recognised as deferred tax assets due to uncertainty as to their recoverability.

## 7 Dividends

### *Ordinary Shares*

	31 October 2006 £'000	31 October 2005 £'000
Interim dividend per share – 1.0p (2005 : 4.0p)	110	446
Final dividend per share – 3.35p (2005 : nil)	369	–

### *'C' Shares*

	31 October 2006 £'000	31 October 2005 £'000
Interim dividend per share – nil (2005 : nil)	–	–
Final dividend per share – 1p (2005 : nil)	52	–

## 8 Earnings per share

### *Ordinary Share*

The return per share is based on a profit from ordinary activities after tax of £712,000 and on 11,049,006 shares, being the weighted average number of shares in issue during the period (2005 : £(773,000) and 11,171,000 shares).

### *'C' Share*

The return per share is based on a profit from ordinary activities after tax of £567,000 and on 4,716,824 shares, being the weighted average number of shares in issue during the year (2005 : £(43,000) and 3,436,012 shares).

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

## Notes to the financial statements *continued*

### 9 Fixed asset investments

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Combined 31 October 2006 £'000
Cost at 1 November 2005	8,328	707	9,035
Unrealised gain at 1 November 2005	94	(17)	77
Valuation at 1 November 2005	8,422	690	9,112
<b>Movement in year:</b>			
Purchases at cost	2,101	1,531	3,632
Disposal proceeds	(2,194)	(160)	(2,354)
Profit on realisation of investments	844	43	887
Net unrealised gain on revaluation	183	562	745
Valuation as at 31 October 2006	<b>9,356</b>	<b>2,666</b>	<b>12,022</b>
Cost at 31 October 2006	9,079	2,121	11,200
Unrealised gain at 31 October 2006	277	545	822

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

### 10 Current asset investments

Current asset investments at 31 October 2006 comprised money market securities.

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Combined 31 October 2006 £'000
Money market securities at cost:			
Bonds	–	1,921	1,921
Floating rate notes	–	350	350
Open ended investment companies	397	–	397
Unrealised gain/(loss) on money market securities:			
Bonds	–	(82)	(82)
Open ended investment companies	20	–	20
Valuation as at 31 October 2006	417	2,189	2,606

## 11 Debtors

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Prepayments and accrued income	155	159	314

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

## 12 Creditors: amounts falling due within one year

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Accruals	16	105	121

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

## 13 Share capital

	31 October 2006 £'000	31 October 2005 £'000
Authorised:		
Equity – 30,000,000 Ordinary Shares of 10p	3,000	3,000
Equity – 10,000,000 'C' Shares of 10p	1,000	1,000
Total	4,000	4,000

## Notes to the financial statements *continued*

### 13 Share capital *continued*

	31 October 2006 £'000	31 October 2005 £'000
Issued:		
Equity – 10,801,773 (2005 : 11,176,407) Ordinary Shares of 10p	1,080	1,118
Equity – 5,228,385 (2005 : 5,221,188) 'C' Shares of 10p	523	522
<b>Total</b>	<b>1,603</b>	<b>1,640</b>

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 Fund. 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 2006, the Fund allotted and repurchased for cancellation the following ordinary shares.

Date	Price per share	Shares allotted/ repurchased	Consideration net of discounts £'000	Capital £'000	Share Premium £'000	Special Distributable Reserve £'000
30/01/2006	£0.970	(6,100)	(6)	(0.6)	–	(5.4)
07/02/2006	£0.950	(83,175)	(79)	(8.3)	–	(70.7)
08/02/2006	£0.950	(10,200)	(10)	(1.0)	–	(8.7)
16/02/2006	£0.950	(13,260)	(13)	(1.3)	–	(11.2)
02/03/2006	£0.950	(24,179)	(23)	(2.4)	–	(20.3)
20/03/2006	£0.950	(3,060)	(3)	(0.3)	–	(2.6)
29/03/2006	£0.970	(176,410)	(171)	(17.6)	–	(153.4)
05/04/2006	£0.970	(63,318)	(61)	(6.3)	–	(55.1)
05/04/2006	£1.061	296,543	315	29.6	269.3	–
25/04/2006	£0.950	(56,950)	(54)	(5.7)	–	(48.4)
01/09/2006	£0.900	(147,758)	(133)	(14.8)	–	(118.2)
19/10/2006	£0.913	(86,767)	(79)	(8.7)	–	(70.5)

### 13 Share capital *continued*

During the year ended 31 October 2006, the Fund allotted and repurchased for cancellation the following 'C' shares.

Date	Price per share	Shares allotted/ repurchased	Consideration net of discounts £'000	Capital £'000	Share premium £'000
27/02/2006	£0.950	26,250	25	2.6	22.3
01/03/2006	£0.950	(104,250)	(100)	(10.4)	(88.6)
05/04/2006	£0.987	101,317	100	10.2	89.9
26/10/2006	£0.950	(16,120)	(15)	(1.6)	(13.7)

### 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 2005 financial statements	54	9,587	9	381	80
Prior year adjustment:					
Adjustment in valuation of quoted investments to bid price	—	—	—	(287)	—
As restated	54	9,587	9	94	80
Issue of shares	278	—	—	—	—
Share issue costs	(9)	—	—	—	—
Repurchase of shares	—	(632)	67	—	—
Capital interim dividend	—	(110)	—	—	—
Net unrealised gain on revaluation of investments	—	—	—	183	(183)
Retained profit for the year	—	—	—	—	712
	323	8,846	76	277	609

## Notes to the financial statements *continued*

### 14 Reserves *continued*

#### 'C' Shares

	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Balance per 2005 financial statements	4,438	–	12	(26)
Prior year adjustment:	–	–	(29)	–
Adjustment in valuation of quoted investments to bid price	4,438	–	(17)	(26)
Issue of shares	112	–	–	–
Repurchase of shares	(114)	12	–	–
Net unrealised gain on revaluation of investments	–	–	480	(480)
Retained profit for the year	–	–	–	567
	4,436	12	463	61

### 15 Reconciliation of movements in shareholders' funds

	Ordinary Shares £'000	'C' Shares £'000	Total £'000
Equity shareholders' funds at 1 November 2005			
As previously reported	11,229	4,946	16,175
Prior year adjustment:			
Adjustment in valuation of quoted investments to bid price	(287)	(29)	(316)
As restated	10,942	4,917	15,859
Return on ordinary activities after tax	712	567	1,279
Net proceeds of share issue	299	125	424
Shares purchased for cancellation	(632)	(114)	(746)
Capital dividend recognised in period	(110)	–	(110)
Equity shareholders funds at 31 October 2006	11,211	5,495	16,706

## 15 Reconciliation of movements in shareholders' funds *continued*

	Ordinary Shares £'000	'C' Shares £'000	Total £'000
<hr/>			
Equity shareholders' funds at 1 November 2004			
As previously reported	12,405	—	12,405
Prior year adjustment:			
Adjustment in valuation of quoted investments to bid price	(236)	—	(236)
Proposed dividend not accounted for until declared and paid	281	—	281
As restated	12,450	—	12,450
Loss on ordinary activities after tax	(773)	(43)	(816)
Dividends recognised in period	(726)	—	(726)
Net proceeds of share issue	59	4,960	5,019
Shares purchased for cancellation	(68)	—	(68)
Equity shareholders funds at 31 October 2005	10,942	4,917	15,859

## 16 Net asset value per share

### *Ordinary Shares*

The calculation of net asset value per share as at 31 October 2006 is based on net assets of £11,211,000 divided by the 10,801,773 Ordinary Shares in issue at that date (2005 : £11,229,000 and 11,176,407 shares).

### *'C' Shares*

The calculation of net asset value per share as at 31 October 2005 is based on net assets of £5,495,000 divided by the 5,228,385 'C' Shares in issue at that date (2005 : £4,946,000 and 5,221,188 shares).

## 17 Reconciliation of operating profit to cash flow from operating activities

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
<hr/>			
Profit on ordinary activities before tax	712	567	1,279
Gain on disposal of fixed asset investments	(844)	(43)	(887)
Unrealised loss on fair value of fixed asset investments	(183)	(562)	(745)
Increase in debtors	(136)	(154)	(290)
Decrease/increase in creditors	(93)	10	(83)
Net cash outflow from operating activities	(544)	(182)	(726)

## Notes to the financial statements *continued*

### 17 Reconciliation of operating profit to cash flow from operating activities *continued*

	(restated)* Ordinary Shares 31 October 2005 £'000	(restated)* 'C' Shares 31 October 2005 £'000	(restated)* Total 31 October 2005 £'000
Loss on ordinary activities before tax	(773)	(43)	(816)
Gain on disposal of fixed asset investments	(104)	—	(104)
Unrealised loss on fair value of investments	574	17	591
Decrease/(increase) in debtors	87	(5)	82
Increase in creditors	87	95	182
Net cash (outflow)/inflow from operating activities	(129)	64	(65)

### 18 Reconciliation of net cash flow to movement in net funds

	Ordinary Shares 31 October 2006 £'000	'C' Shares 31 October 2006 £'000	Total 31 October 2006 £'000
Increase in cash in year	554	299	853
Movement in liquid resources	(1,448)	(1,841)	(3,289)
Opening net funds	2,610	4,317	6,927
Closing net funds	1,716	2,775	4,491

	Ordinary Shares 31 October 2005 £'000	'C' Shares 31 October 2005 £'000	Total 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

## 19 Analysis of changes in net funds

<i>Ordinary Shares</i>	At 31 October 2005 £'000	Cashflows £'000	At 31 October 2006 £'000
Cash at bank	745	554	1,299
Current asset investments	1,865	(1,448)	417
	2,610	(894)	1,716

<i>'C' Shares</i>	At 31 October 2005 £'000	Cashflows £'000	At 31 October 2006 £'000
Cash at bank	287	299	586
Current asset investments	4,030	(1,841)	2,189
	4,317	(1,542)	2,775

<i>Combined</i>	At 31 October 2005 £'000	Cashflows £'000	At 31 October 2006 £'000
Cash at bank	1,032	853	1,885
Current asset investments	5,895	(3,289)	2,606
	6,927	(2,436)	4,491

## 20. Financial instruments

### *Management of risk*

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

The Fund's financial instruments may comprise:

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

The main risks arising from the Fund'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 Fund's operations. It represents the potential loss the Fund 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.

## Notes to the financial statements *continued*

### 20. Financial instruments *continued*

#### *Liquidity risk*

The funds raised since incorporation are currently used to fund the Fund's primary objective of investing in AIM listed companies which accord with its investment strategy. As at 31 October 2006 some 82.6% (2005 : 78%) of the Ordinary Share funds raised and 45.9% (2005 : 15%) of 'C' Share 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 Fund 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 Fund had no liabilities that were subject to interest rate risk and had no borrowing facilities. The Fund's financial assets are invested in short term money market funds. The weighted average interest rate on such funds was approximately 5.4% during the year (2005 : 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 £223,000 (2005 : £248,000) for Ordinary Shares and £99,000 (2005 : £46,000) 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 fund 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.

### 22 Contingent liabilities

There were no contingent liabilities at 31 October 2006 (2005 : none).

### 23 Capital commitments

There were no capital commitments at 31 October 2006 (2005 : 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 Wednesday, 21 March 2007 at the offices of Octopus Investments Ltd, 8 Angel Court, London EC2R 7HP for the following purposes:

## Ordinary Business

1. To receive the Report of the Directors and Accounts for the year ended 31 October 2006.
2. To approve final dividends of 3.35p per Ordinary Share and 1p per 'C' Share.
3. To approve the Directors' remuneration report for the year ended 31 October 2006.
4. To re-elect Mr Matthew J Cooper, who retires by rotation, as a Director of the Fund.
5. 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 7 to 9 as Special Resolutions

6. 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 Fund to allot relevant securities up to an aggregate nominal amount of the authorised but as yet unissued share capital of the Fund from time to time provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Fund or 15 months following the passing of this Resolution 5, whichever is the first to occur, save that the Fund 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.
7. 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 Fund 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 Fund 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 Fund or 15 months following the passing of this Resolution 6, whichever is the first to occur, save that the Fund 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.

## Notice of Annual General Meeting *continued*

8. That the Fund 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 1,080,177 Ordinary Shares of 10 pence each and 522,838 'C' shares of 10 pence each in the capital of the Fund on such terms and in such manner as the Directors of the Fund 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 Fund'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 Fund or 15 months following the passing of this Resolution 7, whichever is the first to occur, provided that the Fund 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 Fund may make a purchase of its own shares in pursuant of such contract as if the authority hereby conferred had not expired.
9. That, subject to the application to, and confirmation of, the High Court, the amount standing to the credit of the share premium account attributed to the 'C' Ordinary Shares in the capital of the Fund at the time of such application be cancelled.

### By order of the Board

Celia L Whitten FCIS

Company Secretary

Registered Office:

8 Angel Court

London

EC2R 7HP

15 February 2007

### 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 Fund.
- (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 Fund, Capita IRG (Proxies) at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA 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 Fund'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 Fund under section 325 of the Companies Act 1985, will be available for inspection at the registered office of the Fund 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.



# Proxy Form

Phoenix VCT plc Annual General Meeting – 21 March 2007

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 Fund to be held on 21 March 2007, notice of which was sent to shareholders with the directors' report and the accounts for the year ended 31 October 2006, 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 2006			
2. To approve final dividends of 3.35p per Ordinary share and 1p per 'C' Share			
3. To approve the Directors' Remuneration Report			
4. To re-elect Mr Matthew J Cooper as a director			
5. To re-appoint Grant Thornton UK LLP as auditors and authorise the directors to agree their remuneration			
6. To authorise the directors to allot shares under section 80 (Ordinary Resolution)			
7. To disapply Section 89(1) of the Companies Act 1985 and allot shares on a non rights issue basis (Special Resolution)			
8. To authorise the directors to make market purchases of its own shares (Special Resolution)			
9. To cancel the 'C' Share premium account			

Signed: ..... Dated: ..... 2007

## 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 Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA no later than 48 hours before the commencement of the meeting.



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BUSINESS REPLY SERVICE  
Licence No RRHB-RSXJ-GKCY



**Proxy Processing Centre**  
**Telford Road**  
**BICESTER**  
**OX26 4LD**

First Fold

Second fold



