
PHOENIX VCT

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 OCTOBER 2007



OCTOPUS
INVESTMENTS

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About Phoenix VCT plc

Phoenix VCT plc (“Phoenix” or “Company”) is a venture capital trust (“VCT”) which aims to provide shareholders with attractive tax-free dividends and long-term capital growth.

The Investment Manager is Octopus Investments Limited (“Octopus” or “Manager”). The Company was launched in November 2002 and raised over £11.3 million (£10.8 million net of expenses) through an offer for subscription.

Phoenix raised more money 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 (£5.0 million net of expenses) by the closing date of the offer on 30 June 2005.

Financial Highlights

	Year to 31 October 2007	Year to 31 October 2006
Ordinary shares		
Net assets (£'000s)	11,945	11,211
Net profit after tax (£'000s)	1,202	712
Net asset value per share	106.0p	103.8p
Dividend per share – paid and proposed in year	12.0p	4.35p
Cumulative dividends since launch – paid and proposed	23.0p	11.0p
‘C’ shares		
Net assets (£'000s)	6,183	5,495
Net profit after tax (£'000s)	489	567
Net asset value per share	110.8p	105.1p
Dividend per share – paid and proposed in year	6.0p	1.0p
Cumulative dividends since launch – paid and proposed	7.0p	1.0p

2.1%



NAV per Ordinary share increased from 103.8p to 106.0p net of dividends

23.0%



Total return (inclusive of dividends but excluding all tax relief) to Ordinary shareholders since launch in November 2002

5.4%



NAV per ‘C’ share increased from 105.1p to 110.8p net of dividends

14.8%



Total return (inclusive of dividends but excluding all tax relief) to ‘C’ shareholders since launch in February 2005

Chairman's Statement

I am delighted to be reporting an uplift in the Net Asset Value ("NAV") of both the Ordinary share portfolio and the 'C' share portfolio over the year to 31 October 2007.

Results Review

In the year to 31 October 2007, the NAV per Ordinary share increased 2.1% from 103.8p to 106.0p net of dividends. The Investment Manager realised a gain in the Ordinary Share portfolio of over £2.1 million during the year from the disposal, either wholly or partially, of a number of investments which are discussed below. Of this, £674,000 related to gains generated in prior years carried forward in the revaluation reserve. Further details are included within the Investment Manager's Review including a review of the performance of the investments, the key performance indicator by which the Board measures the performance of the Company. Consequently, the Board has proposed a dividend of 6.0p per Ordinary share to be paid on 28 March 2008 to shareholders on the register on 29 February 2008. This is in addition to the 6.0p interim dividend paid earlier in the year and will take total dividends paid and proposed for the year ended 31 October 2007 to 12.0p per Ordinary share. Cumulative dividends will total 23.0p per Ordinary share since the Fund's launch. The total return to shareholders, before payment of this dividend, is 23.0%. This is before taking into account the 20% upfront tax relief received by initial subscribers.

The table below shows the movement in NAV per share and lists the dividends that have been paid since the launch of Phoenix:

Period Ended	NAV	Dividends paid	NAV + cumulative dividends
31 October 2003	100.7p	–	100.7p
30 April 2004	111.7p	0.15p	111.9p
31 October 2004	110.9p	–	111.1p
30 April 2005	118.2p	2.50p	120.9p
31 October 2005	97.9p	4.00p	104.6p
30 April 2006	104.6p	–	111.3p
31 October 2006	103.8p	1.00p	111.5p
30 April 2007	122.4p	3.35p	133.4p
31 October 2007	106.0p	6.00p	123.0p

In respect of the 'C' share portfolio, the NAV per share increased 5.4% from 105.1p to 110.8p net of dividends. The Investment Manager realised a gain of nearly £723,000 during the year from the disposal, either wholly or partially, of a number of investments which are discussed below. Of this, £314,000 related to gains generated in prior years carried forward in the revaluation reserve. Further details are included within the Investment Manager's Review including a review of the performance of the investments, the key performance indicator by which the Board measures the performance of the Company. Consequently, the Board has proposed a dividend of 3.0p per share to be paid on 28 March 2008 to shareholders on the register on 29 February 2008. This is in addition to the 3.0p interim dividend paid earlier in the year and will take total dividends paid and proposed for the year ended 31 October 2007 to 6.0p per 'C' share. Cumulative dividends will total 7.0p per 'C' share since the Fund's launch. The total return to shareholders, before payment of this dividend, is 14.8%. This is before taking into account the 40% upfront tax relief received by initial subscribers.

The table below shows the movement in NAV per share and lists the dividends that have been paid since the launch of Phoenix:

Period Ended	NAV	Dividends paid	NAV + cumulative dividends
30 April 2005	94.2p	–	94.2p
31 October 2005	94.2p	–	94.2p
30 April 2006	100.1p	–	100.1p
31 October 2006	105.1p	–	105.1p
30 April 2007	122.6p	1.0p	123.6p
31 October 2007	110.8p	3.0p	114.8p

Ordinary Share Portfolio

At 31 October 2007, the Ordinary share portfolio comprised investments in 39 AiM-quoted companies with a total value of £9.9 million and was 93.4% (by net assets) invested in qualifying holdings.

During the year, we sold, either partially or wholly, ten holdings, crystallising a net realised profit of £2,134,000; of this realised profit, £674,000 related to gains generated in prior years carried forward in the revaluation reserve. Our most successful realisation came from a reduction in our holding in Tanfield Group plc, generating £1,476,000 of net profit. At the year end, our remaining holding was valued at £898,000 compared with an initial cost of £52,600. Worthington Nicholls Group plc was another successful realisation returning £753,000 of net profit.

Eleven new investments were made in the year totalling £3.4 million. Details of these investments are set-out at the end of the Investment Manager's Review.

'C' Share Portfolio

At 31 October 2007, the 'C' share portfolio contained investments in 28 AiM-quoted companies, with a total value of £4.5 million and was 80.4% (by net assets) invested in qualifying holdings.

During the year, we sold, either partially or wholly, six holdings, crystallising a net realised profit of £723,000; of this realised profit, £314,000 related to gains generated in prior years carried forward in the revaluation reserve. Details of these realisations are set-out in the Investment Manager's Review. Our most successful realisation came from the sale of the holding in Worthington Nicholls Group plc, generating £454,000 of net profit. Tanfield Group plc was another successful partial realisation returning £401,000 of net profit.

A total of fifteen new investments were made during the year totalling £2.7 million. Details of these are set-out in the Investment Manager's Review.

Share Price

Phoenix's mid market Ordinary share price currently stands at 93.0p and the 'C' shares at 105.0p.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice on the ongoing compliance with HM Revenue & Customs rules and regulations concerning VCTs. The Board has been advised that Phoenix VCT plc is in compliance with the conditions laid down by HM Revenue & Customs for maintaining approval as a VCT.

A key requirement is for 70% of the entire portfolio to be invested in qualifying investments by the end of the third accounting period following that in which new share capital was subscribed. As at 31 October 2007, on an individual basis, over 93% of the Ordinary share investment portfolio was invested in VCT qualifying investments, and over 80% of the 'C' share investment portfolio. The Board does not anticipate any issues in achieving and maintaining the required investment level.

Outlook

In what has been a difficult period for stock markets, particularly smaller companies, it is useful to reiterate that Phoenix's investment strategy is designed to focus on the delivery of absolute returns and a regular tax-free dividend stream for investors. To this end Phoenix has accumulated realised gains for distribution in future years in excess of the 6.0p final dividend just declared for the Ordinary Share portfolio and the 3.0p final dividend declared for the 'C' Share portfolio. Phoenix continues to focus on investments into companies that, relative to the VCT qualifying investment universe, are more established and therefore should prove more robust. Less than 5% of the value of the Ordinary and 'C' Share portfolios are invested in companies that are not profitable.

Since October, the continued weakness in global stock markets has impacted the NAV of both the Ordinary Share portfolio and the C Share portfolio which stood at 93.9p and 100.5p respectively at 31 December 2007. However, while we expect the high levels of uncertainty to persist over the coming months, the investment manager's strategy to focus the portfolio on companies with a niche or proprietary product or service and avoid exposure to the UK consumer should allow us to view the future with confidence.



Stephen Hazell-Smith
Chairman
11 February 2008

Investment Manager's Review

Personal Service

At Octopus, we pride ourselves not only on our team's track record but also on our personalised customer service. We believe in open communication and our regular 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 us on 020 7710 2800.

The AiM Market

The success of AiM in attracting a diverse range of growing companies and investors from around the globe has meant that the number of companies listed on AiM has increased from 753 companies in December 2003, when Phoenix was making its initial investments, to over 1,600 companies today. This has resulted in a range of investment opportunities available to us over recent years.

We have set out below a review of the Ordinary share and 'C' share portfolios, including details of the investments completed during the year, realisations made, and a list of all of the holdings in both portfolios.

Investment Portfolio

AiM-listed Qualifying Investments	Sector	Cost of investment		Valuation as at 31 October 2007		% equity held by Phoenix	% equity held by other funds managed by Octopus
		Ord shares (£'000)	'C' Shares (£'000)	Ord shares (£'000)	'C' Shares (£'000)		
Tanfield Group plc	Engineering & Machinery	53	77	898	659	0.3%	2.3%
Cello Group plc	Media & Entertainment	500	–	665	–	1.3%	8.5%
BBI Holdings plc	Healthcare	189	112	628	195	1.2%	1.0%
Staffline Recruitment Group plc	Support Services	300	–	600	–	1.8%	10.1%
CBG Group plc	Speciality & Other Finance	381	216	500	283	3.1%	11.1%
Hasgrove plc	Media & Entertainment	400	200	473	237	2.4%	5.7%
Zetar plc	Food Producers	158	–	436	–	0.7%	1.4%
Vertu Motors plc	General Retailers	400	200	420	210	1.1%	2.1%
Hexagon Human Capital plc	Support Services	315	157	324	162	1.6%	9.9%
Brooks Macdonald plc	Speciality & Other Finance	156	–	322	–	1.1%	0.8%
Augean plc	Support Services	500	–	306	–	0.4%	4.1%
Autoclenz plc	Support Services	425	169	292	116	4.6%	8.2%
Bond International Software plc	Software & Computer Services	60	–	282	–	0.5%	0.0%
Cantono plc	Software & Computer Services	420	220	277	145	2.2%	7.7%
Melorio plc	Support Services	–	275	–	294	0.9%	0.0%
Northern Bear plc	Construction & Building Materials	299	149	254	127	1.8%	6.6%
Fountains plc	Support Services	240	–	244	–	1.3%	2.6%
Debts.co.uk plc	Speciality & Other Finance	400	200	240	120	2.7%	0.4%
Pressure Technologies plc	Engineering & Machinery	165	105	239	152	1.6%	3.7%
Inditherm plc	Chemicals	400	100	210	88	6.7%	0.0%
AssetCo plc	Support Services	95	–	197	–	0.1%	0.0%
Jelf Group plc	Speciality & Other Finance	77	51	189	125	0.5%	0.8%
Cohort plc	Aerospace & Defence	135	340	185	401	0.9%	1.1%
Clarity Commerce plc	Software & Computer Services	367	183	169	85	3.4%	0.0%
Access Intelligence plc	Support Services	500	150	163	81	6.8%	5.8%
Media Square plc	Media & Entertainment	251	–	150	–	0.6%	1.1%
Optimisa plc	Media & Entertainment	143	247	139	239	2.0%	3.2%
Concateno plc	Support Services	–	85	–	135	0.1%	0.4%
Brulines (Holdings) plc	Support Services	123	111	133	120	0.8%	1.8%
SectorGuard plc	Support Services	200	100	129	64	2.7%	0.0%
InterQuest plc	Support Services	–	75	–	129	0.5%	3.7%
Synarbor plc	Support Services	500	–	125	–	0.8%	0.0%

		Valuation as at					
		Cost of investment		31 October 2007			
AiM-listed Qualifying Investments	Sector	Ord shares (£'000)	'C' Shares (£'000)	Ord shares (£'000)	'C' Shares (£'000)	% equity held by Phoenix	% equity held by other funds managed by Octopus
Real Good Food Co plc	Food Producers	500	–	119	–	0.6%	0.0%
Invu plc	Software & Computer Services	100	100	95	95	0.6%	0.3%
Top Ten Holdings plc	Leisure	200	–	84	–	0.8%	0.8%
Strategic Thought plc	Software & Computer Services	194	68	81	28	0.8%	0.2%
Myhome International plc	Support Services	85	85	75	75	0.3%	1.7%
Invocas plc	Speciality & Other Finance	80	50	61	38	0.4%	0.9%
Tissue Science Laboratories plc	Healthcare	161	–	54	–	0.3%	0.3%
Mediasurface plc	Software & Computer Services	–	125	–	39	0.5%	0.2%
Screen FX plc*	Media & Entertainment	419	125	35	27	2.1%	0.0%
Bright Futures plc	General Retailers	125	–	24	–	0.0%	0.0%
Baydonhill plc	Speciality & Other Finance	199	–	20	–	1.4%	0.0%
Total qualifying investments		10,215	4,075	9,837	4,469		
Non-qualifying AiM investments		26	15	54	30		
Total non-qualifying investments		26	15	54	30		
Fixed income securities		1,590	1,126	1,596	1,083		
Total investments		11,831	5,216	11,487	5,582		
Net current assets				458	601		
Total net assets				11,945	6,183		

* Screen FX plc changed its name to Vision Media Group plc on 31 January 2008

Review of Ordinary Share Portfolio

At 31 October 2007, the Ordinary portfolio comprised investments in 39 AiM-quoted companies. During the year, seven investments were disposed of in their entirety including Ovum plc which received a cash bid from a third party and Worthington Nicholls plc and Concateno plc which crystallised profits of 162% and 59% respectively. The investments in Tanfield Group plc, Bond International Software plc and Tissue Science Laboratories plc were reduced during the year, the details of which are shown below. Sovereign Oilfield Services plc, Plethora Solutions plc, Dawmed plc and Disperse Group plc were disposed off at a loss as the investment manager believes they carry risk of further disappointment.

A summary of the realisations is shown below:

Realisations	Initial investment date	Cost of investment realised (£'000)	Proceeds of investment (£'000)	Total gain/(loss) (£'000)
Tanfield Group plc	20 December 2004	147	1,623	1,476
Worthington Nicholls plc	12 June 2006	465	1,218	753
Concateno plc	7 April 2005	500	794	294
Bond International Software plc	15 March 2004	44	218	174
Ovum plc	10 March 2006	150	237	87
Sovereign Oilfield Services plc	28 September 2005	140	128	(12)
Plethora Solutions plc	13 January 2006	122	87	(35)
Tissue Science Laboratories plc	22 March 2005	86	33	(53)
Dawmed plc	15 November 2003	79	22	(57)
Disperse Group plc	26 July 2004	500	7	(493)
TOTAL		2,233	4,367	2,134

Investment Manager's Review (continued)

Ten Largest Ordinary Share Portfolio Holdings

Listed below are the ten largest investments by value as at 31 October 2007:

Tanfield Group plc

Initial investment date:	December 2004
Cost:	£52,600
Valuation:	£898,545
Valuation basis:	Bid price
Equity held:	0.15%
Last audited accounts:	December 2006
Profit before interest & tax:	£3.6 million
Net assets:	£43.4 million

Tanfield Group plc is a manufacturing company with two principal operating divisions; Smith Electric Vehicles, the world's largest manufacturer of road-going commercial zero emission vehicles, and UpRight Powered Access, the UK's largest manufacturer of self-propelled aerial work platforms. UpRight has recently increased its exposure in the US market with the acquisition of Snorkel Holdings last year.

Cello Group plc

Initial investment date:	November 2004
Cost:	£500,000
Valuation:	£665,000
Valuation basis:	Bid price
Equity held:	1.29%
Last audited accounts:	December 2006
Profit before interest & tax:	£4.4 million
Net assets:	£39.6 million

Cello Group plc is a specialist marketing solutions business that has completed a number of acquisitions since its flotation on AiM in November 2004. Cello, which has specific expertise in market research, is able to operate under a number of brands, each with specific expertise across a number of markets including the pharmaceutical, public and not-for-profit sectors.

BBI Holdings plc

Initial investment date:	April 2004
Cost:	£188,760
Valuation:	£628,000
Valuation basis:	Bid price
Equity held:	0.93%
Last audited accounts:	March 2007
Profit before interest & tax:	£1.9 million
Net assets:	£12.4 million

BBI Holdings plc is a leading supplier of products and services to the global diagnostic and healthcare industries. The company's range of products and services cover all aspects of lateral flow test development; however its core business is the manufacture and supply of gold reagents which are used in rapid diagnostic testing.

Staffline Recruitment Group plc

Initial investment date:	December 2004
Cost:	£300,000
Valuation:	£600,000
Valuation basis:	Bid price
Equity held:	1.77%
Last audited accounts:	December 2006
Profit before interest & tax:	£3.8 million
Net assets:	£20.0 million

Staffline Recruitment Group plc is a leading provider of recruitment and outsourced human resource services to industry. It specialises in supplying temporary and permanent blue-collar industrial workers both via its high street network branches and through on-site operations located at the customers' premises.

CBG Group plc

Initial investment date:	June 2007
Cost:	£380,700
Valuation:	£499,500
Valuation basis:	Bid price
Equity held:	1.97%
Last audited accounts:	December 2006
Profit before interest & tax:	£1.0 million
Net assets:	£4.9 million

Based in Manchester, CBG Group plc is a corporate general insurance, risk management and financial services intermediary. The company offers a range of services principally in the area of Commercial Insurance, Business Risk Management, Healthcare and Employee Benefits. We expect the company to continue to acquire further businesses in the North-West of England.

Hasgrove plc

Initial investment date:	November 2006
Cost:	£400,000
Valuation:	£473,333
Valuation basis:	Bid price
Equity held:	1.61%
Last audited accounts:	December 2006
Profit before interest & tax:	£1.9 million
Net assets:	£13.0 million

Hasgrove plc is a pan European marketing and communications services group. The group offers its clients consultancy and implementation solutions across a range of disciplines including brand design, creative advertising, public relations and public affairs.

Zetar plc

Initial investment date:	April 2005
Cost:	£158,090
Valuation:	£436,328
Valuation basis:	Bid price
Equity held:	0.69%
Last audited accounts:	April 2007
Profit before interest & tax:	£6.0 million
Net assets:	£41.3 million

Zetar plc diversified into two divisions; Confectionery and Natural & Premium Snacks. The company has been highly acquisitive and now holds Kinnerton, Readifoods and Humdinger under its umbrella. Kinnerton manufactures niche and novelty chocolate and both Readifoods and Humdinger manufacture organic dried fruit products. The company has more recently acquired Lir Chocolates, an Irish based manufacturer.

Vertu Motors plc

Initial investment date:	December 2006
Cost:	£400,000
Valuation:	£420,000
Valuation basis:	Bid price
Equity held:	0.73%
Last audited accounts:	N/A (First audited accounts to be prepared for period ending February 2008)

Vertu Motors plc was formed in 2006 to acquire and consolidate the UK motor retail sector. The management team has experience in the sector having previously held senior positions at Reg Vardy plc. To date the company has acquired Bristol Street Group Limited, Blake Holdings Limited, Grantham Motors Company Limited and the Jennings Group Limited.

Investment Manager's Review (continued)

Hexagon Human Capital plc

Initial investment date:	February 2007
Cost:	£314,667
Valuation:	£324,202
Valuation basis:	Bid price
Equity held:	1.04%
Last audited accounts:	March 2007
Profit before interest & tax:	£0.8 million
Net assets:	£14.2 million

Hexagon Human Capital plc is the UK's leading provider of interim executive management and one of the UK's leading executive search businesses. Its group companies currently provide services to over thirty FTSE 100 companies and a number of the largest professional services firms in the world.

Brooks Macdonald plc

Initial investment date:	March 2005
Cost:	£156,296
Valuation:	£321,523
Valuation basis:	Bid price
Equity held:	1.14%
Last audited accounts:	December 2006
Profit before interest & tax:	£1.2 million
Net assets:	£4.3 million

Brooks Macdonald plc is an integrated wealth management group with two operating companies. Brooks Macdonald Asset Management is a specialist private client fund manager and Brooks Macdonald Financial Consulting provides bespoke financial planning. The Group now has over £1 billion fund under management.

Review of 'C' Share Portfolio

At 31 October 2007, the 'C' portfolio comprised investments in 28 AiM-quoted companies. During the year, five investments were disposed of in their entirety including Ovum plc which received a cash bid from a third party and Worthington Nicholls plc which crystallised a profit of 169%. The investment in Tanfield Group plc was reduced, realising a profit of £401,000 from a book cost of just £83,000. Sovereign Oilfield Services plc, Plethora Solutions plc and Disperse Group plc were disposed off at a loss as the investment manager believes they all carry risk of further disappointment.

A summary of these realisations is shown below:

Realisations	Initial investment date	Cost of investment realised (£'000)	Proceeds of investment (£'000)	Total gain/(loss) (£'000)
Worthington Nicholls plc	12 June 2006	269	723	454
Tanfield Group plc	26 May 2005	83	484	401
Ovum plc	10 March 2006	94	148	54
Sovereign Oilfield Services plc	28 September 2005	62	56	(6)
Plethora Solutions plc	13 January 2006	81	58	(23)
Disperse Group plc	26 July 2004	160	3	(157)
TOTAL		749	1,472	723

Ten Largest 'C' Share Portfolio Holdings

Listed below are the ten largest investments by value as at 31 October 2007:

Tanfield Group plc

Initial investment date:	May 2005
Cost:	£77,200
Valuation:	£659,095
Valuation basis:	Bid price
Equity held:	0.11%
Last audited accounts:	December 2006
Profit before interest & tax:	£3.6 million
Net assets:	£43.4 million

Tanfield plc is a manufacturing company with two principal operating divisions; Smith Electric Vehicles, the world's largest manufacturer of road-going commercial zero emission vehicles, and UpRight Powered Access, the UK's largest manufacturer of self-propelled aerial work platforms. UpRight has recently increased its exposure in the US market with the acquisition of Snorkel Holdings last year.

Cohort plc

Initial investment date:	February 2006
Cost:	£339,502
Valuation:	£401,100
Valuation basis:	Bid price
Equity held:	0.59%
Last audited accounts:	April 2007
Profit before interest & tax:	£2.2 million
Net assets:	£20.3 million

Cohort plc is a provider of independent defence technical services. The company is focused on command, control, computing, communications and intelligence systems and more recently has moved into crisis management for non-military customers.

Melorio plc

Initial investment date:	October 2007
Cost:	£275,000
Valuation:	£294,250
Valuation basis:	Bid price
Equity held:	0.87%
Last audited accounts:	N/A (First audited accounts to be prepared for period ending March 2008)

Melorio plc was formed to consolidate the UK vocational training market. In September 2007 it acquired CLW, the UK's largest provider of on site construction assessment and training. As well as the construction industry, Melorio will focus on acquisitions within the utility, logistics and care sectors.

CBG Group plc

Initial investment date:	June 2007
Cost:	£215,500
Valuation:	£282,748
Valuation basis:	Bid price
Equity held:	1.12%
Last audited accounts:	December 2006
Profit before interest & tax:	£1.0 million
Net assets:	£4.9 million

Based in Manchester, CBG Group plc is a corporate general insurance, risk management and financial services intermediary. The company offers a range of services principally in the area of Commercial Insurance, Business Risk Management, Healthcare and Employee Benefits. We expect the company to continue to acquire further businesses in the North-West of England.

Investment Manager's Review (continued)

Optimisa plc

Initial investment date:	October 2007
Cost:	£247,000
Valuation:	£239,400
Valuation basis:	Bid price
Equity held:	1.28%
Last audited accounts:	December 2006
Profit before interest & tax:	£0.8 million
Net assets:	£4.7 million

Optimisa plc provides market research and consultancy services. Recently Optimisa completed the acquisition of EQ Group, a business operating in a similar sector. Historically Optimisa and EQ have competed for contracts and we expect the larger and more diversified group to exploit a number of synergies and cross selling opportunities.

Hasgrove plc

Initial investment date:	November 2006
Cost:	£200,000
Valuation:	£236,667
Valuation basis:	Bid price
Equity held:	1.81%
Last audited accounts:	December 2006
Profit before interest & tax:	£1.9 million
Net assets:	£13.0 million

Hasgrove plc is a pan European marketing and communications services group. The Group offers its clients consultancy and implementation solutions across a range of disciplines including brand design, creative advertising, public relations and public affairs.

Vertu Motors plc

Initial investment date:	December 2006
Cost:	£200,000
Valuation:	£210,000
Valuation basis:	Bid price
Equity held:	0.36%
Last audited accounts:	N/A (First audited accounts to be prepared for period ending February 2008)

Vertu Motors plc was formed in 2006 to acquire and consolidate the UK motor retail sector. The management team have experience in the sector having previously held senior positions at Reg Vardy plc. To date the company has acquired Bristol Street Group Limited, Blake Holdings Limited, Grantham Motors Company Limited and the Jennings Group Limited.

BBI Holdings plc

Initial investment date:	April 2004
Cost:	£112,135
Valuation:	£194,534
Valuation basis:	Bid price
Equity held:	0.29%
Last audited accounts:	March 2007
Profit before interest & tax:	£1.9 million
Net assets:	£12.4 million

BBI Holdings plc is a leading supplier of products and services to the global diagnostic and healthcare industries. The company's range of products and services cover all aspects of lateral flow test development; however its core business is the manufacture and supply of gold reagents which are used in rapid diagnostic testing.

Hexagon Human Capital plc

Initial investment date:	February 2007
Cost:	£157,332
Valuation:	£162,100
Valuation basis:	Bid price
Equity held:	0.52%
Last audited accounts:	March 2007
Profit before interest & tax:	£0.8 million
Net assets:	£14.2 million

Hexagon Human Capital plc is the UK's leading provider of interim executive management and one of the UK's leading executive search businesses. Its group companies currently provide services to over thirty FTSE100 companies and a number of the largest professional services firms in the world.

Pressure Technologies plc

Initial investment date:	June 2007
Cost:	£105,000
Valuation:	£151,900
Valuation basis:	Bid price
Equity held:	0.62%
Last audited accounts:	N/A (First audited accounts to be prepared for period ending September 2007)

Pressure Technologies plc is the holding company of Chesterfield Special Cylinders ("CSC"). CSC designs, manufactures and offers testing and refurbishment services for a range of speciality high pressure, seamless steel gas cylinders for global energy and defence markets.

New Investments

During the year, the Ordinary and 'C' Share Portfolios made fifteen new investments. Details of these investments and the amount invested are set-out below:

Concateno plc

Investment date:	November 2006
Cost:	£85,000 ('C')
Valuation:	£135,000 ('C')

Concateno plc has been consolidating businesses in the drug and alcohol testing sector. Through a number of acquisitions the group has gained exposure to companies providing services to aid drug testing and subsequent analysis at the work place.

Hasgrove plc

Investment date:	November 2006
Cost:	£400,000 (Ord), £200,000 ('C')
Valuation:	£473,333 (Ord), £236,667 ('C')

Hasgrove plc is a pan European marketing and communications services group. The company offers its clients consultancy and implementation solutions across a range of disciplines including brand designs, creative advertising, public relations and public affairs.

Vertu Motors plc

Investment date:	December 2006
Cost:	£400,000 (Ord), £200,000 ('C')
Valuation:	£420,000 (Ord), £210,000 ('C')

Vertu Motors plc was formed in 2006 to acquire and consolidate the UK motor retail sector. The management team have experience in the sector having previously held senior positions at Reg Vardy plc. To date the company has acquired Bristol Street Group Limited, Blake Holdings Limited, Grantham Motors Company Limited and the Jennings Group Limited.

Investment Manager's Review (continued)

Hexagon Human Capital plc

Investment date: February 2007
 Cost: £314,667 (Ord), £157,332 ('C')
 Valuation: £324,202 (Ord), £162,100 ('C')

Hexagon Human Capital plc is the UK's leading provider of interim executive management and one of the UK's leading executive search businesses. Its group companies currently provide services to over thirty FTSE100 companies and a number of the largest professional services firms in the world.

Debts.co.uk plc

Investment date: May 2007
 Cost: £400,000 (Ord), £200,000 ('C')
 Valuation: £240,000 (Ord), £120,000 ('C')

Debts.co.uk plc is a debt solutions company with a product offering that includes Individual Voluntary Agreements (IVAs), debt management programmes and secured loans or second mortgages to over-indebted individuals.

Pressure Technologies plc

Investment date: June 2007
 Cost: £165,000 (Ord), £105,000 ('C')
 Valuation: £238,700 (Ord), £151,900 ('C')

Pressure Technologies plc is the holding company of Chesterfield Special Cylinders ("CSC"). CSC designs, manufactures and offers testing and refurbishment services for a range of speciality high pressure, seamless steel gas cylinders for global energy and defence markets.

Invu plc

Investment date: June 2007
 Cost: £100,000 (Ord), £100,000 ('C')
 Valuation: £95,000 (Ord), £95,000 ('C')

Invu plc is a global software and computer services company which produces and distributes document and information management software that addresses the needs of small and medium-sized companies.

CBG Group plc

Investment date: June & July 2007
 Cost: £380,700 (Ord), £215,500 ('C')
 Valuation: £499,500 (Ord), £282,748 ('C')

Based in Manchester, CBG Group plc is a corporate general insurance, risk management and financial services intermediary. The company offers a range of services principally in the area of Commercial Insurance, Business Risk Management, Healthcare and Employee Benefits. We expect the company to complete further acquisitions over the next twelve months.

Myhome International plc

Investment date: June 2007
 Cost: £85,000 (Ord), £85,000 ('C')
 Valuation: £75,000 (Ord), £75,000 ('C')

MyHome International plc is an acquisitive national franchise group, headquartered in London. The group has become a market leader in the provision of cleaning services and has recently extended its offering into electrical, plumbing and garden services.

Mediasurface plc

Investment date: August 2007
 Cost: £125,000 ('C')
 Valuation: £39,402 ('C')

Mediasurface plc develops, markets and implements Web Content Management (WCM) software programmes that help businesses best utilise the capabilities that the web can offer their sites.

Northern Bear plc

Investment date:	August 2007
Cost:	£299,425 (Ord), £149,350 ('C')
Valuation:	£253,995 (Ord), £126,690 ('C')

Northern Bear plc is a building services group based in North East England. It provides central strategic and financial functions for a group of otherwise autonomous companies, each of which provides products and services to the construction industry and house builders. We expect the company to complete further acquisitions over the next twelve months.

Cantono plc

Investment date:	August 2007
Cost:	£420,000 (Ord), £220,000 ('C')
Valuation:	£277,200 (Ord), £145,220 ('C')

Cantono plc is a provider of Managed IT Services and hosting solutions for small to medium sized organisations. The company provides a range of services from individual applications to fully managed IT environments.

Melorio plc

Investment date:	October 2007
Cost:	£275,000 ('C')
Valuation:	£294,250 ('C')

Melorio plc is a vehicle formed with the aim of consolidating the UK vocational training market. It has acquired CLW, the UK's largest provider of on site construction assessment and training. As well as construction Melorio will focus on the utilities, logistics and care sectors.

Cohort plc

Investment date:	October 2007
Cost:	£339,563 ('C')
Valuation:	£401,100 ('C')

Cohort plc is a provider of independent defence technical services. The company is focused on command, control, computing, communications and intelligence systems and more recently has moved into crisis management for non-military customers.

Optimisa plc

Investment date:	October 2007
Cost:	£143,000 (Ord), £247,000 ('C')
Valuation:	£138,600 (Ord), £239,400 ('C')

Optimisa plc provides market research and consultancy services. Recently Optimisa completed the earnings enhancing acquisition of EQ Group, a business operating in a similar sector. Historically Optimisa and EQ have competed for contracts and we expect the larger and more diversified group to exploit a number of synergies and cross selling opportunities.

Recent Transactions

Since the end of the year under review, we have completed two new qualifying investments and one disposal:

Myhome International plc

During November 2007, Phoenix invested a further £500,000 into Myhome International plc. Myhome is an acquisitive national franchise group, headquartered in London. The group has become a market leader in the rapidly growing sector of residential cleaning. In June 2006 the company acquired Ovensclean, the UK's leading domestic oven cleaning franchise with a ten year growth history and over 165 franchisees. The fund raising in November was in order to complete the acquisition of ChipsAway, a mobile service delivered to customers' homes and offices to repair scratches, chips and other minor damage to car paintwork. The enlarged group now has 748 franchisees across its brands.

Investment Manager's Review (continued)

Vitesse Media plc

Phoenix C Share portfolio invested £100,000 in Vitesse Media plc in November 2007. Vitesse is an online, print publishing & events company specialising in growing businesses offering award-winning publications, fast-growing web sites, acclaimed research and events. Its flagship titles include Growth Company Investor, SmallBusiness.co.uk, Information Age, GrowthBusiness.co.uk, What Investment and M & A magazine.

BBI Holdings plc

Since the year end, Phoenix has disposed of its investment in BBI Holdings plc, crystallising a profit of £554,576 for the Ordinary Shares and £118,568 for the 'C' shares. This followed a 185p per share cash bid for the company by Inverness Medical Inc.

If you have any questions on any aspect of your investment, please call one of the team on 020 7710 2800.



Simon Rogerson
Chief Executive

Shareholder Information

The Company

Phoenix is a Venture Capital Trust. The investment manager is Octopus Investments Limited. 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-listed businesses in order to provide shareholders with attractive tax-free dividends, and to generate capital growth over the long-term.

Venture Capital Trusts ("VCT")

VCTs were introduced by the UK Government in 1995 to encourage individuals to invest in UK smaller companies. The Government achieved this by offering VCT investors a series of very attractive tax benefits.

Phoenix has been provisionally approved as a VCT by Her Majesty's Revenue & Customs (HMRC). Full approval will be sought this year. 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. The Company has continued its compliance with these requirements.

There were a number of changes in the Chancellor's budget announcement for 2006/07 that related to new VCTs. These changes have no effect on the investment strategy of Phoenix or to a shareholder's investment in Phoenix made during the 2002/03 or 2004/05 tax years. Please contact Octopus Investments on 020 7710 2800 if you would like any further information on the changes which include:

- upfront income tax relief reduced from 40% to 30%;
- shares issued on or after 6 April 2006 will have to be held for a minimum of 5 years to qualify for income tax relief (previously it was required to be 3 years); and
- qualifying holdings 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 £7 million prior to investment and £8 million after, (previously this had been £15 million and £16 million respectively).

Investment Policy

The Company's investment strategy is designed to deliver absolute returns on its investments rather than a performance measured against the market indices. On an ongoing basis, it is intended that approximately 80% of the Company will be invested in qualifying holdings across a range of sectors, with the remainder held in cash, money market securities and bonds. The Board does not intend to vary the Fund's investment policy. However, should a change be deemed appropriate this will be done with shareholders' approval and in accordance with the Listing Rules.

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of AiM-quoted companies from a number of different sectors. In order to limit the risk to the portfolio that is derived from any particular investment, no more than 10% of the Company will be invested in any one investment. It is not expected that investments will be made in other listed closed-ended investment funds. The Company will not borrow money for the purposes of making investments. The investment decisions made must adhere to the HMRC qualification rules as stated in the above section. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

Further details of the of the Company's risk management policies are provided in note 18 to the financial statements.

Financial Calendar

The Company's financial calendar is as follows:

Tuesday 25 March 2008	–	Annual General Meeting
Friday 28 March 2008	–	2007 final dividend paid
June 2008	–	Six-monthly results to 30 April 2008 published
February 2009	–	Final dividend and preliminary results for year to 31 October 2008 announced; annual report and financial statements published

Shareholder Information (continued)

Share Price

The Company's mid-market share price currently stands at 93.0p for Ordinary shares and 105.0p for 'C' shares. The Company's share price is published daily in the Financial Times and its FTSE classification is "Investment Companies" "VCTs".

Annual and Interim Reports

Previously published Annual Reports and Interim Reports are available for viewing on the Investment Manager's website at www.octopusinvestments.com under the 'Learn More' section. The result of any poll on a resolution put before shareholders will also be found there.

Details of Advisers

Board of Directors

Stephen Hazell-Smith
Matt Cooper
Tony Morgan

Secretary and Registered office

Celia L Whitten FCIS
8 Angel Court
London
EC2R 7HP
Registered in England No 04575572

Investment manager

Octopus Investments Limited
8 Angel Court
London
EC2R 7HP

Cash managers

Goldman Sachs International
Christchurch Court
10-15 Newgate Street
London
EC1A 7HD

Solicitors

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

Independent auditor and taxation adviser

Grant Thornton UK LLP
1 Westminster Way
Oxford
OX2 0PZ

VCT status adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Stockbroker

Brewin Dolphin Limited
34 Lisbon Street
Leeds
LS1 4LX

Bankers

HSBC Bank plc
31 Holborn
London
EC1N 2HR

Registrars

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

Details of Directors

Stephen Hazell-Smith (54 – 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.

Matt Cooper (41 – Director) is the Chairman of Octopus Investments Limited, the Investment Manager of Phoenix. 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.

Tony Morgan (76 – Director) spent seven years as Chairman and Chief Executive of a 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. Tony has more than three years specific VCT experience as a non-executive director of Phoenix VCT plc. He is currently a non-executive of a number of private companies and is Chairman of the charity, Youth at Risk.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 October 2007.

Activities and status

The principal activity of the Company is to invest in a diversified portfolio of AiM-listed companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream. The Company has been granted provisional approval as a Venture Capital Trust by the Inland Revenue. Investment company status was revoked on 23 March 2004. The accounts have been drawn up to include a statutory profit and loss account 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 Directors managed the affairs of the Company with the intention of maintaining its status as an approved Venture Capital Trust for the purposes of s259 of the Income Taxes Act 2007. 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.

Review of Business Activities

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of quoted UK companies which meet the relevant criteria for venture capital trusts. The Board has a number of performance measures to assess the Company's success in meeting its objectives. Performance, measured by the change in NAV per share and total return per share, is also measured against the FTSE AiM Total Return Index. This index, as a measure of UK AiM-traded equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of the other AiM venture capital trusts. The Chairman's Statement, on pages 4 to 5, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 6 to 16. Further details of the Company's risk management policies are provided in note 18 to the financial statements.

Results and dividend – Ordinary shares

	Year ended 31 October 2007 £'000	Year ended 31 October 2006 £'000
Net profit attributable to shareholders	1,203	712
Appropriations:		
Final dividend proposed – 6.0p per share (2006 – 3.35p per share)	676	362

Results and dividend – 'C' shares

	Year ended 31 October 2007 £'000	Year ended 31 October 2006 £'000
Net profit attributable to shareholders	488	567
Appropriations:		
Final dividend proposed – 3.0p per share (2006 – 1.0p per share)	167	51

The proposed final dividend will, if approved by shareholders, be paid on 28 March 2008 to shareholders on the register on 29 February 2008.

Directors

According to the register of Directors' interests, the Directors of Phoenix VCT plc during the year and their interests in the issued share capital of the Company were as follows:

	Ordinary shares of 10p each 31 October 2007	Ordinary shares of 10p each 31 October 2006
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 2007 and the date of this report.

Directors' Report (continued)

Stephen 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 Stephen Hazell-Smith continues to be effective and demonstrates commitment to his role. They, therefore, recommend his re-election at the forthcoming Annual General Meeting.

Brief biographical notes on the Directors are given on page 20.

Directors' and officers' liability insurance

The Company has, as permitted by s309A of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

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 the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Report Statement which comply with that law and those regulations.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

The investment manager is responsible for the maintenance and integrity of the corporate and financial information set out on their website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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 2007 there were no trade creditors (2006: £nil).

Management

Octopus acts as investment manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in Notes 3 & 18 to the financial statements. Matt Cooper is a Director of Octopus. In the opinion of the Directors and on the basis of the performance to date, it is viewed that the continuing appointment of Octopus as investment manager on the terms agreed is in the best interests of the Company and its shareholders.

Open offers and offers for subscription

During the year, the Company issued 783,914 Ordinary Shares at prices between 113.1p and 126.0p per share (2006: 296,543 shares at 106.1p per share) and 351,044 'C' Shares at prices between 120.1p and 122.6p per share (2006: 127,567 shares at prices between 120.1p and 122.6p per share). There are currently no open offers for subscription.

Purchase and cancellation of own shares

During the year, the Company purchased 318,727 Ordinary Shares for cancellation at prices between 100p and 108p per share (2006: 671,177 shares at prices between 90p and 97p per share). No 'C' Shares were purchased for cancellation during the year (2006: 120,370 shares at 95p per share).

Fixed assets

Movements in fixed asset investments during the year are set out in Note 10 to the financial statements.

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 2008 annual general meeting of the Company and a form of proxy in relation to the meeting can each be found at the end of this document.

Independent auditor

Grant Thornton UK LLP offers themselves for reappointment as auditor in accordance with section 385 of the Companies Act 1985. A resolution to re-appoint Grant Thornton UK LLP as auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

By order of the Board



Celia L Whitten FCIS
Secretary
11 February 2008

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 2007.

Consideration by the Directors of matters relating to Directors' remuneration

The Nomination Committee as a whole considers Directors' remuneration and has not appointed a separate committee in this respect. The Committee considered the level of fees and was advised by Octopus. Having regard for both market practice and the Company's performance it was decided to increase them in line with the boards of other Octopus-managed VCTs to £15,000 in the case of the Directors and £20,000 in the case of the Chairman with effect from 1 May 2007.

Statement of the Company's policy on Directors' remuneration

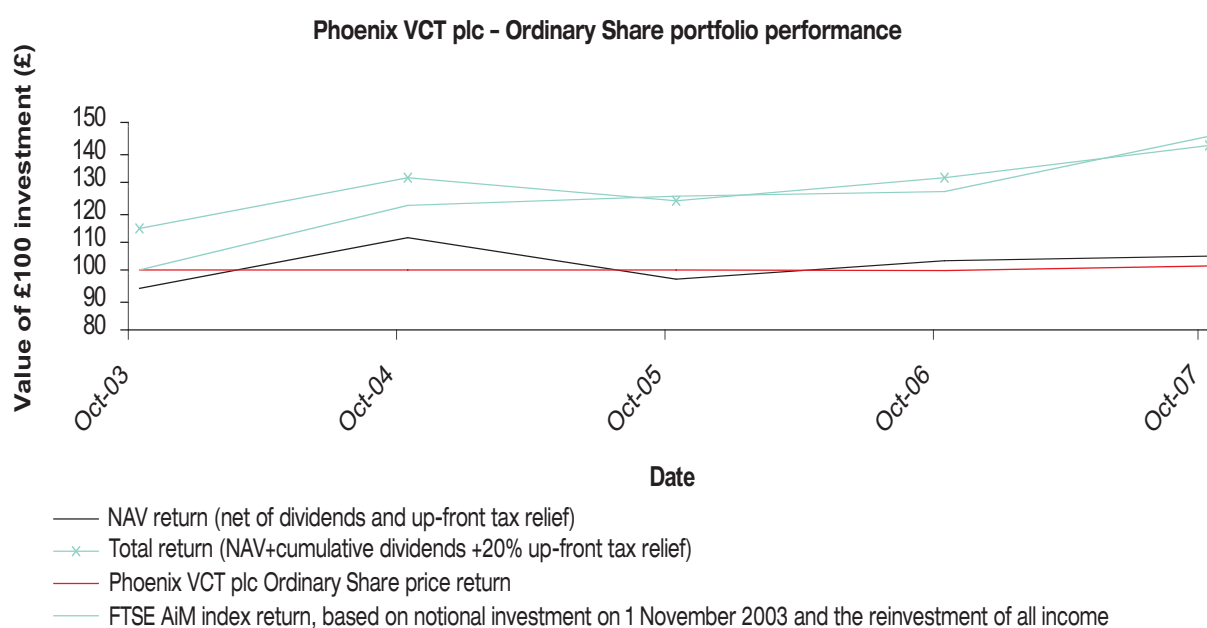
The Board consists entirely of non-executive directors, who meet at least four times a year and on other occasions as necessary, to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will serve for, at least, a period of three years. All Directors will retire at the first General Meeting after election and thereafter one third of all Directors will be subject to retirement by rotation at subsequent Annual General Meetings. Re-election will be recommended by the Board but dependent upon shareholder vote.

Each Director received a letter of appointment. A Director may resign by giving not less than three months 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.

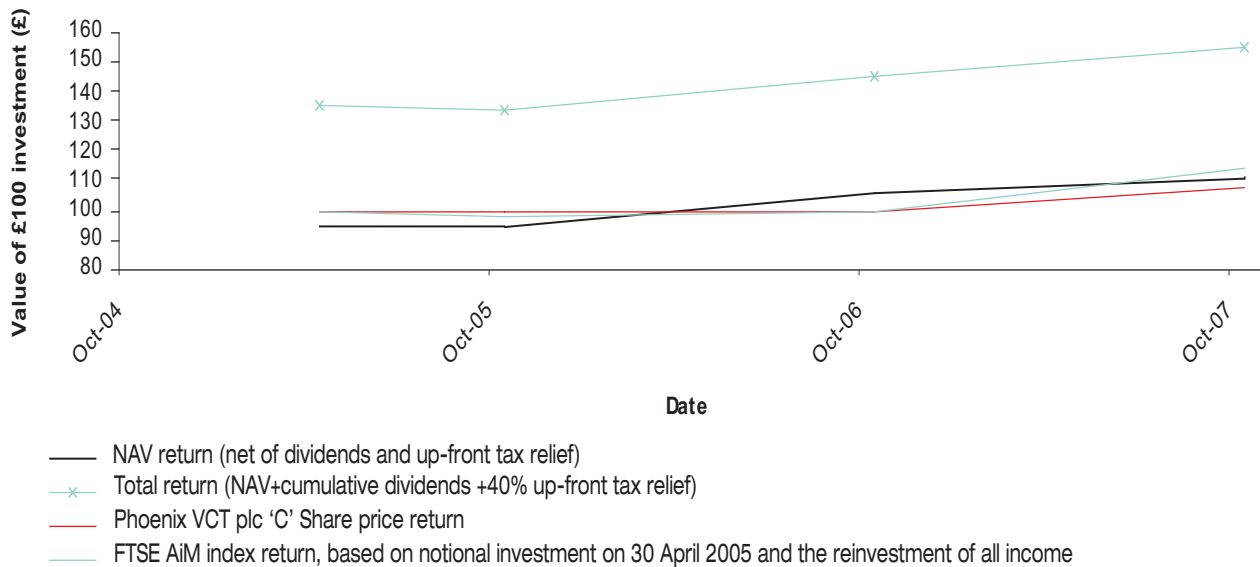
The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board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

Company performance

The graph below compares the share price return, NAV return and total return (including dividends and up-front tax relief) of Phoenix over the period from November 2003 to October 2007, for the Ordinary Share portfolio, and April 2005 to October 2007 for the 'C' Share portfolio, 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.



Phoenix VCT plc - 'C' Share portfolio performance

**Directors' emoluments**

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

Annual rate of Directors' fees

	Year ended 31 October 2007	Year ended 31 October 2006
Mr S Hazell-Smith (Chairman)	£18,750	£17,500
Mr M Cooper	£14,250	£13,500
Mr T Morgan	£14,250	£13,500
Total	£47,250	£44,500

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no service contracts, 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 year to any of the current Directors.

By Order of the Board

Celia L Whitten FCIS
 Secretary
 11 February 2008

Corporate Governance

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in the 2006 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement at page 27.

Board of Directors

The Company has a board of three non-executive Directors, two of whom are considered to be independent. Matt 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 the following were held:

5 full board meetings	2 Audit Committee meetings	1 Nomination Committee meetings
All Directors attended all meetings with the exception of Matt Cooper who was unable to attend one meeting	All Members attended	All Members attended

Additional meetings were held as required to address specific issues including considering recommendations from the investment manager and share repurchases. A brief biographical summary of each Director is given on page 20.

The Company'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 Company's auditor. The committee met twice in relation to the year ended 31 October 2007 and reviewed the operational systems and controls.

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

Nomination Committee:

Stephen Hazell-Smith (Chairman)
Tony Morgan

The nomination committee considers the selection and appointment and remuneration of Directors. The committee meets as required and met once 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 identifies the investment opportunities for the consideration of the Board who ultimately makes the decision whether to proceed with that opportunity. Octopus monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals and further acquisitions.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Quoted investments are held in Crest. Octopus regularly reconciles the client asset register with the physical documents.

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 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 Financial Reporting Council guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 18 to the Financial Statements.

Risk Management

The Company invests its funds in UK AiM-listed 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 and bonds. The Company has no borrowing facilities nor has it entered into derivative transactions.

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

Shareholders have the opportunity to meet the Board at the Annual General Meeting. 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 Company has complied throughout the accounting year to 31 October 2007 with the provisions set out in Section 1 of the Combined Code 2006.

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.
2. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation process of the Board, its committees, the individual Directors and the Chairman has not been put in place or a formal evaluation been undertaken. Specific performance issues are dealt with as they arise.
3. The Company has two independent Directors, Stephen Hazell-Smith and Tony Morgan, as defined by the Combined Code issued in 2006. Matt Cooper holds a directorship with the investment manager. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.
4. The Company does not have a chief executive officer or senior independent director. The Board does not consider this necessary for the size of the Company.
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.
6. The non-executive directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
7. 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.
8. The Company does not have a remuneration committee as it does not have any executive directors.

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 2007 which comprise the profit and loss account, the note of historical cost profits and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in cash resources, the reconciliation of operating profit before taxation to cash flow from operating activities, and notes 1 to 19. 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 auditor's 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 (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. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Investment Manager's Review that is cross referenced from the Business Review Section of the Directors' Report.

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

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

We read 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 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 October 2007 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 2007.



GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
OXFORD

11 February 2008

Profit & Loss Account

For the year ended 31 October 2007

	Notes	Ordinary shares Total £'000	'C' shares Total £'000	Total Total £'000
Gain on disposal of fixed asset investments	10	1,459	409	1,868
Loss on disposal of current asset investments	11	(2)	(21)	(23)
Unrealised gain on fair value of fixed asset investments	10	48	179	227
Unrealised gain/(loss) on fair value of current asset investments	11	6	(18)	(12)
Other income	2	165	182	347
Investment management fees	3	(266)	(131)	(397)
Other expenses	4	(208)	(111)	(319)
Profit on ordinary activities before tax		1,202	489	1,691
Taxation on profit on ordinary activities	6	–	–	–
Profit on ordinary activities after tax		1,202	489	1,691
Earnings per share – basic and diluted	8	11.1p	9.2p	

The Company has no recognised gains or losses other than the results for the year as set out above.

For the year ended 31 October 2006

	Notes	Ordinary shares Total £'000	'C' shares Total £'000	Total Total £'000
Gain on disposal of fixed asset investments	10	844	43	887
Unrealised gain on fair value of fixed asset investments	11	183	562	745
Unrealised gain/(loss) on fair value of current asset investments	11	–	(82)	(82)
Other income	2	126	238	364
Investment management fees	3	(262)	(116)	(378)
Other expenses	4	(179)	(78)	(257)
Profit on ordinary activities before tax		712	567	1,279
Taxation on profit on ordinary activities	6	–	–	–
Profit on ordinary activities after tax		712	567	1,279
Earnings per share – basic and diluted	8	6.4p	12.0p	

The Company has no recognised gains or losses other than the results for the year as set out above.

Note of Historical Cost Profits and Losses

For the year ended 31 October 2007

	Ordinary shares £'000	'C' shares £'000	Total £'000
Profit on ordinary activities before taxation	1,202	489	1,691
Unrealised gain on fair value of investments	(54)	(161)	(215)
Realisation of prior years' net unrealised gains on investments	674	314	988
Historical cost profit on ordinary activities before taxation	1,822	642	2,464
Historical cost profit on ordinary activities after taxation	1,822	642	2,464

For the year ended 31 October 2006

	Ordinary shares £'000	'C' shares £'000	Total £'000
Profit on ordinary activities before taxation	712	567	1,279
Unrealised gain on fair value of investments	(183)	(480)	(663)
Realisation of prior years' net unrealised gains on investments	321	11	332
Historical cost profit on ordinary activities before taxation	850	98	948
Historical cost profit on ordinary activities after taxation	850	98	948

Balance Sheet

For the year ended 31 October 2007

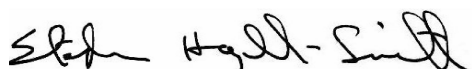
	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Fixed asset investments	10	9,891	4,499	14,390
Current assets:				
Investments	11	1,596	1,083	2,679
Debtors	13	65	91	156
Cash at bank		482	533	1,015
		2,143	1,707	3,850
Creditors: amounts falling due within one year	14	(89)	(23)	(112)
Net current assets		2,054	1,684	3,738
Net assets		11,945	6,183	18,128
Called up equity share capital	15	1,127	558	1,685
Special distributable reserve	16	9,646	4,813	14,459
Capital redemption reserve	16	108	12	120
Revaluation reserve	16	(343)	367	24
Revenue reserve	16	1,407	433	1,840
Total equity shareholders' funds		11,945	6,183	18,128
Net asset value per share	9	106.0p	110.8p	

For the year ended 31 October 2006

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Fixed asset investments	10	9,356	2,666	12,022
Current assets:				
Investments	11	417	2,189	2,606
Debtors	13	155	159	314
Cash at bank		1,299	586	1,885
		1,871	2,934	4,805
Creditors: amounts falling due within one year	13	(16)	(105)	(121)
Net current assets		1,855	2,829	4,684
Net assets		11,211	5,495	16,706
Called up equity share capital	15	1,080	523	1,603
Share premium	16	323	4,436	4,759
Special distributable reserve	16	8,846	–	8,846
Capital redemption reserve	16	76	12	88
Revaluation reserve	16	277	463	740
Profit and loss account	16	609	61	670
Total equity shareholders' funds		11,211	5,495	16,706
Net asset value per share	9	103.8p	105.1p	

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

The statements were approved by the Directors and authorised for issue on 11 February 2008 and are signed on their behalf by:



Stephen Hazell-Smith
Chairman

Cash Flow Statement

For the year ended 31 October 2007

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Net cash outflow from operating activities		(141)	(113)	(254)
Financial investment:				
Purchase of investments	10	(3,395)	(2,717)	(6,112)
Sale of investments	10	4,367	1,472	5,839
Management of liquid resources:				
(Increase)/decrease in cash equivalent investments	11	(1,179)	1,106	(73)
Dividends paid	7	(1,024)	(213)	(1,237)
Financing:				
Issue of own shares		918	428	1,346
Share issue expenses		(28)	(16)	(44)
Repurchase of own shares	16	(335)	–	(335)
Decrease in cash resources		(817)	(53)	(870)

For the year ended 31 October 2006

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Net cash outflow from operating activities		(544)	(182)	(726)
Financial investment:				
Purchase of investments	10	(2,101)	(1,531)	(3,632)
Sale of investments	10	2,194	160	2,354
Management of liquid resources:				
Decrease in cash equivalent investments	11	1,448	1,841	3,289
Dividends paid	7	(110)	–	(110)
Financing:				
Issue of own shares		308	125	433
Share issue expenses		(9)	–	(9)
Repurchase of own shares	16	(632)	(114)	(746)
Increase in cash resources		554	299	853

Reconciliation of Net Cash Flow to Movement in Cash Resources

For the year ended 31 October 2007

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Increase in cash resources		(817)	(53)	(870)
Movement in liquid resources	11	1,179	(1,106)	73
Opening net cash resources		1,716	2,775	4,491
Net cash at 31 October 2007		2,078	1,616	3,694

Net cash at 31 October 2007 comprised:

	Ordinary shares £'000	'C' shares £'000	Total £'000
Cash at Bank	482	533	1,015
Bonds	404	739	1,143
Money Market Funds	1,192	344	1,536
Net cash at 31 October 2007	2,078	1,616	3,694

For the year ended 31 October 2006

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Increase in cash resources		554	299	853
Movement in liquid resources	11	(1,448)	(1,841)	(3,289)
Opening net cash resources		2,610	4,317	6,927
Net cash at 31 October 2006	12	1,716	2,775	4,491

Net cash at 31 October 2006 comprised:

	Ordinary shares £'000	'C' shares £'000	Total £'000
Cash at Bank	1,299	586	1,885
Bonds	–	2,189	2,189
Money Market Funds	417	–	417
Net cash at 31 October 2006	1,716	2,775	4,491

Reconciliation of Operating Profit before Taxation to Cash Flow from Operating Activities

For the year ended 31 October 2007

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Profit on ordinary activities before tax		1,202	489	1,691
Unrealised gains on fixed asset investments	10	(48)	(179)	(227)
Realised gains on fixed asset investments	10	(1,458)	(409)	(1,867)
Decrease in debtors		90	68	158
(Decrease)/Increase in creditors		73	(82)	(9)
Outflow from operating activities		(141)	(113)	(254)

For the year ended 31 October 2006

	Notes	Ordinary shares £'000	'C' shares £'000	Total £'000
Profit on ordinary activities before tax		712	567	1,279
Unrealised gains on fixed asset investments	10	(183)	(562)	(745)
Realised gains on fixed asset investments	10	(844)	(43)	(887)
Increase in debtors		(136)	(154)	(290)
(Decrease)/Increase in creditors		(93)	10	(83)
Outflow from operating activities		(544)	(182)	(726)

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments, and in accordance with applicable accounting standards in the UK.

The principal accounting policies have remained unchanged from those set out in the Company's 2006 annual report and financial statements.

The accounts have been drawn up to include a statutory profit and loss account 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).

Investments

The Company 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 fair value through profit or loss ("FVTPL"). Unrealised gains or losses on valuation are recognised through the profit and loss account. Investments are initially held at cost with all transaction costs written off through the profit and loss account at the time of transaction.

Investments in AIM-quoted companies are stated at bid price.

Current asset investments

Current asset investments comprise money market securities and bonds and are designated as FVTPL. Unrealised gains or losses on valuation are recognised through the profit and loss account.

Income

Investment income includes interest earned on bank balances, money market securities and bonds and 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 bonds and money market securities are recognised on a time apportionment basis so as to reflect the effective interest method, 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 within the income statement with the exception of expenses incidental to the acquisition or disposal of an investment which are charge to capital. Expenses applicable to both the Ordinary Share portfolio and the 'C' Share portfolio are split according to the corresponding fund sizes at the start of each financial year.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised, on an undiscounted basis, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing can be deducted.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits 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, investment grade bonds and investments in money market managed funds.

2. Income

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Interest receivable on money market securities and bank balances	50	131	181
Dividends received	115	51	166
	165	182	347

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

3. Management fees

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Investment management fee	226	112	338
Irrecoverable VAT thereon	40	19	59
	266	131	397

	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

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. No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given. The basis upon which the management fee is calculated is disclosed within note 19 to the financial statements.

4. Other expenses

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Accounting and administration services	33	32	65
Directors' remuneration	31	16	47
Fees payable to the Company's auditor for the audit of the financial statements	9	5	14
Fees payable to the Company's auditor for other services – tax compliance	2	1	3
Other expenses	133	57	190
	208	111	319

Notes to the Financial Statements (continued)

4. Other expenses (continued)

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Accounting and administration services	33	31	64
Directors' remuneration	33	13	46
Fees payable to the Company's auditor for the audit of the financial statements	8	4	12
Fees payable to the Company's auditor for other services – tax compliance	2	1	3
Other expenses	103	29	132
	179	78	257

5. Directors' remuneration

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Directors' emoluments			
Mr S Hazell-Smith (Chairman)	13	6	19
Mr M Cooper	9	5	14
Mr T Morgan	9	5	14
	31	16	47

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Directors' emoluments			
Mr S Hazell-Smith (Chairman)	13	5	18
Mr M Cooper	10	4	14
Mr T Morgan	10	4	14
	33	13	46

None of the Directors received any other remuneration or benefit from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was three (2006: three).

6. Tax on ordinary activities

The corporation tax charge for the year was £nil (2006: £nil).

Factors affecting the tax charge for the current year:

The current tax charge for the year differs from the standard rate of corporation tax in the UK (2006: 19%). The differences are explained below.

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Current tax reconciliation:			
Profit on ordinary activities before tax	1,203	488	1,691
Current tax at 19%	229	93	322
Income not liable to tax	(300)	(107)	(407)
Excess management charges	71	14	85
Total current tax charge	–	–	–

6. **Tax on ordinary activities (continued)**

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Current tax reconciliation:			
Profit on ordinary activities before tax	712	567	1,279
Current tax at 19%	135	108	243
Income not liable to tax	(195)	(99)	(294)
Excess management charges	60	(9)	51
Total current tax charge	–	–	–

Excess management charges of £1,298,000 (2006: £857,000) have been carried forward at 31 October 2007 and are available for offset against future taxable income subject to agreement with the HM Revenue & Customs.

7. **Dividends**

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Interim dividend per share – (Ord share: 6.0p, 'C' share: 3.0p)	663	160	823
Final proposed dividend – (Ord share: 6.0p, 'C' share: 3.0p)	676	167	843

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Interim dividend per share – (Ord share: 1.0p, 'C' share: nil)	110	–	110
Final dividend – (Ord share: 3.35p, 'C' share: 1.0p)	362	51	413

8. **Earnings per share****Ordinary shares**

The earnings per share is based on profit after tax of £1,202,000 (2006: £712,000) and on 10,806,191 (2006: 11,049,006) shares, being the weighted average number of shares in issue during the year.

'C' shares

The earnings per share is based on profit after tax of £489,000 (2006: £567,000) and on 5,322,479 (2006: 4,716,824) shares, being the weighted average number of shares in issue during the year.

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

9. **Net asset value per share****Ordinary shares**

The calculation of net asset value per share as at 31 October 2007 is based on net assets of £11,945,000 (2006: £11,211,000) divided by the 11,266,960 (2006: 10,801,773) ordinary shares in issue at that date.

'C' shares

The calculation of net asset value per share as at 31 October 2007 is based on net assets of £6,183,000 (2006: £5,495,000) divided by the 5,579,429 (2006: 5,228,385) ordinary shares in issue at that date.

Notes to the Financial Statements (continued)

10. Fixed asset investments

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Valuation and net book amount:			
Book cost as at 1 November 2006	9,079	2,121	11,200
Revaluation in the year	277	545	822
Valuation at 1 November 2006	9,356	2,666	12,022
Movement in the year:			
Purchases at cost	3,395	2,717	6,112
Disposal proceeds	(4,367)	(1,472)	(5,839)
Profit on realisation of investments – current year	1,459	409	1,868
Unrealised gain in year	48	179	227
Valuation at 31 October 2007	9,891	4,499	14,390
Book cost at 31 October 2007	10,240	4,089	14,329
Revaluation to 31 October 2007	(349)	410	61
Valuation at 31 October 2007	9,891	4,499	14,390

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 6 to 16.

11. Current asset investments

Current asset investments at 31 October 2007 comprised bonds and money market funds.

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Money market securities at cost at 1 November 2006:			
Bonds	–	2,271	2,271
Money Market Funds	417	–	417
Revaluation as at 1 November 2006:			
Bonds	–	(82)	(82)
Money Market Funds	–	–	–
Valuation as at 1 November 2006	417	2,189	2,606
Movement in the year:			
Purchases at Cost:			
Bonds	998	–	998
Money Market Funds	4,030	3,479	7,509
Disposal proceeds:			
Bonds	(594)	(1,411)	(2,005)
Money Market Funds	(3,259)	(3,135)	(6,394)
Loss in year on realisation of investments:			
Bonds	(2)	(21)	(23)
Money Market Funds	–	–	–
Unrealised gain/(loss) in year:			
Bonds	2	(18)	(16)
Money Market Funds	4	–	4
Valuation as at 31 October 2007	1,596	1,083	2,679
Cost at 31 October 2007:			
Bonds	402	782	1,184
Money Market Funds	1,188	344	1,532
Revaluation to 31 October 2007:			
Bonds	2	(43)	(41)
Money Market Funds	4	–	4
Valuation as at 31 October 2007	1,596	1,083	2,679

12. Analysis of Current Asset Investments

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Bonds	404	739	1,143
Money Market Funds	1,192	344	1,536
	1,596	1,083	2,679

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Bonds	–	2,189	2,189
Money Market Funds	417	–	417
	417	2,189	2,606

13. Debtors

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Prepayments	6	3	9
Accrued income	59	49	108
Other debtors	–	39	39
	65	91	156

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Prepayments	8	4	12
Accrued income	133	155	288
Other debtors	14	–	14
	155	159	314

14. Creditors: amounts falling due within one year

	Ordinary shares 31 October 2007 £'000	'C' shares 31 October 2007 £'000	Total 31 October 2007 £'000
Accruals	52	23	75
Other creditors	37	–	37
	89	23	112

	Ordinary shares 31 October 2006 £'000	'C' shares 31 October 2006 £'000	Total 31 October 2006 £'000
Accruals	16	92	108
Other creditors	–	13	13
	16	105	121

15. Share capital

	31 October 2007 £'000	31 October 2006 £'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
	4,000	4,000
Allotted and fully paid up:		
Equity – 11,266,960 (2006: 10,801,773) Ordinary shares of 10p	1,127	1,080
Equity – 5,579,429 (2006: 5,228,385) 'C' shares of 10p	558	523
	1,685	1,603

Notes to the Financial Statements (continued)

15. Share capital (continued)

The 'C' Share funds will be managed as a separate pool of assets until they are converted into 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 Ordinary Shares based on the net asset value as at 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 the Company repurchased the following shares for cancellation:

- 8 March 2007: 40,000 Ordinary shares at a price of 103.0p per share
- 16 March 2007: 110,923 Ordinary shares at a price of 108.0p per share
- 5 April 2007: 52,345 Ordinary shares at a price of 108.0p per share
- 17 August 2007: 84,612 Ordinary shares at a price of 102.0p per share
- 12 October 2007: 30,847 Ordinary shares at a price of 100.0p per share

During the year the Company allotted the following shares:

- 5 April 2007: 395,532 Ordinary shares at a price of 126.0p per share
- 5 April 2007: 142,360 'C' shares at a price of 122.6p per share
- 9 October 2007: 388,382 Ordinary shares at a price of 113.1p per share
- 9 October 2007: 208,684 'C' shares at a price of 120.1p per share

The total nominal value of the Ordinary shares repurchased was £31,873 representing 2.8% of the issued Ordinary share capital.

16. Reserves

	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Ordinary shares					
As at 31 October 2006	323	8,846	76	277	609
Cancellation of share premium account	(323)	323	–	–	–
Cancellation of own shares	–	(335)	32	–	–
Issue of shares (net of costs)	–	812	–	–	–
Profit on ordinary activities after tax	–	–	–	–	1,202
Prior period unrealised gains/losses now realised	–	–	–	(674)	674
Unrealised gains/losses	–	–	–	54	(54)
Dividends paid	–	–	–	–	(1024)
Balance at 31 October 2007	–	9,646	108	(343)	1,407

Following the company's petition which was heard on 10 October 2007, the Companies Court ordered that the special resolution passed by the shareholders on 21 March 2007 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 15 October 2007. The purpose of the cancellation was to create a reserve which will be capable of being used by the Company for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount at which the Company's Ordinary Shares trade to net asset value.

15. Reserves (continued)

'C' shares	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
As at 31 October 2006	4,436	–	12	463	61
Issue of shares (net of costs)	377	–	–	–	–
Cancellation of share premium account	(4,813)	4,813	–	–	–
Profit on ordinary activities after tax	–	–	–	–	489
Prior period unrealised gains/losses now realised	–	–	–	(257)	257
Unrealised gains/losses	–	–	–	161	(161)
Dividends paid	–	–	–	–	(213)
Balance at 31 October 2007	–	4,813	12	367	433

Following the company's petition which was heard on 10 October 2007, the Companies Court ordered that the special resolution passed by the shareholders on 21 March 2007 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 15 October 2007. The purpose of the cancellation was to create a reserve which will be capable of being used by the Company for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount at which the Company's 'C' Shares trade to net asset value.

17. Reconciliation of movements in shareholders' funds

Year ended 31 October 2007	Ordinary shares £'000	'C' shares £'000	Total £'000
Shareholders' funds at 1 November 2006	11,211	5,495	16,706
Profit on ordinary activities after tax	1,202	489	1,691
Net proceeds of share issue	891	412	1,303
Cancellation of own shares	(335)	–	(335)
Dividends paid	(1,024)	(213)	(1,237)
Balance at 31 October 2007	11,945	6,183	18,128

Year ended 31 October 2006	Ordinary shares £'000	'C' shares £'000	Total £'000
Shareholders' funds at 1 November 2005	10,942	4,917	15,859
Profit on ordinary activities after tax	712	567	1,279
Net proceeds of share issue	299	125	424
Cancellation of own shares	(632)	(114)	(746)
Dividends paid	(110)	–	(110)
Balance at 31 October 2006	11,211	5,495	16,706

18. 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 and securities in AiM-listed; and
- 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 fluctuations in market price for quoted investments and fluctuations in valuations, for money market securities and bonds.

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.

Notes to the Financial Statements (continued)

18. Financial instruments (continued)

Liquidity risk

The funds raised since incorporation are currently used to fund the Company's primary objective of investing in venture capital opportunities which accord with its investment strategy. As at 31 October 2007, some 93.5% (2006: 82.6%) of the Ordinary Share funds raised and 80.4% (2006: 45.9%) of the 'C' Share funds raised have been utilised in this investment process. The remaining funds were primarily represented by cash, money market securities and bonds 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 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 money market securities and bonds.

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.

19. 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 year as Investment Manager. Phoenix VCT plc has paid Octopus £226,000 (2006: £223,000) in management fees in respect of the Ordinary Share portfolio and £112,000 (2006: £99,000) in management fees in respect of the 'C' Share portfolio. At 31 December 2007, £nil was outstanding (2006: £nil). 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, payable quarterly in advance for a fee of £25,000 for the Ordinary Share portfolio and £25,000 for the 'C' Share portfolio 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 which is equal to 20 per cent. of the amount by which the increase in the net asset value attributable of the Fund in any accounting period and all prior accounting periods, after adding back distributions made by the Fund, exceeds an amount equal to simple interest on the gross proceeds raised by the Fund at a rate of HSBC base rate plus 3 per cent., less the amount of any performance fee paid in respect of prior accounting periods. No performance fee was payable as at 31 October 2007 since the performance criteria has not been met.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Phoenix VCT plc will be held at 8 Angel Court, London, EC2R 7HP on Tuesday, 25 March 2008 at 3.00pm for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 October 2007 and the directors' and auditor's reports thereon.
2. To approve a final dividend of 6.0 pence per Ordinary share and 3.0 pence per 'C' share.
3. To approve the Directors' Remuneration Report.
4. To re-elect Stephen Hazell-Smith as a director.
5. To re-appoint Grant Thornton UK LLP as auditor of the company and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass Resolution 6 as an Ordinary Resolution and Resolutions 7 and 8 as Special Resolutions:-

6. AUTHORITY TO ALLOT RELEVANT SECURITIES

THAT the directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to allot shares up to a maximum nominal amount of £168,464 (representing approximately 10% of the ordinary share capital in issue at today's date) this authority to expire at the later of the conclusion of the Company's annual general meeting next following the passing of this resolution and the expiry of 15 months from the passing of the relevant resolution (unless previously revoked, varied or extended by the company in general meeting but so that such authority allows the company to make Offers or agreements before the expiry thereof which would or might require relevant securities to be allotted after the expiry of such authority).

7. EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES

TO empower the Directors pursuant to Section 95(1) of the Act to allot or make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority referred to in resolution 6 as if Section 89(1) of the Act did not apply to any such allotments and so that:

- (a) reference to allotment in this Resolution shall be construed in accordance with Section 94 of the said Act; and
- (b) the power conferred by this Resolution shall enable the company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power.

And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the annual general meeting of the company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

8. AUTHORITY TO MAKE MARKET PURCHASES

THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the company ("ordinary shares") provided that:

- (a) the maximum number of ordinary shares so authorised to be purchased shall not exceed 10.0% of the present issued Ordinary share capital of the company;
- (b) the minimum price which may be paid for an ordinary share shall be 10p;
- (c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;

8. **AUTHORITY TO MAKE MARKET PURCHASES (continued)**

- (d) the authority conferred comes to an end at the conclusion of the next annual general meeting of the Company or upon the expiry of 15 months from the passing of this resolution, whichever is the later; and
- (e) that the company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

By Order of the Board



Celia L Whitten FCIS
Secretary
11 February 2008

8 Angel Court
London
EC2R 7HP

NOTES

- a) A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.
- b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the company, **Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent, BR3 4BR** so as to be received by no later than 48 hours before the time the annual general meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the annual general meeting.
- c) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company kept in accordance with Section 325 of the Companies Act 1985 and a copy of the Memorandum and Articles of Association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and for at least 15 minutes prior to the commencement of the meeting until its conclusion.

Phoenix VCT plc

Proxy Form

Annual General Meeting – 25 March 2008

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 25 March 2008, notice of which was sent to shareholders with the directors' report and the accounts for the year ended 31 October 2007, 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 2007	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 6.0p per Ordinary share and 3.0p per 'C' share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Stephen Hazell-Smith as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint Grant Thornton UK LLP as auditor and authorise the directors to agree their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the directors to allot shares under section 80 of the Companies Act 1985 (Ordinary Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To disapply Section 89(1) of the Companies Act 1985 and allot shares on a non rights issue basis (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the directors to make market purchases of its own shares (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed: Dated: 2008

NOTES

- To be valid, the proxy form must be received by the Registrars of Phoenix VCT plc at, **Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent, BR3 4BR** no later than 48 hours before the commencement of the meeting.
- 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.
- Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
- To appoint more than one proxy, you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- The 'Vote Withheld' option overleaf is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
- If 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.
- Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300 (Calls cost 10p per minute plus network extras) to request a change of address form.
- The completion and return of this form will not preclude a member from attending the meeting and voting in person.



SECOND FOLD

BUSINESS REPLY SERVICE
LICENCE NO MB122

**Capita Registrars
Proxies Department
PO Box 25
BECKENHAM
Kent
BR3 4BR**

FIRST FOLD

THIRD FOLD

Tuck inside facing flap

