Chrysalis VCT PLC

Report & Accounts
for the year ended
31 October 2008

SHAREHOLDER INFORMATION

Dividends
Dividends are paid by the Registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Queries relating to dividends and requests should be directed to the Company's Registrar, Capita Registrars, on 0870 162 3124 (calls cost 10p per minute plus network extras), or by writing to them at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0GA.

Dividend history
The table below shows the dividends paid by the Company since inception to 31 October 2008:

Pence per share Share class	2001	2002	2003	2004	2005	2006	2007	2008 *	Total
Ordinary Shares	1.20	1.75	1.00	1.50	5.00	3.00	3.50	2.00	18.95
'D' Shares	N/A	N/A	N/A	N/A	N/A	1.25	2.00	-	3.25
'E' Shares	N/A	N/A	N/A	N/A	N/A	1.25	2.00	-	3.25

* Interim dividends

The following dividends have been paid during the year to 31 October 2008 and between the year end and the date of this report:

Dividend	Date paid	Ordinary shares Pence per share	'D' shares Pence per share	'E' shares Pence per share
2007 final	20 March 2008	3.50	2.00	2.00
2008 interim	25 July 2008	2.00	Nil	Nil
2008 interim	15 December 2008	4.00	Nil	Nil

Share price
The Company's share price can be found in various financial websites with the TIDM/EPIC codes shown below:

	Ordinary Shares	'D' Ordinary Shares	'E' Ordinary Shares
TIDM/EPIC Code	CYS	CYSD	CYSE
Latest share price (5 February 2009):	64p per share	70p per share	57p per share

A link to the share price is also available on Chrysalis's website (www.chrysalisvct.co.uk) and on Downing's website (www.downing.co.uk).

Selling shares
The Company's Ordinary shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. Shareholders who invested in the 'D' and 'E' Ordinary share issue should be aware that they need to hold their shares for a minimum period of three years to retain the income tax relief they received on investment. Selling your shares may have tax consequences so you should consult your independent financial adviser before making any decisions.

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is, however, unable to buy back shares direct from Shareholders, so you will need to use a stockbroker to sell your shares. Downing Management Services Limited is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought in shares. Contact details are shown on page 1 of this document.

Financial calendar

25 March 2009	Annual General Meeting
June 2009	Announcement of half yearly report to 30 April 2009

Notification of change of address
Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Registrar, under the signature of the registered holder.

Other information for shareholders
Up to date Company information (including financial statements, share price and dividend history) may be obtained from Downing's website at www.downing.co.uk by clicking on "VCT Information and Accounts". Financial information is also available on Chrysalis's website (www.chrysalisvct.co.uk) under "Shareholder Info".

If you have any queries regarding your shareholding in Chrysalis VCT plc, please contact the Registrar on the above number or visit Capita's website at www.capitaregistrars.com and click on "Shareholders".

Chrysalis VCT plc

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COMPANY INFORMATION

Company number	4095791
Directors	Peter Harkness (Chairman) Julie Baddeley Martin Knight
Secretary and registered office	Grant Whitehouse Kings Scholars House 230 Vauxhall Bridge Road London SW1V 1AU Tel No: 020 7416 7780
Investment manager	Chrysalis VCT Management Limited 46 Dorset Street London W1U 7NB Tel No: 020 7486 7454 www.chrysalisvct.co.uk
Administration manager	Downing Management Services Limited Kings Scholars House 230 Vauxhall Bridge Road London SW1V 1AU Tel No: 020 7416 7780 www.downing.co.uk
Listed fixed income securities manager	Smith & Williamson Investment Management Limited 25 Moorgate London EC2R 6AY
Auditor	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
VCT status adviser	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6NN
Registrar	Capita Registrars Ltd Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA Tel No: 0870 162 3124 (calls cost 10p per minute plus network extras) www.capitaregistrars.com
Principal banker	Bank of Scotland West End Office St James's Gate 14-16 Cockspur Street London SW1Y 5BL

Chrysalis VCT plc

INVESTMENT OBJECTIVE

The Company's principal investment objectives are to:

- achieve long term capital growth and generate income for its Shareholders principally from private equity and AIM investments; and
- maintain its VCT status.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on pages 16 to 17.

DIRECTORS

Peter Harkness (59) (Chairman) is a serial entrepreneur who has significant experience working closely with institutional investors. He is chairman of TMN Group plc, one of the UK's leading online marketing groups which is listed on the AIM market. He is also chairman of specialist publishing group My Hobby Store and of Optima Data Intelligence Services Limited (an investee company). He has been involved in a number of successful deals within the media sector, particularly in association with 3i plc, and holds directorships of several private publishing and information companies. He has been a director of Chrysalis VCT plc since April 2005.

Julie Baddeley (57) is a non-executive director of Greggs plc and Camelot Group plc. She is also a director of the Department of Health and an associate fellow of Said Business School, Oxford. Previously she was a member of the Audit Commission and a director of Woolwich plc (now Woolwich Limited) where she was responsible for e-commerce and information technology. Earlier in her career she was partner in charge of a substantial part of Accenture's change management practice in Europe and was managing director of Sema Group plc's consulting group in the UK. She is also a director on the board of ART VPS Limited, representing the VCT's interests in the company. She has been a director of Chrysalis VCT plc since October 2000.

Martin Knight (59) is the Chief Operating Officer of Imperial College and also chairman of Imperial Innovations Group plc, the AIM-quoted technology transfer company that is majority owned by Imperial College and has more than 75 investee companies in its portfolio. He began his career with Morgan Grenfell & Co Ltd., becoming a Director in 1982. He has advised and acted for a number of major public and private companies on project and corporate finance transactions and on financial and investment strategies. He was appointed as a Governor of Imperial College in 1992, becoming Chairman of the Finance and Investments Committee in 2001. He became Chief Finance Officer in 2004. He has been a director of Chrysalis VCT plc since October 2008.

Chrysalis VCT plc

FINANCIAL HIGHLIGHTS

	2008 pence	2007 pence
Ordinary Shares		
Net asset value per share	88.30	91.50
Cumulative distributions paid since launch	18.95	13.45
Total return	107.25	104.95
(Net asset value per share plus cumulative dividends)		
First interim dividend per Ordinary Share	2.00	-
Second interim dividend per Ordinary Share	4.00	-
Final proposed dividend per Ordinary Share	Nil	3.50
	6.00	3.50

	2008 pence	2007 pence
'D' Ordinary Shares "'D' Shares"		
Net asset value per share	81.80	106.10
Cumulative distributions paid since launch	3.25	1.25
Total return	85.05	107.35
(Net asset value per share plus cumulative dividends)		
Final proposed dividend per 'D' Share	Nil	2.00

	2008 pence	2007 pence
'E' Ordinary Shares "'E' Shares"		
Net asset value per share	67.50	95.30
Cumulative distributions paid since launch	3.25	1.25
Total return	70.75	96.55
(Net asset value per share plus cumulative dividends)		
Final proposed dividend per 'E' Share	Nil	2.00

CHAIRMAN'S STATEMENT

I am pleased to present my first Annual Report since taking over as Chairman of Chrysalis VCT plc. In view of the very difficult financial circumstances in which the UK finds itself, it is a particular pleasure to be able to report on a positive and successful period for Chrysalis VCT in the year 31 October 2008.

Directorate change

Robert Drummond, the previous Chairman, stepped down as a Director of the Company on 30 November 2008. Julie Baddeley and I would like to thank Robert for his commitment to the Company since his appointment in 2000, and for the work undertaken during the transformation of the Company from Downing Classic VCT 3 plc to Chrysalis VCT plc.

Martin Knight was appointed to the Board on 20 October 2008. Martin has a strong track record in the investment sector and brings extensive relevant experience to the Board.

Net Asset Value

As Shareholders are aware, Chrysalis has three classes of shares, namely the Ordinary Shares, which account for 97% of the value of the VCT, and two very much smaller share pools, the 'D' and 'E' Shares.

Given the state of the economy the Ordinary Share portfolio, which has investments dating back to 1999 has had a reasonable year, largely due to some successful exits from long-standing investments. At 31 October 2008, the Net Asset Value ("NAV") per Ordinary Share was 88.3p, an increase of 2.3p or 2.5% over the year (after adjusting for the dividends totalling 5.5p per share paid during the year).

The 'D' and 'E' Share portfolios are much less mature having only been invested since June 2006 and consequently, have suffered from the severe change in the economy. At 31 October 2008, the NAV per 'D' Share had fallen to 81.8p, a decrease of 22.3p or 26.6% over the year (after adjusting for the dividend of 2.0p per share paid during the year).

At 31 October 2008, the NAV per 'E' Share had fallen to 67.5p, a decrease of 25.8p or 37.1% over the year (after adjusting for the dividend of 2.0p per share paid during the year).

The Total Return (NAV plus cumulative dividends paid since launch) to Ordinary Shareholders since the Company's launch (when it was known as Downing Classic VCT 3 plc) now stands at 107.3p per Ordinary Share compared to an original investment (net of income tax relief) of 80p per Ordinary Share.

The Total Return at the year end per 'D' Share stood at 85.0p and per 'E' Share stood at 70.7p, which compares to the original cost of investment for each of the 'D' and 'E' Shares (net of income tax relief) of 60p per share.

Venture capital investments

The Investment Management Team, led by Chris Kay, has had another successful year, despite increasingly difficult conditions, achieving three realisations and realising profits of £3.5 million compared to the original purchase cost. I would like to take this opportunity in congratulating them on this achievement.

The Company also invested £1.7 million during the year, across the three share pools; £1.2 million into three new companies and £532,000 in follow-on investments.

Unfortunately, the Company suffered from a number of failures during the year. Hat Pin plc, Ultralon Holdings Limited, Spice Inns Limited and Zest Juice Limited were put into administration or liquidation, resulting in an unrealised loss of £3.0 million across the share pools. Although the larger losses were borne by the Ordinary Share pool, due to the small size of the 'D' and 'E' Share pools, the impact thereon was far greater as shown in the table below:

	Unrealised £'000	Realised £'000	Net £'000	NAV impact Pence
Ordinary Share	(788)	719	(69)	(0.2)
'D' Share	(131)	-	(131)	(24.4)
'E' Share	(96)	(70)	(166)	(27.6)
	(1,015)	649	(366)	

As expected in the current conditions, the AIM portfolio has been affected by weak stock prices, falling in value by £1.2 million (excluding Hat Pin discussed above) during the year from £2.2 million to £780,000.

It is somewhat comforting that, at present, the majority of the Company's remaining unquoted portfolio is performing satisfactorily and, in two cases, Precision Dental Laboratories Limited and Wessex Advance Switching Products Limited have justified uplifts in their valuations by £997,000 and £1.4 million respectively.

Further commentary on the portfolio, together with a schedule of the additions, disposals and details of the top performing investments can be found within the Investment Manager's Report and Review of Investments on pages 7 to 15.

CHAIRMAN'S STATEMENT (continued)

Listed fixed income securities
The Ordinary Share pool continues to hold a portfolio of fixed income securities and a further £6.4 million (£3.2 million of which was re-invested from maturing securities) was invested during the year. The portfolio comprises almost entirely of gilt-edged securities which have provided a higher level of comfort than many alternatives and some protection against falling returns, particularly during the banking crisis which occurred in the autumn.

At 31 October 2008, this portfolio was valued at £8.2 million. During the year this portfolio produced an unrealised gain of £121,000 and a negligible realised gain.

Results and dividend
Due to £400,000 of received dividends principally from Precision Dental Laboratories Limited and Wessex Advanced Switching Products Limited, the Revenue account performed particularly well this year enabling the total return to be in profit for the year. The total return on ordinary activities for the year was as follows:

	Revenue £'000	Capital £'000	Total £'000
Ordinary Share	908	(366)	542
'D' Share	16	(135)	(119)
'E' Share	15	(170)	(155)
	939	(671)	268

During the year the Company paid an interim capital dividend of 2.0p per Ordinary Share on 25 July 2008. A further 4.0p interim dividend, comprising a 2.5p revenue and 1.5p capital dividend, was paid to Ordinary Shareholders on 15 December 2008. No interim dividends were paid in respect of the 'D' or 'E' Shares.

Following the payment of record dividends, totalling 6.0p to Ordinary Shareholders in respect of the year under review, the Board has taken the decision not to pay a final dividend for the year to 31 October 2008.

No final dividends will be paid in respect of the 'D' or 'E' Shares for the year to 31 October 2008, however interim dividends for the year ended 31 October 2009 will be paid as described below.

Planned conversion of 'D' Shares and 'E' Shares
The 'D' Share and 'E' Share pools are very small in comparison to the Ordinary Share pool and create additional complications in the investment management activities, particularly in the allocation of new investments between the various pools.

When the 'D' and 'E' Shares were launched, the Company targeted a return to 'D' Shareholders of 20p per share, and 'E' Shareholders 30p per Share by 5 April 2010. To date 'D' and 'E' Shareholders have each received dividends totalling 3.25p per share. The Board is pleased to announce that the Company is in a position to meet these targets earlier than originally envisaged. The Company will pay dividends of 16.75p per 'D' Share and 26.75p per 'E' Share on 24 April 2009 to Shareholders on the register at 13 March 2009.

Following the payment of these dividends, the Board is proposing to convert both 'D' Shares and 'E' Shares into Ordinary Shares on 30 April 2009, such that the Company will have just one share class and one pool of investments. It is proposed that the conversion will be undertaken using relative audited net asset values per share of the share classes as at 31 October 2008, adjusted for the dividend payments noted above. Under the proposals, 'D' and 'E' Shares will receive Ordinary Shares as follows:

For every 1,000 'D' Shares, 736 Ordinary Shares
For every 1,000 'E' Shares, 461 Ordinary Shares

In order to implement the conversions, the Company's Articles of Association need to be amended. A resolution will be put to Shareholders at the forthcoming AGM. In addition consent will be required from each share class, so separate Share Class meetings for each of the Ordinary Shares, 'D' Shares and 'E' Shares will also be held.

Full details of the proposed amendment to the Articles of Association and the resolutions to be put to the various meetings are set out on page 21.

Share buybacks
During the year the Company purchased 1,540,670 Ordinary Shares for cancellation at an average price of 75.8p per share. 3,090 'D' Shares were purchased for cancellation during the year at a price of 81.5p per share. No 'E' Shares were purchased during the year.

The Board has reviewed the Company's share buyback policy in light of current market conditions and general trends within the VCT market. The Board realises that there may be forced sellers of the Company's shares and therefore feels it is important to continue to have a policy of buying in its own shares. However, to protect the interests of all Shareholders, the Board believes that the discount at which the Company purchases shares must be increased from the levels at which these have been undertaken.

In future, the Board intends to undertake any buybacks of Ordinary Shares at a 25% discount to the latest published NAV.

CHAIRMAN'S STATEMENT (continued)

Share buybacks (continued)
In light of the 'D' Share and 'E' Share dividends that the Company will pay in April and the proposed conversion of the 'D' Shares and 'E' Shares into Ordinary Shares, the Board does not expect to undertake any buybacks on 'D' Shares or 'E' Shares. The Board will regularly review the Company's share buyback policy and make changes should circumstances change.

Resolution 6 will be put to Shareholders at the forthcoming AGM to give the Company authority to repurchase its own shares in the market.

Articles of Association
At the forthcoming AGM, the Board will seek Shareholder approval to update the Company's Articles of Association. Resolution 7, which is a special resolution, proposes the adoption of new Articles of Association which incorporate a number of changes which are required as a result of the implementation of the Companies Act 2006 as well as the conversion of the 'D' and 'E' Shares described on page 5. An explanation of the proposed changes is provided on pages 21 and 22.

Articles of Association re Directors remuneration
Under the Company's current Articles of Association, the aggregate fees payable to the Directors for their normal services shall not exceed a sum of £75,000 per annum. This sum has been fixed at this level for some time and is currently fully utilised by the current Board costs. The Board believes an increase in the spending cap is overdue. At current levels we cannot provide for natural cost inflation, nor are we able to consider any expansion of the Board to provide additional non-executive skills which might be necessary to enhance its decision making processes.

The current cap is clearly inappropriate and the Board is proposing to amend the Articles of Association such that aggregate directors' remuneration will not exceed £150,000 per annum. Shareholders should note that there are no plans at the current time to fully utilise the proposed revised level. This proposed amendment to the Articles of Association is proposed for adoption by Resolution 8 at the forthcoming AGM.

Annual General Meeting/ Separate Class Meetings
The next AGM of the Company will be held at Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU at 3:00pm on 25 March 2009.

Three items of Special Business are being proposed at the meeting to renew the authority to allow the Company to make market purchases of the Company's shares, to update the Articles of Association, and to uplift the upper limit on the total aggregate ordinary remuneration for the Directors to £150,000 per annum from £75,000.

As mentioned above, separate class meetings are also required where consent from each share class will be sought for the proposed alterations to the Articles of Association. These meetings will be held immediately following the AGM as follows:

Ordinary Shares	3:15pm
'D' Shares	3:20pm
'E' Shares	3:25pm

Outlook
The current business climate is unprecedented in recent times, both in the severity of the swing into economic difficulties caused by the credit crisis and in the lack of clarity as to what is likely to happen in the coming year or two. All we can say with any certainty is the forthcoming year will be challenging for our portfolio companies.

The Company's more mature investments, which comprise a fair proportion of the portfolio, should provide some stability but experience shows that immature companies will have less resilience. All investee companies will be closely monitored and supported as appropriate.

In addition to a well managed portfolio, the key advantage this Company possesses is £11.3 million of liquid funds available (following the payment of the dividend in December 2008), which means we are well placed to provide support to investee companies if required, whilst still conserving sufficient resources in order to take advantage of opportunities that will hopefully arise when economic conditions start to improve.

Peter Harkness
Chairman

5 February 2009

INVESTMENT MANAGEMENT REPORT

There is no doubt that the economy is going through challenging times and the VCT is not immune with unfortunately four of our investee companies, Zest Juice Limited, Ultralon Holdings Limited, Hat Pin plc and Spice Inns Limited going into administration during the year. However that has been more than balanced by three significant exits (ILG Digital Limited ("ILG"), Babel Media Limited ("Babel") and Advance Media Information Limited ("AMI")) all at prices above their previous valuations and generating £7.5 million of proceeds.

These realisations, coupled with a deliberate slowing down in the rate of new investment as the warning signs of recession became ever more apparent during the year, mean that following the payment of the dividend in December 2008, the VCT has £11.3 million of cash at its disposal. This is despite returning £4.2 million of cash to Shareholders in the form of dividends and share buybacks in the last 10 months of 2008.

We believe that this cash is a major strength for the VCT for two distinct reasons.

Firstly we have calculated that the VCT could currently refinance ALL the bank borrowings of all the companies that make up 90% of the value of our invested portfolio. That is not to say that we would wish to do so but it does give the VCT considerable options and means that our portfolio is not under threat from the whims of the banks.

Secondly, assuming the economy does not move into a prolonged recession, at some stage there will be great value investments to be made by those who have ready cash to invest. Our research based on the last two recessions has indicated that in the past the best time to invest in the type of companies that VCTs are allowed to invest in, was towards the end of the recession i.e. once there were distinct signs of recovery in place. Therefore we will not be rushing into many new investments but will be monitoring events closely and hopefully getting our timing right.

Incidentally it is worth pointing out that as a long established VCT, Chrysalis is allowed to invest in a wider range of companies than those permitted for VCTs that have raised their money in the last two years and therefore for certain investments there should be less competition.

With regard to the health of our existing portfolio, clearly as predominantly UK based businesses any severe downturn will affect their trading performance and hence valuations. However our top nine investee companies which account for over 80% of the invested portfolio by value (another example of the famous 80:20 rule) are starting from reasonable positions, in that they all reported profits in their last set of accounts and all, except British International Holdings Limited, are not significantly geared.

The one area of the portfolio where valuations have suffered badly is our (fortunately small) AIM portfolio. Our seven current AIM investments were worth £2.17 million at the start of the financial year but had declined to £780,000 (down 64%) by the end of the year despite virtually all reporting good sets of results. We believe that these companies are currently undervalued and so would not wish to sell even if there was suitable liquidity. However, on the other hand, the VCT rules work to discourage buying cheap shares on the market, firstly because any such purchases are not qualifying investments and secondly because at current prices any purchase would have an impact on the Inland Revenue qualification % which cannot be allowed to fall below 70%.

In summary although the immediate outlook for the UK economy is grim, the actions we have taken over the last three years particularly in realising over £19 million of cash (equivalent to 70% of the current value of the Ordinary Share Pool) and not getting involved in highly leveraged investments should enable the VCT to benefit from the opportunities that the inevitable recovery will produce.

A complete summary of realisations made by the Company during the year is presented on page 11. We would just like to provide some further details on the three major exits, namely AMI, ILG and Babel.

As we have mentioned previously a common feature of most of our successful exits is that the investee company has received a number of investments from Chrysalis and these three are no exception with the VCT investing four times in both Babel and AMI, and twice in ILG. Clearly the decision as to whether to reinvest or not (since it is very easy to lose money by continually supporting companies that eventually fail) can only be properly made by maintaining close relationships with the investee companies. Consequently a large proportion of the Investment Manager's time is spent on the existing portfolio.

INVESTMENT MANAGEMENT REPORT (continued)

All three exits were to trade buyers and at prices that look even better now than they did at the time. It does seem that in any business cycle there is only a short window when small private companies are "in fashion" and therefore takeover targets, consequently it is important to grab the opportunities to exit when they occur. Unfortunately this window often seems to occur late in any business cycle (and often marks the peak) therefore we are not anticipating any significant exits this year.

Chrysalis VCT Management Limited

5 February 2009

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 October 2008:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio by value
ORDINARY SHARE POOL				
Ten largest venture capital investments (by value)				
Precision Dental Laboratories Group Limited	2,110	3,174	997	11.5%
Wessex Advanced Switching Products Limited	704	2,867	1,436	10.4%
Centre Design Limited	1,350	1,482	277	5.4%
London Italian Restaurants Limited	1,000	1,000	-	3.6%
Mentorion Limited	700	987	167	3.6%
Triaster Limited	758	889	(32)	3.2%
British International Holdings Limited	700	797	97	2.9%
Ensign Communications Limited	500	704	19	2.6%
Mentorion 2 Limited	700	700	-	2.6%
Optima Data Intelligence Limited	450	450	-	1.6%
	8,972	13,050	2,961	47.4%
Other venture capital investments				
CPI Acquisition UK Limited	300	300	-	1.1%
Glisten plc *	149	294	(446)	1.1%
RFTRAQ Limited	325	270	(410)	1.0%
The Capital Pub Company plc *	505	237	(434)	0.9%
Planet Sport (Holdings) Limited	250	225	-	0.8%
Gcrypt Limited	170	193	23	0.7%
Lifes Kitchen Ltd.	165	165	-	0.6%
BreakingViews Limited	-	141	-	0.5%
Rhino Sport and Leisure Limited	116	122	6	0.5%
Cashfac Limited	-	83	83	0.3%
Global3Digital Limited	67	67	-	0.2%
The Mission Marketing Group plc *	150	65	(110)	0.2%
The Kellan Group plc *	320	65	(81)	0.2%
YouGov plc *	20	59	(66)	0.2%
Best of the Best plc *	98	39	(50)	0.1%
Heath and Green Limited	30	30	-	0.1%
ILX Group plc *	100	21	(56)	0.1%
Art VPS Limited	358	-	-	-
Forward Media Limited	440	-	(158)	-
Hat Pin plc Ω Φ	245	-	(283)	-
IX Group plc	250	-	-	-
Kids SafteyNet Limited	637	-	-	-
Patterning Technology Limited Φ	286	-	-	-
Shopcreator Limited Φ	255	-	-	-
Spice Inns Limited Φ	850	-	(789)	-
Ultralon Holdings Limited Φ	978	-	(978)	-
	7,064	2,376	(3,749)	8.6%
Listed fixed income securities				
Treasury 4 ¼% 2011 Stock	1,883	1,938	56	7.0%
UK THM Treasury 2009	1,546	1,561	15	5.7%
Treasury 5 ½% 2012 Stock	1,477	1,507	30	5.5%
Treasury 4% 2009 Stock	1,215	1,232	23	4.5%
Treasury 8% 2013 Stock	1,163	1,154	(9)	4.2%
Nucleus cash trust	763	768	6	2.8%
	8,047	8,160	121	29.7%
Total	24,083	23,586	(667)	85.7%
Cash at bank and in hand		3,941		14.3%
Total investments		27,527		100.0%

REVIEW OF INVESTMENTS (continued)

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio by value
'D' SHARE POOL				
Mentorion Limited	50	71	12	16.4%
British International Holdings Limited	50	57	7	13.2%
Rhino Sport and Leisure Limited	50	52	2	12.1%
CPI Acquisition UK Limited	50	50	-	11.6%
Mentorion 2 Limited	50	50	-	11.6%
Hat Pin plc Ω Φ	80	-	(106)	-
Spice Inns Limited Φ	50	-	(46)	-
	380	280	(131)	64.9%
Cash at bank and in hand		151		35.1%
Total Investments		431		100.0%
'E' SHARE POOL				
CPI Acquisition UK Limited	50	50	-	12.3%
Optima Data Intelligence Limited	50	50	-	12.3%
Spice Inns Limited Φ	50	-	(46)	-
Ultralon Holdings Limited Φ	50	-	(50)	-
	200	100	(96)	24.6%
Cash at bank and in hand		306		75.4%
Total Investments		406		100.0%

All investments are unquoted unless otherwise stated.

* Quoted on AIM   Ω Delisted from AIM   Φ In Administration

REVIEW OF INVESTMENTS (continued)

Investment movements for the year ended 31 October 2008

ADDITIONS

	Ordinary Shares £'000	'D' Shares £'000	'E' Shares £'000	Total £'000
New investments				
Heath and Green Limited	30	-	-	30
Lifes Kitchen Limited	165	-	-	165
London Italian Restaurants Limited	1,000	-	-	1,000
	1,195	-	-	1,195
Follow on investments				
Babel Media Limited	100	-	-	100
GCrypt Limited	64	-	-	64
Hat Pin plc	125	-	-	125
Precision Dental Laboratories Limited	10	-	-	10
Ultralon Holdings Limited	28	-	-	28
Wessex Advanced Switching Products Limited	5	-	-	5
Zest Juice Limited	180	-	20	200
	512	-	20	532
Listed fixed income securities				
Nucleus cash trust	365	-	-	365
Treasury 4 ¼% 2011 Stock	1,883	-	-	1,883
Treasury 5 ½% 2012 Stock	1,476	-	-	1,476
Treasury 8% 2013 Stock	1,163	-	-	1,163
UK THM Treasury 2009	1,546	-	-	1,546
	6,433	-	-	6,433
	8,140	-	20	8,160

DISPOSALS

	Cost £'000	MV at 31/10/07* £'000	Proceeds £'000	Profit/ (loss) vs cost £'000	Realised gain/ (loss) £'000
Ordinary Share pool					
Full disposals					
Advance Media Information Limited	615	934	1,175	560	241
Babel Media Limited	1,705	2,936	3,190	1,485	254
ILG Digital Limited	806	2,101	2,666	1,860	565
Tellings Golden Miller plc	75	30	48	(27)	18
Partial disposals					
BreakingViews Limited	-	45	56	56	11
You Gov plc	24	150	106	82	(44)
Liquidation					
Zest Juice Limited	630	630	-	(630)	(630)
Retention monies from prior disposals	-	-	304	304	304
Listed fixed income securities					
Nucleus Cash Trust	2	2	2	-	-
Treasury 4¼% 2007 Stock	2,084	1,927	1,925	(159)	(2)
Treasury 5% 2008 Stock	1,218	1,200	1,203	(15)	3
	7,159	9,955	10,675	3,516	720
'E' Share pool					
Zest Juice Limited	70	70	-	(70)	(70)

* Adjusted for purchases in the year

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments (by value) follow:

Precision Dental Laboratories Group Limited

www.precisiondentalstudio.co.uk

Cost:	£2,110,000	Latest accounts:	30/09/2007
Investment comprises:		Turnover:	£6.1 million
Equity Shares:	£1,110,000	Loss before tax:	(£163,000)
5% Loan Stock:	£1,000,000	Net assets:	£756,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£3,174,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£2,167,000	Proportion of equity held:	36.5%

Precision Dental is one of the UK's leading dental laboratory groups, manufacturing a full range of dental products such as crowns, bridges and replacement teeth. During the year ended 30 September 2007, the company disposed of two loss making laboratories. The audited accounts include a loss on disposal of £537,000. The remaining laboratories made an operating profit of £374,000 and have produced a higher level of profit in the year ended 30 September 2008.

Wessex Advanced Switching Products Limited

www.waspswitches.co.uk

Cost:	£704,000	Latest accounts:	31/12/2007
Investment comprises:		Turnover:	£8.8 million
Equity Shares:	£704,000	Profit before tax:	£1.4 million
		Net assets:	£2.8 million
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£2,867,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£1,426,000	Proportion of equity held:	28.1%

Wessex Advanced Switching Products manufactures rotary switches for military communications systems, membrane switches and touch screens for electronic control panels. The company has continued its record of growth in turnover and profitability. With no debt and cash generation, the company has adopted a dividend policy. During the year Chrysalis received dividends of £226,000.

Centre Design Limited

www.centredesign.co.uk

Cost:	£1,350,000	Latest accounts:	31/01/2007
Investment comprises:		Turnover:	£4.7 million
Equity Shares:	£145,000	Profit before tax:	£80,000
10% Loan Stock:	£1,205,000	Net assets:	£618,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£1,482,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£1,205,000	Proportion of equity held:	45.8%

Centre Design is a market leader in the provision of Christmas displays to shopping centres in the UK. Clients include Bluewater, The Mall Corporation and the recently opened Cabot Circus in Bristol.

London Italian Restaurants Limited

Cost:	£1,000,000	Latest accounts:	None yet published
Investment comprises:		Turnover:	N/A
Equity Shares:	£125,000	Profit before tax:	N/A
4.5% Loan Stock:	£875,000	Net assets:	N/A
Valuation method:	Recent investment		
Valuation at 31/10/08:	£1,000,000	Market capitalisation:	N/A
Valuation at 31/10/07:	Not held	Proportion of equity held:	25%

The investment in London Italian Restaurants Limited only completed in October 2008. Chrysalis VCT and Framlington AIM 2 VCT have provided £2 million to fund acquisitions of Italian restaurants in London. In December 2008 two restaurants were acquired in Bromley and Balham and the management team are looking for additional targets.

REVIEW OF INVESTMENTS (continued)

Mentorion Limited

Cost:	£750,000	Latest accounts:	31/05/2008
Investment comprises:		Turnover:	£3.0 million
Equity Shares:	£100,000	Loss before tax:	(£70,000)
6.5% Loan Stock:	£650,000	Net assets:	£280,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£987,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£879,000	Proportion of equity held:	28.6%

Mentorion operates three Italian restaurants, branded Locale, at County Hall, Fulham and Blackheath. Sales in the year to 31 May 2008 grew by 20% and have continued to grow this financial year.

www.localerestaurants.com

Triaster Limited

Cost:	£758,000	Latest accounts:	31/03/2008
Investment comprises:		Turnover:	£1.8 million
Equity Shares:	£71,000	Profit before tax:	£177,000
10% Loan Stock:	£687,000	Net liabilities:	(£491,000)
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£889,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£921,000	Proportion of equity held:	31.7%

Triaster is a developer of easy to use process-mapping software, and has developed an add-on product to Microsoft Visio - called Process Navigator. A joint marketing agreement has been signed with Microsoft, and the product is being promoted by the BSI. After several years of losses, Triaster has now recorded three profitable years in a row.

www.triaster.co.uk

British International Holdings Limited

Cost:	£750,000	Latest accounts:	31/12/2007
Investment comprises:		Turnover:	£23 million
Equity Shares:	£170,000	Profit before tax:	£1.4 million
9% Loan Stock:	£580,000	Net assets:	£3.2 million
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£854,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£750,000	Proportion of equity held:	7.5%

British International provides helicopter services to a range of commercial and military clients. It also operates the UK's only scheduled public helicopter service between Penzance and the Isles of Scilly. The company has a long standing relationship with the Ministry of Defence providing helicopter support to the Falkland Island Garrison and to the Royal Navy in Plymouth and Scotland.

www.islesofscillyhelicopter.com

Ensign Communications Limited

Cost:	£500,000	Latest accounts:	31/12/2007
Investment comprises:		Turnover:	£4.0 million
Equity Shares:	£83,000	Profit before tax:	£91,000
10% Loan Stock:	£417,000	Net assets:	£708,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£704,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£685,000	Proportion of equity held:	25%

Ensign is a provider and integrator of wireless and conventional network solutions to a wide range of markets including retail, warehousing, manufacturing, government and education. It also provides support services to a number of clients.

www.ensign-net.co.uk

REVIEW OF INVESTMENTS (continued)

Mentorion 2 Limited

Cost:	£750,000	Latest accounts:	31/05/2008
Investment comprises:		Turnover:	£76,000
Equity Shares:	£75,000	Loss before tax:	(£59,000)
6.5% Loan Stock:	£675,000	Net assets:	£7,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£750,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£750,000	Proportion of equity held:	25%

Mentorion 2 operates a Locale Italian restaurant in East Dulwich. It only commenced trading in May 2008 but has quickly become established and sales are on budget for this year.

www.localerestaurants.com

Optima Data Intelligence Limited

Cost:	£500,000	Latest accounts:	30/06/2007
Investment comprises:		Turnover:	£638,000
Equity Shares:	£180,000	Loss before tax:	(£16,000)
10% Loan Stock:	£320,000	Net assets:	£945,000
Valuation method:	Earnings multiple		
Valuation at 31/10/08:	£500,000	Market capitalisation:	N/A
Valuation at 31/10/07:	£500,000	Proportion of equity held:	11%

Optima provides data management services for the publishing industry. Chrysalis VCT invested in a ProVen VCT led syndicate in May 2005. Audited accounts for June 2008 are not yet available but management accounts indicate sales have grown to £4.1 million with a small operating profit.

www.optimabiz.co.uk

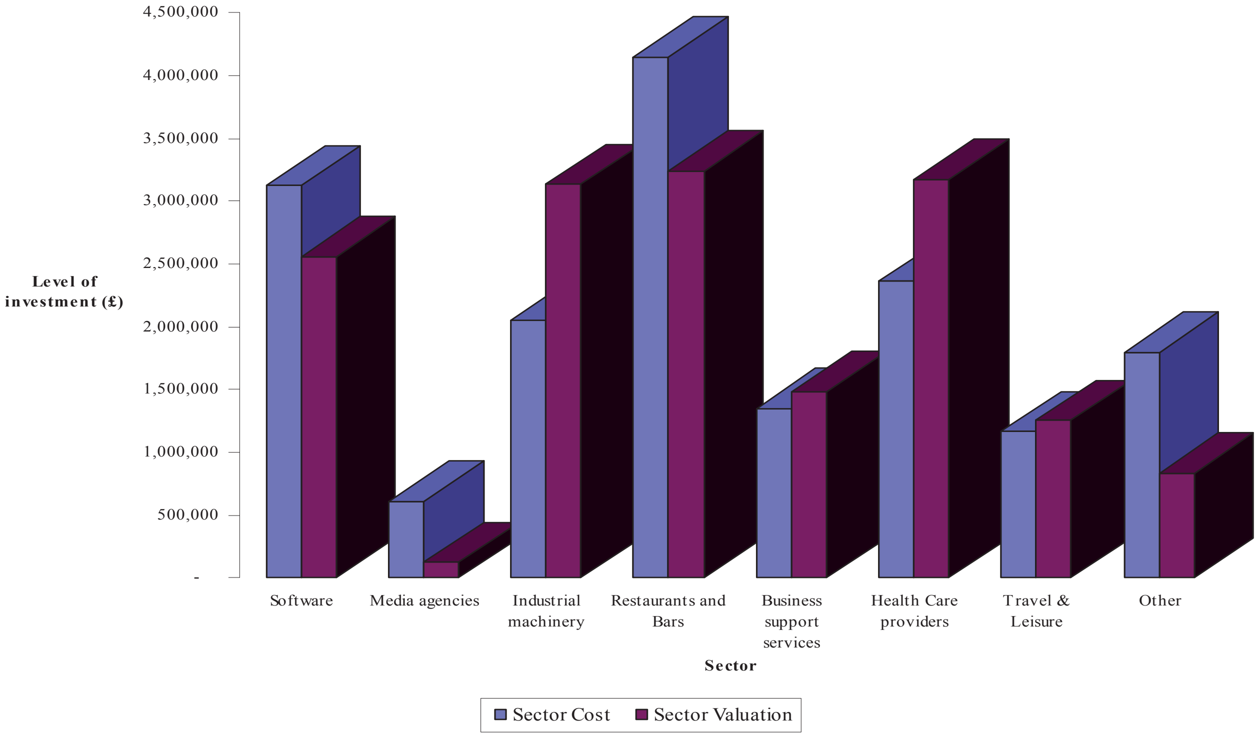
Note:
The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

REVIEW OF INVESTMENTS (continued)

Analysis of investments by commercial sector

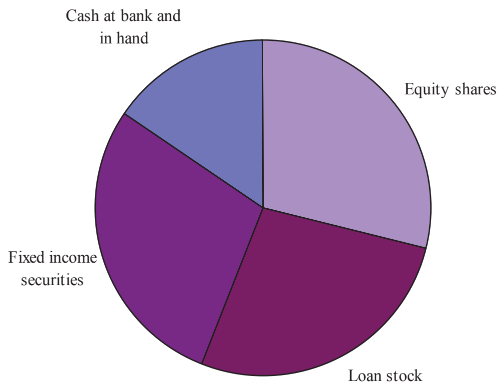
The split of the venture capital investment portfolio by commercial sector (by cost and by value at 31 October 2008) is as follows:

Spread of Investments by Sector



Analysis of investments by nature of instrument

The following chart summarises the Company's investment portfolio by the nature of instrument held (by value at 31 October 2008) as follows:



Percentage of Funds in VCT Qualifying investments

	Target	Actual at 31/10/08 Accounts basis	Actual at 31/10/08 HMRC valuation rules basis
Ordinary pool	70.0%	55.6%	75.0%
'D' Share pool	70.0%	64.9%	72.5%
'E' Share pool	70.0%	24.6%	46.7%
Company	70.0%	55.6%	74.6%

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 October 2008.

Principal activity and status

The Directors initially obtained approval for the Company to act as a venture capital trust from HM Revenue & Customs and have continued to meet the standards set out by HM Revenue & Customs.

The Company revoked its status as an investment company on 3 September 2004 upon the payment of a capital distribution, however, the Directors consider that the Company has conducted its affairs in a manner to enable it to continue to comply with Part 6 of the Income Tax Act 2007.

Business review

The combination of falling stock markets and the failure of four investments during the year have had a negative impact on the portfolio totalling £4.2 million. This fall in value has been offset by three successful exits, realising £1.1 million, the improved performance of a number of investee companies and a "Revenue" profit during the year of £939,000.

The Company's business and developments during the year are reviewed further in the Chairman's Statement, Investment Management Report and the Review of Investments.

Share capital

In accordance with the Company's policy as discussed in the Chairman's Statement, during the year the Company purchased 1,540,670 Ordinary Shares for cancellation for an aggregate consideration of £1.2 million being an average price of 75.8p per Ordinary Share of 1p each (approximately equal to a 15% discount to the most recently published NAV at the time of purchase) and representing 4.7% of the issued Ordinary Share capital. Additionally, 3,090 'D' Shares were purchased for cancellation for an aggregate consideration of £3,000 at a price of 81.5p per 'D' Share of 1p each (approximately equal to a 10% discount to the most recently published NAV at the time of purchase) and representing 0.6% of the issued 'D' Share capital. All these shares were subsequently cancelled. As these shares were acquired at a discount to the Company's NAV per share, these transactions enhanced the NAV per share of remaining Shareholders. No 'E' Shares were purchased during the year.

At the year end the Company had in issue 31,128,450 Ordinary Shares of 1p each, 532,982 'D' Shares of 1p each and 601,376 'E' Shares of 1p each. The Ordinary Shares, the 'D' Shares and the 'E' Shares rank *pari passu* in all respects as to rights to attend and vote at any general meeting of the Company. There are no other share classes in issue.

Results and distributions

Return on ordinary activities after tax for the year ended 31 October 2008 split as:	**£'000**	**Per share**
Ordinary Shares	542	1.7p
'D' Shares	(119)	(22.5p)
'E' Shares	(155)	(25.8p)
	268	

During the year the Company paid an interim capital dividend of 2.0p per Ordinary Share on 25 July 2008. A further 4.0p interim dividend, comprising a 2.5p revenue and 1.5p capital dividend, was paid on 15 December 2008 to Ordinary Shareholders.

No final dividends will be paid to Ordinary, 'D' or 'E' Shareholders for the year under review.

Performance incentive fees

Ordinary share pool

The Board has an incentive scheme under which additional fees are paid to Chrysalis VCT Management Limited based on achieving exits from investments. The exit fees are calculated as the greater of 1% of the cash proceeds of any exit or 5% of the gain to the Company after all exit costs for investments made after 30 April 2004 or 2½% of the gain in respect of investments made prior to 30 April 2004.

'D' and 'E' share pools

Should the resolutions to convert the 'D' and 'E' Shares into Ordinary Shares be turned down by Shareholders at the forthcoming AGM, arrangements will be put in place for performance fees to be payable from each of the 'D' and 'E' Share pools. These will be payable when dividend payments and/or distributions not equal to less than compound rates of 7% and 5% per annum on the 'D' and 'E' Shares respectively have been paid and the net assets per share are £1.00 or more (adjusted for capital distributions). These fees will be 15% of the grossed up amount of any dividend and will be first calculated in respect of the year ended 31 October 2009.

Investment policy

The Company's investment policy covers several areas as follows:

1. Venture capital investments
2. Fixed income securities
3. Venture capital trust regulations

REPORT OF THE DIRECTORS (continued)

Investment policy (continued)

Venture Capital Investments
The Company holds a portfolio of Venture Capital Investments, predominantly comprising unquoted companies, but also including a proportion of investments in companies trading on AIM. The Company intends overall, to hold approximately 70% of its fund in Venture Capital Investments and therefore has a maximum exposure to such investments of 100%.

In addition the individual share pools have specific policies as follows:

Ordinary Shares
The Ordinary Share pool will hold over 70% of the Company's investments in a portfolio of Qualifying Companies each of which, in the opinion of the Directors, have, or are expected to have:

- a strong management team and board;
- good opportunities for growth in value; and
- realistic prospects of achieving a stock market flotation or being sold within three to five years.

'D' Shares
The 'D' Share pool invests in a general portfolio of qualifying businesses to fund expansion, acquisitions, management buy-outs or turnaround opportunities. The businesses invested in will need to have the potential for attractive growth and a clear exit strategy. The investment emphasis will be on unquoted, established and profitable businesses with proven management teams, although a small proportion of investments in established companies quoted on AIM will also be considered.

'E' Shares
The 'E' Share pool invests alongside the Ordinary and 'D' Share pools, with emphasis being given to low risk investment opportunities and, should suitable opportunities arise, investments in the art and antiques sector.

Fixed Income Securities
The Company holds a portfolio consisting of 'A' rated bonds issued by the UK Government, major companies and institutions with a minimum credit rating of A minus (Standard & Poors rated) or A3 (Moodys rated) at the time of investment. Maximum exposure to such investments is 100%.

Venture Capital Trust Regulations
In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital);
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities;
6. The Company distributes sufficient Revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and
7. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).

Borrowings
It is not the Company's intention to have any borrowings. The Company does however have the ability to borrow not more than 15% of the aggregate of:

- The nominal capital of the Company being issued and paid up; and
- The amounts standing to credit of the reserves of the Company;

as shown within the latest audited balance sheet of the Company but after:

- Making such adjustments as appropriate to take account of share buybacks or other variation of issued share capital.
- Excluding amounts set aside for future taxation.
- Deducting therefrom (1) amounts equal to any distribution by the Company out of profits earned prior to the date of the latest audited balance sheet, (2) goodwill and other intangible assets and (3) any debit balances on profit and loss account.

At 31 October 2008, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £4,064,482. There are no plans to utilise this ability at the current time.

REPORT OF THE DIRECTORS (continued)

Environmental and social policy

As a VCT with all of its executive and administrative activities delegated to third parties, the Company does not have a policy on either environmental or social and community issues.

Investment Management fees

Chrysalis VCT Management Limited, the Company's wholly owned subsidiary, provides investment management services to the Company for a fee of 1.65% of net assets per annum. As the Group is self-managed there is no formal contract or notice period in place.

The Board is satisfied with the performance of the Company under the current management arrangement and believes that it is in the Shareholders' best interest to continue as a self-managed VCT.

Administration Management fees

Downing Management Services Limited ("Downing") provides administration services to the Company for a fee of 0.5% of gross proceeds raised, subject to a maximum of £60,000 per annum, increasing each year in line with RPI (plus VAT). Under a side agreement, dated 25 January 2006, Downing's appointment continues until 5 April 2009 and either the Board or Downing are entitled to serve upon the other 12 months notice of termination, such notice to expire no earlier than 5 April 2009.

Trail commission

The Company has an agreement to pay trail commission annually to Downing Corporate Finance Limited in connection with the Company's original fund raising of Ordinary Shares. This is calculated at 0.25% of the Net Asset Value per share of the Company at each year end multiplied by 21,388,768, being the number of shares in issue on 28 January 2005, the day that the merger with the Chrysalis VCTs was announced.

The Company also has an agreement to pay commission annually to authorised financial intermediaries at the rate of 0.25% per annum on the value of 'D' Shares and 'E' Shares at the offer price subscribed by investors whose applications were submitted through them and who continue to hold 'D' Shares and 'E' Shares.

Fixed interest investment management

Smith & Williamson Investment Management Limited provided investment management services to the Company in respect of fixed income securities for a fee of 0.15% per annum (plus VAT) of the amount invested in fixed income securities subject to a maximum of £10,000 per annum (plus VAT).

Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares, 'D' Shares and 'E' Shares all of 1p each, in the Company at each year end and the date of this report were as follows:

At 31 October 2008

	Ordinary Shares	'D' Shares	'E' Shares
Peter Harkness	Nil	5,150	5,150
Julie Baddeley	16,543	Nil	10,300
Robert Drummond	Nil	Nil	20,600
Martin Knight	Nil	Nil	Nil

At 31 October 2007

	Ordinary Shares	'D' Shares	'E' Shares
Peter Harkness	Nil	5,150	5,150
Julie Baddeley	16,543	Nil	10,300
Robert Drummond	80,700	Nil	20,600
Martin Knight	Nil	Nil	Nil

Martin Knight was appointed as a Director on 20 October 2008 and Robert Drummond resigned as a Director on 30 November 2008.

Peter Harkness retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. In addition Martin Knight will retire at the AGM and, being eligible, will also offer himself for re-election. The Board recommends that Shareholders take into consideration their experience, as shown in their biographies on page 2 in order to support the decision to re-elect the retiring Directors at the AGM.

Each of the Directors, with the exception of Martin Knight, entered into a consultancy agreement dated 30 January 2006, which is terminable on 12 months notice by either side. Martin Knight has entered into a consultancy agreement dated 20 October 2008 which is terminable on 12 months notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires and their powers are bound by the Company's Articles of Association. Appointments of new Directors to the Board are considered by all existing Directors as, and when, required.

The Company provides Directors' and Officers' liability insurance, giving appropriate cover for legal action brought against its Directors, and has also agreed to indemnify Directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third party indemnity provision for the purpose of the Companies Act 1985, is for the benefit of all of the Company's current Directors.

REPORT OF THE DIRECTORS (continued)

VCT monitoring

The Company has retained PricewaterhouseCoopers LLP ("PwC") to advise it on compliance with VCT requirements, including evaluation of investment opportunities, as appropriate and regular review of the portfolio.

	Compliance as at 31 Oct 2008/ Year ended 31 Oct 2008
1. The Company holds at least 70% of its investments in qualifying companies	74.6%
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares"	53.3%
3. At least 10% of each investment in a qualifying company is held in "eligible shares"	Complied
4. No investment constitutes more than 15% of the Company's portfolio;	Complied
5. The Company's income for each financial year is derived wholly or mainly from shares and securities;	80.6%
6. The Company distributes sufficient Revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained;	12.4%
7. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

Creditor payment policy

The Company's payment policy is to pay creditors within 30 days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the year-end.

Key performance indicators

The main key performance indicators for the Company are the Venture Capital Trust Regulations as shown in the table above. The Investment and Administration Managers together with PricewaterhouseCoopers LLP review compliance with the regulations monthly, and the Board reviews the position at the quarterly board meetings.

At each board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its investment strategy (as shown on page 16). The Board believes the Company's key performance indicators, for comparison purposes against similar VCTs, are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see page 3).

In addition, the Board considers the Company's performance in relation to other VCTs. Although the Company has not joined the Association of Investment Companies (AIC), it is hoped that the AIC's monthly performance statistics will provide a further measure of comparative performance.

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risk, are summarised within note 18 to the financial statements.

In addition to these risks, the Company, as a fully listed Company on the London Stock Exchange and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT Regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the UK Listing Authority Listing rules and the Companies Act could lead to suspension from the Stock Exchange and damage to the Company's reputation.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Investment and Administration Managers ("the Managers") which monitor the compliance of these risks, and place reliance on the Managers to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial period.

Auditors

A resolution to re-appoint PKF (UK) LLP as the Company's Auditor will be proposed at the forthcoming Annual General Meeting.

New Articles of Association

At the Annual General Meeting ("AGM"), a Special Resolution (Resolution 7) will be proposed to amend the Articles of Association of the Company,

(i) to make them compliant with the recent changes caused by the implementation of the Companies Act 2006, and

(ii) to incorporate provisions to convert the 'D' Share and 'E' Shares into Ordinary Shares.

Further details are given on pages 21 and 22.

A further Special Resolution (Resolution 8) will also be proposed to amend the article 88 to increase the limit on the aggregate directors' remuneration to £150,000.

REPORT OF THE DIRECTORS (continued)

Annual General Meeting

The AGM will be held at Kings Scholars House, 230 Vauxhall Bridge Road, London, SW1V 1AU at 3:00pm on 25 March 2009. The Notice of the AGM and Form of Proxy are at the end of this document.

Substantial interests

As at 31 October 2008 and the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of the issued Ordinary Share capital.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required 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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. They also confirm that the annual report includes a fair review of the development and performance of the business together with a description of the principal risks and uncertainties faced by the Company. The Directors of the Company as at 31 October 2008 are shown on page 18 of the Annual Report and Accounts.

The Directors are responsible for ensuring that the Company keeps 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.

Corporate Governance

The Company's compliance with, and departures from, the Financial Reporting Council's Combined Code on Corporate Governance June 2006 (www.frc.org.uk) is shown on pages 25 and 26.

Statement as to disclosure of information to Auditors

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board

GWhitehouse

Grant Whitehouse
Secretary
Kings Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

5 February 2009

CONVERSION OF 'D' SHARES AND 'E' SHARES

At the AGM taking place on 25 March 2009, Resolution 7 will be put to Shareholders to adopt new Articles of Association which include changes such that the 'D' Shares and 'E' Shares will convert into Ordinary Shares on 30 April 2009 (the "Conversion"). The proposals in respect of the conversions are summarised below.

1. Expected timetable of the cnversions

Date from which it is advised that dealings in 'D' Shares and 'E' Shares should only be for cash settlement and immediate delivery of documents of title	20 April 2009
Record Date for Shareholders' entitlements under the Conversion	28 April 2009
Conversion Date (Conversion of 'D' Shares and 'E' Shares into Ordinary Shares)	30 April 2009
Admission to Official List and to trading on the London Stock Exchange of the new Ordinary Shares	7 May 2009
New Ordinary Share certificates dispatched	14 May 2009

2. Conversion process

(a) The Directors will implement the merger of the share classes as set out below.

(b) Firstly, the Directors shall convert such number of 'D' Shares and 'E' Shares held by each 'D' Shareholder and 'E' Shareholder into Ordinary Shares.

(c) Forthwith upon the conversion of the 'D' Shares and 'E' Shares into new Ordinary Shares, the Company will apply to the UKLA for the new Ordinary Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's market for listed securities.

(d) The Company will issue new Ordinary Share certificates to relevant Shareholders following Conversion.

3. Conversion calculations

(a) The number of new Ordinary Shares into which each of the 'D' Shares and 'E' Shares held by each 'D' Shareholder and 'E' Shareholder respectively will be converted will be based on the adjusted relative audited net asset values at 31 October 2008 ("the Conversion ratio") and will be as follows:

'D' Shares	0.736
'E' Shares	0.461

(b) The aggregate number of new Ordinary Shares to which each holding of 'D' Shares and 'E' Shares will convert shall be rounded down to the nearest whole number and the Directors may deal in such manner as they think fit with fractional entitlements to Ordinary Shares arising from the Conversion, including selling any such shares representing such fractional entitlements and retaining the proceeds for the Company.

(c) The Directors may in their absolute discretion amend the terms of the Conversion subject to these being non-material modifications or additions as may be required to convert the 'D' Shares and 'E' Shares into new Ordinary Shares on a fair and reasonable basis.

The Conversion will have no impact on the overall net asset value of a holding of either 'D' Shareholders, 'E' Shareholders or Ordinary Shareholders.

ARTICLES OF ASSOCIATION UPDATE FOR COMPANIES ACT 2006

At the AGM, Resolution 7 proposes to amend the Articles of Association of the Company in order to make them compliant with the recent changes caused by the implementation of the Companies Act 2006. The main changes are summarised as follows:

AGM

The AGM will be held within six months beginning on the day following the Company's accounting reference date. Currently, the AGM must be held within 15 months of the previous AGM.

Electronic communications

General authority will be given to the Company to provide Shareholders notices, documents and information in electronic form (such as by email or fax) and by means of publication on a website. The Company may contact Shareholders at a later date to request their consent to receive communications via electronic form or by means of a website, but has no immediate plans to use this facility.

General Meetings

Extraordinary General Meetings will just be referred to as General Meetings and the notice period for General Meetings will be reduced from 21 to 14 days.

Removal of extraordinary resolutions

Any references to extraordinary resolutions have been replaced with special resolutions.

Appointment of proxy

A proxy will be allowed to be appointed by electronic form. The 48 hour deadline for proxies to be deposited before a General Meeting will no longer include weekends or bank holidays. Shareholders will be allowed to appoint multiple proxies and a proxy will have the right to speak at a General Meeting and vote on a show of hands as well as on a poll.

Directors' conflicts of interest

Under provisions being introduced by the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The new Articles of Association, as allowed by the Companies Act 2006, give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with such that a breach of duty is avoided.

DIRECTORS' REMUNERATION REPORT

The Board have prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. A resolution to approve this report will be put to the members at the Annual General Meeting to be held on 25 March 2009.

Under the requirements of Schedule 7A, the Company's Auditors are required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditors' Report on page 27.

Directors' remuneration policy

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

(i) The remuneration of the Directors (other than an executive director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that, unless otherwise approved by the Company in general meeting, the aggregate of the remuneration of such Directors shall not exceed £75,000 per year, to be divided among them in such proportion and manner as the Directors may determine). The Directors shall also be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

(ii) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.

(iii) The emoluments and benefits of any executive director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

At the forthcoming AGM, Resolution 8 is being proposed to increase the limit on the aggregate directors' remuneration, discussed under point (i) above to £150,000.

Directors' remuneration, as shown in the following table, is set at a level designed to reflect the time commitment and the high level of responsibility borne by the non-executive directors and should be broadly comparable with those paid by similar companies.

Consultancy agreements

Each of the Directors, with the exception of Martin Knight, has entered into a consultancy agreement, dated 30 January 2006, which is terminable on 12 months notice by either side. Martin Knight has entered into a consultancy agreement dated 20 October 2008 which is terminable on 12 months notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Directors' remuneration (audited)

Directors' remuneration for the Company and its subsidiary for the year under review was as follows:

	2008 Annual fee	2007 Annual fee
	£	£
Peter Harkness	18,750	18,750
Robert Drummond	37,500	37,500
Julie Baddeley	18,750	18,750
Martin Knight	-	-
	75,000	75,000

No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

2008/2009 Remuneration

The remuneration levels for the forthcoming year are expected to be as shown in the following table.

	Per annum	Aggregated
	£	£
Peter Harkness	37,500	35,937
Robert Drummond *	37,500	3,125
Julie Baddeley	18,750	18,750
Martin Knight	18,750	17,187

* Robert Drummond resigned on 30 November 2008 and in addition to his salary received an ex-gratia payment of £37,500.