
OCTOPUS

APOLLO VCT 3 PLC

(Formerly Octopus Protected VCT plc)



ANNUAL REPORT
& ACCOUNTS
FOR THE YEAR ENDED 31 JANUARY 2011

FINANCIAL HEADLINES

- 89.6p Net Asset Value ('NAV') per share at 31 January 2011
- 9.0p Total dividends paid since launch
- 98.6p NAV plus total dividends paid since launch
- 1.5p Proposed final dividend for the year to 31 January 2011

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SHAREHOLDER INFORMATION AND CONTACT DETAILS

Financial Calendar

The Company's financial calendar is as follows:

22 June 2011	– Annual General Meeting
15 July 2011	– 2011 final dividend paid
September 2011	– Half-yearly results to July 2011 published
April/May 2012	– Final results for year to 31 January 2012 announced; Annual Report and financial statements published

Dividends

Dividends will be 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, shareholdings and requests for mandate forms should be directed to the Company's Registrar, Capita Registrars, by calling 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open Monday – Friday 8.30 am – 5.30 pm), or by writing to them at:

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

The table opposite shows the movement in net asset value (NAV) per share and lists the dividends that have been paid since the launch of Apollo 3:

Period Ended	NAV	Dividends paid in period	NAV + cumulative dividends
31 January 2007	93.70p	–	93.70p
31 July 2007	94.90p	–	94.90p
31 January 2008	95.50p	–	95.50p
31 July 2008	94.20p	1.50p	95.70p
31 January 2009	92.20p	1.50p	95.20p
31 July 2009	90.20p	1.50p	94.70p
31 January 2010	90.10p	1.50p	96.10p
31 July 2010	88.30p	1.50p	95.80p
31 January 2011	89.60p	1.50p	98.60p

The proposed final dividend of 1.5 pence will, if approved by shareholders, be paid on 15 July 2011 to shareholders on the register on 17 June 2011.

Share Price

The Company's share price can be found on various financial websites with the following TIDM/EPIC code:

Ordinary shares	
TIDM/EPIC code	OAP3
Latest share price (17 May 2011)	79.5 pence per share

Buying and Selling shares

The Company's Ordinary shares can be bought and sold in the same way as any other company quoted on the London Stock Exchange via a stockbroker. There may be tax implications in respect of all or part of your holdings, so Shareholder's should contact their independent financial adviser if they have any queries.

SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

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 directly from shareholders. If you are considering selling your shares or trading in the secondary market, please contact the Company's Corporate Broker, Matrix Corporate Capital ('Matrix').

Matrix 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 brought in shares. Matrix can be contacted as follows:

Chris Lloyd
020 3206 7176 chris.lloyd@matrixgroup.co.uk

Paul Nolan
020 3206 7177 paul.nolan@matrixgroup.co.uk

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 Company's Registrar, Capita Registrars, under the signature of the registered holder as well as Octopus Investments.

Other information for Shareholders

Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at www.octopusinvestments.com by navigating to Services, Investor Services, Venture Capital Trusts, Octopus Protected VCT. All other statutory information will also be found there.

Warning to Shareholders

The VCT is aware that some shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out

to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers for free company reports.

Please note that it is very unlikely that either the Company or Octopus would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment advice.

If you are in any doubt about the veracity of an unsolicited phone call, please call either Octopus, or the Registrar, at the numbers provided at the back of this report.

ABOUT OCTOPUS APOLLO VCT 3 PLC

Octopus Apollo VCT 3 plc ('Apollo 3' or 'Company' or 'Fund') is a venture capital trust ('VCT') which aims to provide shareholders with attractive tax-free dividends and long-term capital growth, by investing in a diverse portfolio of predominantly unquoted companies. The VCT is managed by Octopus Investments Limited ('Octopus' or 'Manager').

The Fund was launched in July 2006 and raised over £27.1 million (£25.9 million net of expenses) through an offer for subscription by the time it closed on 5 April 2007. The objective of the Fund is to invest in a diversified portfolio of UK smaller companies in order to generate income and capital growth over the long-term.

Further details of the Fund's progress are discussed in the Chairman's Statement and Investment Manager's Review on pages 5 to 16.

Venture Capital Trusts (VCTs)

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unlisted companies in the UK. Subsequent Finance Acts have introduced changes to VCT legislation. The tax benefits currently available to eligible new investors in VCTs include:

- up-front income tax relief of up to 30%;
- exemption from income tax on dividends paid; and

- exemption from capital gains tax on disposals of shares in VCTs

The Company has been provisionally approved as a VCT by HM Revenue & Customs. In order to maintain its approval the Company must comply with certain requirements on a continuing basis. Now the Company has exceeded the end of its third accounting period 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 the prescribed limit at the time of investment, and whose total number of employees is less than 50, also at the time of investment. The Company will continue to ensure its compliance with these qualification requirements.

FINANCIAL SUMMARY

Ordinary shares	Year to 31 January 2011	Year to 31 January 2010
Net assets (£'000s)	24,332	24,552
Net return after tax (£'000s)	677	244
Net asset value per share (NAV)	89.6p	90.1p
Cumulative dividends paid since launch	9.0p	6.0p
Proposed final dividend per share	1.5p	1.5p

CHAIRMAN'S STATEMENT

Introduction

I am delighted to present the fifth Annual Report of Octopus Apollo VCT 3 plc for the year ended 31 January 2011.

Performance

It is pleasing to report a good performance for the year, one that has been in line with the investment mandate of this VCT. As the initial funds have now reached their investment targets, the net asset value ('NAV') of Apollo 3 has levelled, providing a stable return on your investment. At the year end the total return, being the change in NAV plus dividends paid in the year, was 2.8%, with the NAV now standing at 89.6 pence per share.

Trading results of investee companies on the whole have been positive which has led to uplifts being recognised in Bluebell Telecom, Clifford Thames, CSL DualCom and Hydrobolt; these have been slightly offset by a reduction the fair value of Bruce Dunlop. Overall net holding gains of £576,000 have been recognised in the year.

Dividend

It is your Board's policy to maintain a regular dividend flow where possible in order to take advantage of the tax free distributions a VCT is able to provide.

Given the performance of your Company, your Board has proposed a final dividend of 1.5 pence per share (payable from revenue reserves) in respect of the year ended 31 January 2011. This dividend, if approved by shareholders at the AGM, will be paid on 15 July 2011 to shareholders on the register on 17 June 2011. Alongside the 1.5 pence per share interim dividend paid in October 2010, this will take dividends in relation to the year ended 31 January 2011 to 3.0 pence per share (2010: 3.0 pence per share).

Investment Portfolio

A full list of the Company's investment portfolio is set out on page 9. Vulcan Services II, a company set up to seek qualifying investments, was successful in acquiring Bluebell Telecom Limited, a company providing landline, mobile and data solutions to businesses.

Further investment was made into Resilient Corporate Services, a company seeking VCT qualifying investments, and a small non-qualifying investment was made into Carebase (Col), a company used to purchase land in order to build the care home that fellow investee company Salus Services is funding.

All of the investments are discussed further in the Investment Managers Review on pages 7 to 16.

The Fund has now invested sufficiently in order to meet all the requirements for it to fully qualify as a VCT. It now has the opportunity to make a few further low risk investments which should accelerate the NAV of the Fund over the next couple of years.

Investment Strategy

As set out in the prospectus, the aim of the Fund is to make investments on the basis of taking less risk than a typical VCT. To date the Investment Manager has been successful in achieving this aim, as can be witnessed by the absence of any significant falls in portfolio valuations.

Typically the structure of the investments is weighted more heavily towards loan based instruments in favour of equity. This is considered to be of a lower risk nature as returns are fixed and payments are generally ranked above most other creditors, allowing for future visibility and security. This strategy also reduces the downward risk that is part and parcel of an equity investment.

The Fund has also been able to take strong advantage of the reduced liquidity in the traditional lending market, which has led to good opportunities to invest into well managed and profitable businesses with strong recurring cash-flows.

The Budget

It is encouraging that, subject to EU approval, with effect from 6 April 2012 the gross asset limit for investee companies for VCTs is to be raised from £7m to £15m, and the number of employees is to be raised from 50 to 250. Should approval be obtained, this will open a wider area of investment opportunities that we are looking forward to being able to explore.

CHAIRMAN'S STATEMENT (continued)

Change of Name

As I mentioned in my last annual statement, your VCT invests in line with three other VCTs managed by Octopus. It was therefore proposed, and subsequently approved, that the name of your VCT be changed to be in line with the other VCTs with whom it co-invests. The name was therefore changed to Octopus Apollo VCT 3 plc during the year. I would like to stress that this will not affect the way in which your Company is managed.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice concerning ongoing compliance with Her Majesty's Revenue & Customs ('HMRC') rules and regulations concerning VCTs. The Board has been advised that Octopus Apollo VCT 3 plc is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT.

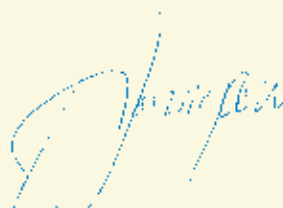
A key requirement is now to maintain the 70% qualifying investment level. As at 31 January 2011, 79.2% of the portfolio, as measured by HMRC rules, was invested in VCT qualifying investments.

Outlook

Concerns about the macro-economic climate remain in the form of the sustainability of the economic recovery, inflationary pressures and the fragile condition of public finances within the UK. These factors combined with the recent increases in oil prices provide an uncertain environment for many businesses.

However the majority of investments in your Company's portfolio have continued to report good trading results and the persistent reluctance of banks to lend to small companies continues to provide relevant investment opportunities into financially strong businesses.

At present, the prospect of economic growth returning to the UK appears realistic and this should provide a good background against which your Company can continue to align its performance with its original objectives.



Tony Morgan

Chairman

17 May 2011

INVESTMENT MANAGER'S REVIEW

Personal Service

At Octopus, we focus on both managing your investments and keeping you informed throughout the investment process. We are committed to providing our investors with regular and open communication. Our updates are designed to keep you informed about the progress of your investment. During this time of economic uncertainty, we consider it particularly important to be in regular contact with our investors and are working hard to manage your money in the current climate.

Octopus Investments Limited was established in 2000 and has a strong commitment to both smaller companies and to VCTs. We currently manage 17 VCTs, including this Company, and manage nearly £320 million in the VCT sector. Octopus has over 180 employees and has been voted as 'Best VCT Provider of the Year' by the financial adviser community for the last four years.

Investment Policy

The investment approach of Octopus Apollo VCT 3 plc is to seek lower risk investments. The majority of companies in which Apollo 3 invests operate in sectors where there is a high degree of predictability. Ideally, we seek companies that have contractual revenues from financially sound customers and will provide an exit to shareholders within three to five years.

Performance

As at 31 January 2011 the NAV stood at 89.6p, compared to 90.1p at 31 January 2010, and when adding back the 3.0p of dividends paid, this represents a steady total return of 2.8%.

The valuation uplifts in Clifford Thames, CSL DualCom and Bluebell Telecom have resulted from our valuing a proportion of the redemption premiums that have been negotiated and are due to be paid on the repayment of the loans issued to the companies. There has also been an uplift in Hydrobolt that has been recognised as a result of the company's strong performance.

A small reduction in fair value was recorded in Bruce Dunlop as the equity proportion of the investment was written down to nil. This decrease is in recognition of the fact that Bruce Dunlop, in common with most media related companies, is finding trading tough. We remain confident in the management's running of the business and hope the Company will trade its way back to budget in the coming years. This decrease in fair value amounts to a reduction in value of £48,000, against a total cost of £1,018,000, with the remainder of our funds being invested in debt that ranks ahead of all other investors on exit.

The majority of investments are loan based on which a steady flow of interest is received into the Fund. This is now nearing the level whereby interest receipts offset the running costs of the Fund. This income versus expenditure parity will allow for any profits on realisations and loan note redemption premiums to be paid out directly to shareholders, or recognised as an uplift to the value of your investment.

Portfolio Review

We review many businesses each year and carefully assess which would be suitable for your Company in order to successfully meet the low risk mandate of this VCT. It is a long process that we go through and involves thorough scenario planning that ultimately results in us having to turn down the majority of business cases that we see.

That said we have been successful during the year in deploying the funds held by Vulcan Services II into Bluebell Telecom, and have also made a small, non-qualifying investment into Carebase (Col). We believe both investments follow the investment mandate of this VCT; Bluebell has strong recurring cash flows and a good management team and Carebase (Col) is asset backed.

Further to this, since the year end we have made a further investment of £1 million into Clifford Thames. We have also used the funds held in GreenCo Services to further our investment into CSL DualCom, and the funds of PubCo Services to acquire

INVESTMENT MANAGER'S REVIEW (continued)

Salus Services, injecting further capital into the company to enable the business to build another care home. GreenCo and PubCo were initially intending to invest into the environmental sector and the restaurant and bar sector respectively. However given the change in market conditions these sectors were not considered appropriate. We have also invested £950,000 into Aashman Power, a company involved in the construction of solar power units.

Clifford Thames, CSL DualCom and Salus Services are businesses that we have already invested in, and therefore we know them well and are confident of their continued success. With regards to Clifford Thames and CSL DualCom, in addition to investing more funds, we have significantly increased the possible return on our investment without, we believe, taking significantly more risk.

Outlook

We remain cautious about the year ahead and continue to be on the lookout for potential difficulties in the portfolio to enable ourselves to be prepared and plan appropriately. However in general we are confident that the investee companies are well positioned to weather the uncertain times ahead and we remain optimistic that your Company's NAV will be able to make progress, despite the economic environment in which we find ourselves.

If you have any questions on any aspect of your investment, please call one of the team on 0800 316 2347.



Stuart Nicol

Investment Director
Octopus Investments
17 May 2011

Investment Portfolio

Qualifying investments	Sector	Investment at cost 31 January 2011 (£'000)	Movement in valuation to 31 January 2011 (£'000)	Fair value at 31 January 2011 (£'000)	Movement in fair value in year (£'000)	% equity held by Apollo 3	% equity managed by Octopus
Clifford Thames Group Limited	Automotive	2,000	314	2,314	314	2.8%	8.0%
Bluebell Telecom Services Limited	Telecommunications	2,000	220	2,220	220	4.4%	6.5%
Salus Services 1 Limited	Care homes	2,000	–	2,000	–	15.7%	100.0%
GreenCo Services Limited	Environmental	2,000	–	2,000	–	8.2%	57.4%
PubCo Services Limited	Restaurants & bars	2,000	–	2,000	–	11.4%	56.9%
CSL DualCom Limited*	Security devices	1,000	25	1,025	25	0.0%	0.0%
Tristar Limited	Chauffeur services	1,000	–	1,000	–	1.3%	35.0%
Diagnos Limited*	Automotive	1,000	–	1,000	–	0.0%	0.0%
Businessco Services 2 Limited	Business services	1,000	–	1,000	–	5.0%	49.0%
Ticketing Services 1 Limited	Ticketing	1,000	–	1,000	–	25.3%	100.0%
Ticketing Services 2 Limited	Ticketing	1,000	–	1,000	–	25.3%	100.0%
Resilient Corporate Services Limited	Business services	1,000	–	1,000	–	24.5%	49.0%
Bruce Dunlop & Associates International Limited	Media	1,018	(48)	970	(48)	1.7%	30.0%
Hydrobolt Limited	Manufacturing	606	79	685	79	0.9%	43.3%
British Country Inns plc	Restaurants & bars	100	(30)	70	(14)	1.3%	1.3%
Total Qualifying fixed asset investments		18,724	560	19,284	576		
Non-qualifying fixed asset investments		350	–	350	–		
Total fixed asset investments		19,074	560	19,634	576		
Money market funds		4,274	–	4,274			
Cash at bank		207	–	207			
Total investments		23,555	560	24,115			
Debtors less creditors				217			
Total net assets				24,332			

*Debt based investments

Valuation Methodology

The investments held by Apollo 3 are all unquoted and as such there is no trading platform from which prices can be easily obtained. As a result, the methodology used in fair valuing the investments is the transaction price of the recent investment round. Subsequent adjustment to the fair value of unquoted investments has been made using sector multiples

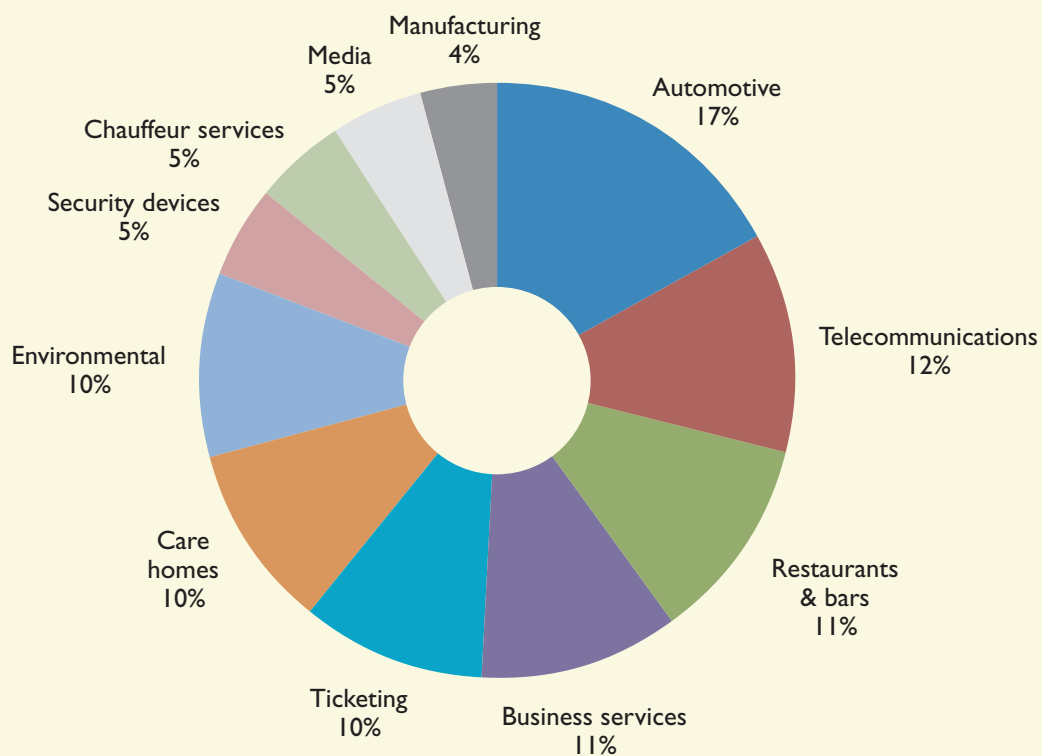
based on information as at 31 January 2011, where applicable and adjustment to the fair value has also been made according to any significant under or over performance of the business.

If you would like to find out more regarding the International Private Equity and Venture Capital ('IPEVC') Valuation Guidelines, please visit the following website: www.privateequityvaluation.com.

INVESTMENT MANAGER'S REVIEW (continued)

Sector Analysis

Total Qualifying Investments by fair value



Investment Portfolio – Ten Largest Holdings

Listed below are the ten largest investments by value as at 31 January 2011:

Clifford Thames Group Limited ('Clifford Thames')

Clifford Thames is a market leading provider of consultancy and business outsourcing services for the automotive industry, and is a key partner of most of the world's leading car manufacturers. With offices in eight countries, Clifford Thames has a well-established and impressive client list including Ford, GM Europe, Jaguar Land Rover, Mazda and Fiat. Further information can be found at the company's website www.clifford-thames.com.

Asset class	Cost	Valuation
A Ordinary shares	£457,000	£457,000
B preference shares	£5,000	£5,000
Loan stock	£1,538,000	£1,852,000
Total	£2,000,000	£2,314,000

Investment date:	January 2010
Equity held:	2.8%
Last audited accounts:	31 March 2010
Revenues:	£31.6 million
Profit before interest & tax:	£2.7 million
Net assets:	£10.1 million
Income receivable recognised in year:	£164,000
Valuation basis:	Earnings multiple



Further information
can be found at the company's
website www.clifford-thames.com

Bluebell Telecom Services Limited ('Bluebell') (formerly Vulcan Services II Limited)

Bluebell provides landline, mobile and data solutions to businesses, helping to cut costs and improve efficiency through simple rationalisation and more effective deployment of voice and data services. Further information can be found at the company's website www.bluebelltelecom.com.

Asset class	Cost	Valuation
A Ordinary shares	£214,000	£214,000
Loan stock	£1,786,000	£2,006,000
Total	£2,000,000	£2,220,000

Investment date:	September 2010
Equity held:	4.4%
Last audited accounts:	N/A*
Revenues:	N/A*
Profit before interest & tax:	N/A*
Net assets:	N/A*
Income receivable recognised in year:	£80,000
Valuation basis:	Earnings multiple



Further information
can be found at the company's
website www.bluebelltelecom.com

* The first year's statutory accounts are yet to be produced

INVESTMENT MANAGER'S REVIEW (continued)

Salus Services I Limited ('Salus')

Salus is funding the construction of a care home based in Colchester.

Asset class	Cost	Valuation
A Ordinary shares	£2,000,000	£2,000,000
Loan stock	–	–
Total	£2,000,000	£2,000,000

Investment date:	January 2010
Equity held:	15.7%
Last audited accounts:	31 December 2009
Revenues:	£0.0 million
Loss before interest & tax:	£(0.0) million
Net assets:	£0.6 million
Income receivable recognised in year:	£101,000
Valuation basis:	Earnings multiple

GreenCo Services Limited ('GreenCo')

GreenCo was set up to acquire VCT qualifying trades. Since the year end the funds have been used to invest further into DualCom due to the company's positive financial performance since initial investment.

Asset class	Cost	Valuation
A Ordinary shares	£605,000	£605,000
Loan stock	£1,395,000	£1,395,000
Total	£2,000,000	£2,000,000

Investment date:	April 2009
Equity held:	8.2%
Last audited accounts:	N/A
Revenues:	£0.0 million
Profit before interest & tax:	£0.0 million
Net assets:	£2.0 million
Income receivable recognised in year:	£6,000
Valuation basis:	Earnings multiple

PubCo Services Limited ('PubCo')

PubCo was set up to acquire VCT qualifying trades. Since the year end, the funds have been used successfully to acquire the net assets of Salus Services Limited, enabling the company to fund the construction of a second care home.

Asset class	Cost	Valuation
A Ordinary shares	£605,000	£605,000
Loan stock	£1,395,000	£1,395,000
Total	£2,000,000	£2,000,000

Investment date:	April 2009
Equity held:	11.4%
Last audited accounts:	N/A
Revenues:	£0.0 million
Profit before interest & tax:	£0.0 million
Net assets:	£2.0 million
Income receivable recognised in year:	£6,000
Valuation basis:	Earnings multiple

CSL DualCom Limited ('DualCom')

DualCom is the UK's leading supplier of dual path signalling devices, which link burglar alarms to the police or a private security firm. The devices communicate using a telephone line or broadband connection and a wireless link from Vodafone, which has been a partner since 2000. DualCom has developed a number of new products for the sector, which have enabled the business to steadily grow its market share of new connections and its profitability since the initial investment. Further information can be found at the company's website www.csldual.com.

Asset class	Cost	Valuation
C Ordinary shares	£100,000	£100,000
Loan stock	£900,000	£925,000
Total	£1,000,000	£1,025,000

Investment date:	February 2009
Equity held:	0.0%
Last audited accounts:	31 March 2010
Revenues:	£8.2 million
Profit before interest & tax:	£1.2 million
Net assets:	£1.2 million
Income receivable recognised in year:	£46,000
Valuation basis:	Steady state cashflow multiple



Further information can be found at the company's website www.csldual.com

INVESTMENT MANAGER'S REVIEW (continued)

Tristar Worldwide Limited ('Tristar')

Tristar is one of the world's leading chauffeur companies, carrying over 500,000 passengers for 400 clients in the last year alone. The business operates in 70 countries with its own vehicles in the UK and a rapidly expanding service in the US. It has a blue-chip customer base which includes Virgin, Emirates, BP, Goldman Sachs and Bank of America-Merrill Lynch. The market for chauffeur services has been heavily affected in the current economic environment but we believe has now stabilised. Tristar has achieved a good performance in the circumstances where many of its competitors are suffering to a greater extent. The company's focus on a joined up international service is proving to be an important selling feature for clients; the Company has offices in the UK, US and Hong Kong as well as an affiliate network providing service in over 70 countries worldwide. Further information can be found at the company's website www.tristarworldwide.com.

Asset class	Cost	Valuation
A Ordinary shares	£20,000	£20,000
B Ordinary shares	£280,000	£280,000
Loan stock	£700,000	£700,000
Total	£1,000,000	£1,000,000

Investment date:	January 2008
Equity held:	1.3%
Last audited accounts:	31 May 2010
Revenues:	£32.6 million
Profit before interest & tax:	£0.1 million
Net assets:	£2.0 million
Income receivable recognised in year:	£188,000
Valuation basis:	Earnings multiple



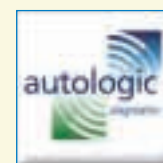
Further information
can be found at the company's
website www.tristarworldwide.com

Diagnos Limited

Diagnos develops and sells sophisticated automotive diagnostic software and hardware that enables independent mechanics, dealerships and garages to service and repair vehicles. Mechanics require a diagnostic tool to communicate with the in-car computer in order to measure, monitor and, where necessary, fix the electronic process or system. Further information can be found at the company's website www.autologic-diagnos.co.uk.

Asset class	Cost	Valuation
B Ordinary shares	£50,000	£50,000
C Ordinary shares	£50,000	£50,000
Loan stock	£900,000	£900,000
Total	£1,000,000	£1,000,000

Investment date:	February 2009
Equity held:	0.0%
Last audited accounts:	31 December 2009
Revenues:	£6.2 million
Profit before interest & tax:	£1.8 million
Net assets:	£2.6 million
Income receivable recognised in year:	£38,000
Valuation basis:	Earnings multiple



Further information
can be found at the company's
website www.autologic-diagnos.co.uk

BusinessCo 2 Services Limited ('BusinessCo 2')

BusinessCo 2 has been set up to investigate and seek the acquisition of companies engaged in the provision of business support services.

Asset class	Cost	Valuation
A Ordinary shares	£304,000	£304,000
Loan stock	£696,000	£696,000
Total	£1,000,000	£1,000,000

Investment date:	November 2008
Equity held:	5.0%
Last audited accounts:	N/A
Revenues:	£0.0 million
Profit before interest & tax:	£0.0 million
Net assets:	£1.0 million
Income receivable recognised in year:	£3,000
Valuation basis:	Earnings multiple

Ticketing Services I Limited

Ticketing Services I Limited is involved in the purchase and resale, at a margin, of tickets from various ticketed events.

Asset class	Cost	Valuation
Ordinary shares	£390,000	£390,000
C Ordinary shares	£610,000	£610,000
Total	£1,000,000	£1,000,000

Investment date:	
Equity held:	25.3%
Last audited accounts:	N/A
Revenues:	£0.0 million
Profit before interest & tax:	£0.0 million
Net assets:	£1.0 million
Income receivable recognised in year:	£nil
Valuation basis:	Earnings multiple

INVESTMENT MANAGER'S REVIEW (continued)

Ticketing Services 2 Limited

Ticketing Services 2 Limited is involved in the purchase and resale, at a margin, of tickets from various ticketed events.

Asset class	Cost	Valuation
Ordinary shares	£390,000	£390,000
C Ordinary shares	£610,000	£610,000
Total	£1,000,000	£1,000,000

Investment date:	
Equity held:	25.3%
Last audited accounts:	N/A
Revenues:	£0.0 million
Profit before interest & tax:	£0.0 million
Net assets:	£1.0 million
Income receivable recognised in year:	£nil
Valuation basis:	Earnings multiple

How Octopus creates and delivers value for the shareholders of Octopus Apollo VCT 3 plc

Octopus Apollo VCT 3 plc focuses on providing established, development and expansion funding to predominantly unquoted companies with a typical investment per company of £1 million to £2 million. The Fund is being invested on the basis of taking less risk than a typical VCT. Typically the Fund will receive its return from interest paid on secured loan notes as well as an exposure to the value of the shares of a company. The investment strategy is to derive sufficient return from the secured loan notes to achieve the Fund's investment aims and to use the equity exposure to boost returns. As portfolio companies are unquoted the Fund will receive a return from an equity holding when a company is sold.

Investment Process

The Investment Manager follows a multi-stage process prior to making Qualifying Investments in unquoted companies.

Initial Screening

If the initial review of the business plan is positive, a meeting is held with the management team of the business in order to assess the team in terms of its ability to achieve the objectives set out in the business plan. The proposition is then discussed and reviewed with the other members of the Octopus team and a decision is taken as to whether to continue discussions with the company with a view to making an investment.

Due Diligence

Prior to making an investment, due diligence is carried out on the potential investee company. The due diligence process includes a review of the investee company's products and services, discussions with customers and suppliers, competitive analysis, assessment of the capabilities of the management team and financial analysis. In addition, with the potential investee company's permission, the input of existing relevant Octopus industry contacts is often sought. Additionally,

Octopus also draws on professional input from lawyers, accountants and other specialists as required in order to conduct the due diligence and draw up the required legal documentation in order to complete an investment.

Post-Investment Monitoring

Octopus will either appoint a director or a formal observer to the board of each investee company. The majority of the investments are expected to be held for approximately five years. There may, however, be opportunities to exit profitably on shorter timescales. The Investment Manager will conduct a regular review of the portfolio, during which each investee company will be assessed in terms of its commercial and financial progress, its strategic positioning, requirement for further capital, progress towards an eventual exit and its current and prospective valuation.

As each company matures, the exit considerations become more specific, with a view to establishing a definitive action plan in order to achieve a successful sale of the investment. Throughout the cycle of an investment the Investment Manager will remain proactive in determining the appropriate time and route to exit. It is expected that the majority of exits will be by means of trade sale.

DETAILS OF DIRECTORS

Tony Morgan (Chairman – Age 79) spent seven years as Chairman and Chief Executive of a highly successful and multi-national company, Purle Bros, until its merger with Redland in 1971 when he joined their main board. He became a Governor of the BBC in the same year. He was later to become Deputy Chairman and shareholder in a joint venture with Wimpey Construction developing their substantial environmental business. In 1992 he was appointed Chief Executive of The Industrial Society and he has been Chairman of the charity Youth at Risk since 1996. Tony has had more than eight years' specific VCT experience formerly as a non-executive director of Octopus Phoenix VCT plc.

Robert Johnson (Director – Age 55) is a career managing director with five successful company sales, most recently he was joint managing director of Buyagift plc until its sale. He was the COO and director of Fuel Ltd, a leading e-learning company until 2004 when Fuel was acquired by Stanley Davis and the managing director of Ilion plc, a value-added distributor focusing on major networking and Unix brands until 1999 when Ilion was acquired by Landis. Rob has experience of working with entrepreneurs in fast-growth situations and an extensive background in sales, marketing and operations and hands-on experience of start-up situations. Rob is a non-executive director of Unicorn Training and Mirai Investments.

Matt Cooper (Director – Age 44) is the Chairman of Octopus Investments Limited, the Investment Manager of Apollo 3. 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. Matt is also Chairman of Perfect Pizza Limited and Imaginatik Plc and a non-executive director of 10Duke Software Limited, MyDish Limited, Global Collect and nine other VCTs.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 January 2011.

This report has been prepared by the Directors in accordance with the requirements of s415 of the Companies Act 2006. The Company's independent auditor is required by law to report on whether the information given in the Directors' Report (including the review of business activities) is consistent with the financial statements. The auditor's opinion is included in their report on pages 35 and 36.

Principal Activity and Status

The principal activity of the Company is to invest in a diversified portfolio of unquoted UK smaller companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream. The Company has been approved as a VCT by Her Majesty's Revenue and Customs (HMRC).

On 14 July 2010 the Company changed its name from Octopus Protected VCT plc to Octopus Apollo VCT 3 plc.

In order to maintain approved status, the Company must comply on a continuing basis with the provisions of s274 of the Income Tax Act 2007. By the end of the third accounting period, in which shares were subscribed the Company is required to hold at least 70% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 30% must comprise eligible Ordinary shares.

For this purpose, a "VCT qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK quoted company (which may be quoted on AIM) or unquoted company which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

The Directors are required by the Articles of Association to propose an Ordinary resolution at the

Company's 15th Annual General Meeting in 2021 that the Company shall continue in being and at each fifth subsequent Annual General Meeting thereafter. If any such resolution is not passed, the Directors shall within four months convene a general meeting to consider the proposals for the reorganisation or reconstruction of the business and if that is not passed propose the winding-up of the Company.

Review of Business Activities

The Directors are required by s417 of the Companies Act 2006 to include a business review to shareholders. The business review is set out below and also includes the Chairman's Statement on pages 5 and 6, and the Investment Manager's Review on pages 7 to 16 by reference.

The purpose of this review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators used to measure performance.

The following events occurred between the balance sheet date and the signing of these financial statements:

- on 23 March 2011 the Company invested £1 million into Clifford Thames Group Limited
- on 23 March 2011 Greenco Services Limited purchased shares in CSL DualCom Limited
- on 23 March 2011 PubCo Services Limited purchased shares in Salus Services 1 Limited
- on 13 April 2011 the company invested £950,000 into Aashman Power Limited

Performance and Key Performance Indicators

As a VCT, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of unquoted UK companies which meet the relevant criteria for VCTs.

The Board expects the Investment Manager to deliver a performance which meets the twin objectives of

DIRECTORS' REPORT (continued)

providing investors with attractive returns from a portfolio of investments, and maximising tax-free income for shareholders. The key performance indicators (KPIs) in meeting these objectives are net asset value and the performance of dividends paid which, when combined, give total return. Additional KPIs reviewed by the Board include the discount of the share price relative to the NAV and the total expense as a proportion of shareholders' funds. The total running costs in the year, as defined in the prospectus, were within the annual limit of 3.3%, at 2.9%.

A record of some of the performance indicators are detailed on the first page entitled Financial Headlines. Additional comments are provided in the Chairman's Statement discussing the performance of the Company over the current year.

The Board assesses the performance of the Investment Manager in meeting the Company's objectives against the KPIs highlighted above.

Clearly, when making investments in unquoted companies at an early stage of their development, some are likely to disappoint, but investing the funds raised in growth companies with the potential to become market leaders creates an environment of improved return for shareholders. The growth of these companies is largely dependent on continuing the existing levels of corporate spending. The current volatile economic environment could adversely affect corporate spending patterns, which would in turn have a negative impact on the development of the investee companies.

Performance, measured by the change in NAV per share and total return per share, is also measured against the FTSE Small-Cap ex investment trusts Index and the FTSE All-Share Index. This is shown in the graph on page 33 of the Directors' Remuneration Report. These indices have 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 other generalist VCTs.

The Chairman's Statement, on pages 5 to 6, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 7 to 16.

Results and dividend

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Net return/(loss) attributable to shareholders	677	244
Appropriations:		
Final dividend proposed – 1.5p per share (2010: 1.50p)	(407)	(409)

The proposed final dividend will, if approved by shareholders at the AGM, be paid on 15 July 2011 to shareholders on the register on 17 June 2011. In addition to the 1.50p interim dividend paid in October, this will take dividends for the year ended 31 January 2011 to 3.0p.

Objective and Investment Policy

The Objective of the Company is to invest in a diversified portfolio of investments with a view to minimising risk to capital. In this respect, a significant percentage of the qualifying investments will be into companies known to the team at Octopus where the Fund Managers are confident that there is a high level of capital security.

The Company's investment policy has been designed to enable the Company to comply with the VCT qualifying conditions set out above. It is intended that the long-term disposition of the Company's assets will be not less than 80% in a portfolio of unquoted investments and up to 20% in cash or near-cash investments to provide a reserve of liquidity which will maximise the Company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs.

Investments will be structured using various unquoted investment instruments, including Ordinary and

Preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation. The portfolio will be diversified by investing in a broad range of industry sectors and by holding investments in companies at various stages of maturity in the corporate development cycle, though it is not intended that investments will be made in early stage unquoted companies which have yet to achieve profitability and cash generation. The normal investment holding period will be in the range from three to seven years. Any uninvested funds will typically be held in cash and money market funds.

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to £1 million in a fiscal year and generally no more than 15% of the Fund's assets, at cost, will be invested in the same company. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale. However shareholders should be aware that the Company's VCT qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available. Investments will normally be made using the shareholders' funds and it is not intended that the Company will take on any long-term borrowings.

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an Ordinary Resolution. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

In considering a prospective investment in a company, particular regard is made to:

- evidence of strong recurring cash flows;

- the company's ability to sustain a competitive advantage;
- the strength of the management team; and
- the company's prospects of being sold or floated, usually within three to five years.

A review of the investment portfolio and of market conditions during the period is included in the Chairman's Statement and Investment Manager's Review.

Further details of the Company's risk management policies are provided below and in note 16 to the financial statements.

VCT Regulation

Compliance with required rules and regulations is considered with all investment decisions made. The Company is further monitored on a continual basis to ensure compliance. The main criteria to which the Company must adhere include:

- at least 70% of investments must be made in qualifying shares or securities;
- at least 30% of the 70% of qualifying investments must be invested into Ordinary shares with no preferential rights;
- no single investment made can exceed 15% of the total Company value; and
- a minimum of 10% of each qualifying investment must be in Ordinary shares with no preferential rights.

Principal Risks, Risk Management and Regulatory Environment

The Board carries out a regular review of the risk environment in which the Company operates. The main areas of risk identified by the Board are as follows:

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being

DIRECTORS' REPORT (continued)

liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The Investment Manager keeps the Company's VCT qualifying status under continual review and reports to the Board regularly throughout the year. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Investment risk: the majority of the Company's investments will be in small and medium-sized companies which are VCT qualifying holdings, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The Directors and the Manager aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage, industry sector and geographical location. The Board reviews the investment portfolio with the Manager on a regular basis.

Financial risk: as most of the Company's investments involve medium to long-term commitment and are relatively illiquid, the Directors consider that it is inappropriate to finance the Company's activities through borrowing. Accordingly, they seek to maintain a proportion of the Company's assets in cash or cash equivalents in order to be in a position to take advantage of new investment opportunities. The Company has very little exposure to foreign currency risk and does not enter into derivative transactions. The Company has cash deposits which are held on the balance sheet of HSBC Bank plc and in cash funds managed by professional cash managers Goldman Sachs and BlackRock. The risk of loss to this cash is deemed to be extremely low, due to HSBC's historical credit rating and a current S&P rating of AA, and all cash funds have S&P ratings of A to AAA.

Regulatory risk: the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards.

Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Reputational risk: inadequate or failed controls might result in breaches of regulation or loss of shareholder trust.

Internal control risk: the Board reviews annually the system of internal controls, financial and non-financial, operated by the Company and the Manager. These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained.

Competitive risk: retention of key personnel within Octopus is vital to the success of the Company. Incentives to the Manager's key staff are continuously monitored.

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the revised 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 27 to 31.

Further details of the Company's financial risk management policies are provided in note 16 to the financial statements.

Directors

The Directors of the Company during the year and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued Ordinary shares of 10p are shown in the table below:

	31 January 2011	31 January 2010
Tony Morgan (Chairman)	5,000	5,000
Rob Johnson	nil	N/A
Matt Cooper	10,023	10,023

All of the Directors' shares were held beneficially. There have been no changes in the Directors' share interests between 31 January 2011 and the date of this report.

In accordance with the Listing Rules, Tony Morgan and Matt Cooper are not deemed to be independent directors and therefore both offer themselves for re-election on an annual basis. The Board has considered provision A.7.2 of the Combined Code 2006 and believes that both Matt Cooper and Tony Morgan continue to be effective in demonstrating their commitment to their roles, the Board and the Company. The Board therefore has no hesitation in recommending both Mr Cooper and Mr Morgan for re-election at the forthcoming Annual General Meeting. Rob Johnson who was appointed as Director on 1 June 2010 will be elected at the forthcoming Annual General Meeting.

Brief biographical notes on the Directors are given on page 18.

Directors' and Officers' Liability Insurance

The Company has, as permitted by s233 of the Companies Act 2006, 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, and this has been disclosed in accordance with s236 of the Companies Act 2006.

Whistleblowing

The Board has considered and implemented arrangements in accordance with the Combined Code's recommendations, to encourage staff of the Manager or Secretary of the Company to raise concerns, in confidence, within their organisation about possible improprieties in matters of financial reporting or other matters. It is satisfied that adequate arrangements are in place to allow an independent investigation, and follow on action where necessary, to take place within the organisation.

Management

Octopus Investments Limited acts as Investment Manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in notes 3 & 19 to the financial statements. Matt Cooper is Chairman of Octopus Investments Limited. The Investment Manager also provides secretarial, administrative and custodian services to the Company.

The Company has in place an agreement with Octopus to act as Investment Manager which is central to the ability of the Company to continue in business. There are no other contracts which are deemed to be essential to the business of the Company.

As required by the Listing Rules, the Directors confirm that in their opinion the continuing appointment of Octopus as Investment Manager is in the best interests of the shareholders as a whole. In reaching this conclusion, the Directors have taken into account the performance of other VCTs managed by Octopus and the efficient and effective service provided by Octopus to the Company, and the ability of the Investment Manager to produce satisfactory investment performance in the future.

With the exception of Chris Hulatt, no Director has an interest in any contract to which the Company is a party. Chris Hulatt is a Director of Octopus Investments. Details of the fees paid to Octopus Investments in respect of services provided by the VCT are detailed in note 18 to the financial statements.

The Company has established a performance incentive scheme whereby the Investment Manager is entitled to an annual performance-related incentive fee in the event that certain performance criteria are met. Further details of this scheme are disclosed within note 19 to the financial statements. No performance fee was payable at 31 January 2011.

It should be noted that there is no formal Management Engagement Committee as matters of

DIRECTORS' REPORT (continued)

this nature are dealt with by the independent Non-Executive Directors.

Share Issues and Open Offers

No shares (2010: nil) were allotted during the year to 31 January 2011. As at 31 January 2011, there were no open offers for subscription.

Share Buy-backs

During the year, the Company purchased 102,261 (2010: 16,216) shares for cancellation for a weighted average price of 79.3p per share for total consideration of £81,112. The total nominal value of the shares re-purchased in the year amounted to £8,111 (2010: £1,622), representing 0.30% of total issued share capital (2010: 0.06%).

Share Capital, Rights Attaching to the Shares and Restrictions on Voting and transfer

The Company's Ordinary share capital as at 31 January 2011 was 27,153,642 Ordinary shares of 10p (2010: 27,256,003 Ordinary shares) and no shares were held in Treasury.

Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's Articles of Association, the shares confer on their holders (other than the Company in respect of any treasury shares) the following principal rights:

- (a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;
- (b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities *pari passu* with the other holders of Ordinary shares; and

- (c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's Articles of Association with a notice pursuant to s793 of the Companies Act 2006 (notice by the Company requiring information about interests in its shares), the Company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares. Shareholders, either alone or with other shareholders, have other rights as set out in the Company's Articles of Association and in company law.

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the Company's Articles of Association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the Directors to

refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The Directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The Directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the Directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the Company's Articles of Association, shareholders are subject to the compulsory acquisition provisions in s974 to s991 of the Companies Act 2006.

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders in general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors; no person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association. Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his

appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first Annual General Meeting of the Company following his appointment. At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election. The Companies Act allows shareholders in general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any Director before the expiration of his or her period of office, but without prejudice to any claim for damages which the Director may have for breach of any contract of service between him or her and the Company. A person also ceases to be a Director if he or she resigns in writing, ceases to be a Director by virtue of any provision of the Companies Act, becomes prohibited by law from being a Director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's Articles of Association.

Powers of the Directors

Subject to the provisions of the Companies Acts, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders.

International Financial Reporting Standards

As the Company is not part of a group it is not mandatory for it to comply with International Financial

DIRECTORS' REPORT (continued)

Reporting Standards. The Company does not anticipate that it will voluntarily adopt International Financial Reporting Standards in the short term. However, in accordance with the "Future of UK GAAP" project, as a publicly accountable entity, the Company will be required to report under full IFRS should this be implemented. This is not expected to have a significant impact upon the balances included in the financial statements, but will give rise to significant changes in presentational information and disclosures.

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 January 2011 there were £nil trade creditors, (31 January 2010: £nil).

Environmental Policy

The Company always makes full effort to conduct its business in a manner that is responsible to the environment. This responsibility is always maintained in investment decisions where possible.

Going Concern

The Company's business activities and the factors likely to affect its future performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 5 to 16. Further details on the management of financial risk may be found in note 16 to the Financial Statements.

The Board receives regular reports from the Manager and the Directors believe that, as no material uncertainties leading to significant doubt about going concern have been identified, it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The assets of the Company consist of securities which are readily realisable (18.4% of net assets) and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Substantial Shareholdings

As at the date of this report, no disclosures of major shareholdings had been made to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

Annual General Meeting

Notice convening the 2011 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. In addition to the ordinary business and the re-appointment of the auditors, the following special business will also be proposed. Resolutions proposed as ordinary resolutions will require more than 50% of the votes cast at the meeting being in favour and the resolutions proposed as special resolutions will require at least 75% of the votes cast being in favour.

Independent Auditor

Grant Thornton UK LLP offer themselves for re-appointment as auditor. A Resolution to re-appoint Grant Thornton UK LLP as auditor will be proposed at the forthcoming Annual General Meeting.

Directors' Authority to Allot Shares and to Disapply Pre-emption Rights

The authority proposed under Resolution 6 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase Ordinary shares in the market. Resolution 6 renews the Directors' authority to allot Ordinary shares. This would enable the Directors until June 2012, to allot up to 2,715,364 Ordinary shares (representing approximately

10 per cent of the Company's issued share capital as at 31 January 2011).

Any shares allotted under this authority would be issued at prices at or above NAV.

Resolution 7 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of an offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 2,715,364 Ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 31 January 2011). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders, as a whole.

Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 8 is required so that the Directors may make purchases of up to approximately 5 per cent of the Company's issued share capital and Resolution 8 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Corporate Governance

The Board of Octopus Apollo VCT 3 plc has considered the principles and recommendations of

the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

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 2008 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement at page 31.

Board of Directors

The Company has a board of three non-executive Directors, two of which are considered to be independent of the Company's Investment Manager, Octopus Investments Limited. Mr Matt Cooper is not considered to be independent due to his role as Chairman of Octopus Investments Limited. 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 which include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders;

DIRECTORS' REPORT (continued)

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

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, who has administrative responsibility for the meetings of the Board and its Committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties. The Board does not consider it necessary for the size of the Board or the Company to identify a member of the Board as the senior non-executive director.

The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

During the year the following were held:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
Tony Morgan	4	4	2	2
Neil Wilson	2	0	1	1
Matt Cooper	4	4	2	N/A
Rob Johnson	2	2	1	1

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 18.

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.

	Date of Original Appointment	Due date for Re-election/ election
Tony Morgan	17/07/2006	AGM 2012
Matt Cooper	17/07/2006	AGM 2013
Rob Johnson	01/06/2010	AGM 2011

Neil Wilson resigned from the Board on 1 June 2010.

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

Audit Committee:

Rob Johnson (Chairman)

Tony Morgan

The Audit Committee, chaired by Rob Johnson, consists of two independent Directors. The Audit Committee believes Rob Johnson possesses appropriate and relevant financial experience as per the requirements of the Combined Code. The Board considers that the members of the Committee are

independent and have collectively the skills and experience required to discharge their duties effectively.

The Audit Committee's terms of reference include the following roles and responsibilities:

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- reviewing and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Investment Manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to propriety of financial reporting or other matters.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any charges required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to Grant Thornton UK LLP, the Company's external auditor. The Audit Committee

has reviewed the non audit services provided by the external auditor and does not believe they are sufficient to influence their independence or objectivity due to the fee being an immaterial expense.

Once the Committee has made a recommendation to the Board in relation to the appointment of the external auditor this is then ratified at the AGM through an Ordinary Resolution.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the committee considers annually whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 January 2011, the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement and remuneration;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing Octopus Investments Limited's statement of internal controls in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of Octopus Investments Limited's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial and interim results statement prior to Board approval; and
- reviewing the external auditor's detailed reports to the committee on the annual financial statements.

DIRECTORS' REPORT (continued)

Nomination Committee:

Rob Johnson (Chairman)

Tony Morgan

The Nomination Committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees. It has not yet been necessary for the Committee to meet and so terms of reference will be agreed if and when appropriate. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report on pages 32 and 33.

Internal Control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal control. 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 Manager.

The Manager acts on a discretionary basis to determine which investments are made, subject to policy decisions and directions. The Investment Manager identifies investment opportunities for the consideration of the Board, who ultimately Octopus Investments 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, although no quoted investments were held at the year end. Octopus Investments 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.

Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus, the Manager. The VCT is subject to a full annual audit whereby the auditors are the same auditors as other VCTs managed by the Investment Manager and thus controls are tested on a frequent basis. Further to this, the Audit Partner has open access to the Directors of the VCT and the Investment Manager is subject to regular review by the Octopus Compliance Department.

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 16 to the Financial Statements and within the Directors Report on pages 19 to 31.

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 shareholder questions.

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 20 Old Bailey, London EC4M 7AN. Alternatively, the team at Octopus is happy to answer any questions and can be contacted on 0800 316 2347.

Compliance Statement

The Listing Rules require the Board to report on compliance with the 48 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 January 2011 with the provisions set out in the 2008 Combined Code.

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. The Company has two independent Directors; Tony Morgan and Rob Johnson, as defined by the 2008 Combined Code. Matt Cooper holds directorships of other companies with the same Investment Manager and with the Investment Manager itself. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.
3. 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 Board nor the size of the Company.
4. The Company conducts a formal review as to whether there is a need for an internal audit function. However, the Directors do not consider that an internal audit would be an appropriate control for a venture capital trust.
5. The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
6. 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.
7. The Company does not have a Remuneration Committee as it does not have any executive Directors.

By Order of the Board



Celia L Whitten, FCIS

Company Secretary

17 May 2011

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with section 420 of the Companies Act 2006, in respect of the year ended 31 January 2011. An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The Company's auditor, Grant Thornton UK LLP, is required to give its opinion on certain information included in this report; this comprises the Directors' emoluments section below only. Their report on these and other matters is set out on pages 35 and 36.

Consideration by the Directors of Matters relating to Directors' Remuneration

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

Statement of the Company's Policy on Directors' Remuneration

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

Each Director received a letter of appointment. A Director may resign by notice in writing to the Board at any time. None of the Directors are entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

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.

The Company's policy for the current, forthcoming and future years 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 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.

The Company has no employees other than the non-executive Directors and therefore they are no employee remuneration factors to consider when determining the Directors' remuneration.

The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the year.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report. The graph below compares the NAV return and total return (including the reinvestment of all dividends and up-front tax relief, rebased to 100) of Apollo 3 over the period from July 2006 to 31 January 2011, with the total return from a notional investment (rebased to 100) in the FTSE All-Share index and the FTSE Small Cap index investment trusts over the same period. These indices are considered to be the most appropriate

broad equity market indices for comparative purposes. However, the Directors wish to point out that VCTs are not able to make qualifying investments in

companies quoted on the Main Market in their observance of the VCT rules.

Octopus Apollo VCT 3 plc performance graph



Directors' emoluments (information subject to audit)

	Year ended 31 January 2011	Year ended 31 January 2010
	£	£
Mr Tony Morgan (Chairman)	21,000	21,000
Mr Rob Johnson	10,667	–
Mr Matt Cooper	16,000	16,000
Mr Neil Wilson	5,333	16,000
Total	53,000	53,000

The Directors do not receive any other form of emoluments in addition to the directors' fees.

By Order of the Board

Celia L Whitten FCIS

Secretary
17 May 2011

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Directors' 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and 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 accounting 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 the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

In so far as each of the Directors is aware:

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

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

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

To the best of my knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the board



Tony Morgan

Chairman

17 May 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCTOPUS APOLLO VCT 3 PLC

We have audited the financial statements of Octopus Apollo VCT 3 plc for the year ended 31 January 2011 which comprise the income statement, reconciliation of movements in shareholders' funds, balance sheet, cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2011 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards (Generally Accepted Accounting Practice); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statement.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act, we are required to report to you if in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCTOPUS APOLLO VCT 3 PLC (continued)

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on page 34, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' Remuneration.

Tracey James

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Oxford

17 May 2011

INCOME STATEMENT

	Notes	Year ended 31 January 2011		
		Revenue £'000	Capital £'000	Total £'000
Loss on disposal of fixed asset investments	10	–	(25)	(25)
Gain on disposal of current asset investments	12	–	19	19
Fixed asset investment holding gains	10	–	576	576
Current asset investment holding gains	12	–	37	37
Investment income	2	917	–	917
Investment management fees	3	(127)	(379)	(506)
Other expenses	4	(341)	–	(341)
Return on ordinary activities before tax		449	228	677
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		449	228	677
Earnings per share – basic and diluted	8	1.7p	0.8p	2.5p

- The 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

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

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

INCOME STATEMENT

(continued)

	Notes	Year ended 31 January 2010		
		Revenue £'000	Capital £'000	Total £'000
Gain on disposal of current asset investments		–	255	255
Loss on disposal of current asset investments		–	(28)	(28)
Fixed asset investment holding gains		–	–	–
Current asset investment holding gains		–	144	144
Investment income	2	638	–	638
Investment management fees	3	(124)	(372)	(496)
Other expenses	4	(269)	–	(269)
Return on ordinary activities before tax		245	(1)	244
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		245	(1)	244
Earnings per share – basic and diluted	8	0.9p	(0.0)p	0.9p

- The 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

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

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Shareholders' funds at start of year	24,552	25,139
Return on ordinary activities after tax	677	244
Purchase of own shares	(81)	(13)
Dividends paid	(816)	(818)
Shareholders' funds at end of year	24,332	24,552

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

BALANCE SHEET

	Notes	As at 31 January 2011		As at 31 January 2010	
		£'000	£'000	£'000	£'000
Fixed asset investments*	10		19,634		17,708
Current assets:					
Debtors	11	274		243	
Investments – money market funds*	12	4,274		6,305	
Cash at bank		207		374	
		4,755		6,922	
Creditors: amounts falling due within one year	13	(57)		(78)	
Net current assets			4,698		6,844
Total assets less current liabilities			24,332		24,552
Called up equity share capital	14		2,715		2,725
Special distributable reserve	15		21,747		22,617
Capital redemption reserve	15		23		13
Capital reserve gains & losses on disposal	15		(1,165)		(406)
Capital reserve holding gains & losses	15		508		(479)
Revenue reserve	15		504		82
Total shareholders' funds			24,332		24,552
Net asset value per share	9		89.6p		90.1p

*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 17 May 2011 and are signed on their behalf by:

Tony Morgan

Chairman

Company number: 05840377

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

CASH FLOW STATEMENT

	Notes	Year to 31 January 2011 £'000	Year to 31 January 2010 £'000
Net cash inflow/(outflow) from operating activities		18	(375)
Taxation	6	–	–
Financial investment:			
Purchase of fixed asset investments	10	(1,735)	(14,017)
Sales of fixed asset investments	10	360	1,254
Dividends paid	7	(816)	(818)
Management of liquid resources:			
Purchase of current asset investments	12	(9,068)	(9,847)
Sales of current asset investments	12	11,155	20,505
Financing			
Purchase of own shares	14	(81)	(13)
(Decrease)/increase in cash		(167)	3,311

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

CASH FLOW STATEMENT

(continued)

RECONCILIATION OF RETURN BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 January 2011 £'000	Year to 31 January 2010 £'000
Return on ordinary activities before tax	677	244
Increase in debtors	(31)	(31)
Decrease in creditors	(21)	(217)
Loss/(gain) on disposal of fixed assets	25	(255)
(Gain)/loss on disposal of current assets	(19)	28
Holding gain on fixed asset investments	(576)	–
Holding gain on current asset investments	(37)	(144)
Inflow/(outflow) from operating activities	18	(375)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 31 January 2011 £'000	Year to 31 January 2010 £'000
Decrease in cash at bank	(167)	(3,311)
Movement in cash equivalent securities	(2,031)	(10,542)
Opening net funds	6,679	20,532
Net funds at 31 January	4,481	6,679

Net funds at 31 January comprised:

	As at 31 January 2011 £'000	As at 31 January 2010 £'000
Cash at bank	207	374
Floating rate notes	–	1,931
Money market funds	4,274	4,374
Net Funds at 31 January	4,481	6,679

NOTES TO THE FINANCIAL STATEMENTS

I. Principal accounting policies

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP), and the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies' (revised 2009).

The principal accounting policies have remained unchanged from those set out in the Company's 2010 Annual Report and financial statements. A summary of the principal accounting policies is set out below.

The Company presents its income statement in a three column format to give shareholders additional detail of the performance of the Company, split between items of a revenue or capital nature.

The Company has designated all fixed asset investments as being held at fair value through profit and loss; therefore all gains and losses arising from such investments held are attributable to financial assets held at fair value through profit and loss. Accordingly, all interest income, fee income, expenses and impairment losses are attributable to assets designated as being at fair value through profit and loss.

Capital valuation policies are those that are most important to the depiction of the Company's financial position and that require the application of subjective and complex judgements, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. The critical accounting policies that are declared will not necessarily result in material changes to the financial statements in any given period but rather contain a potential for material change. The main accounting and valuation policies used by the Company are disclosed below. Whilst not all of the significant accounting policies require subjective or complex judgements, the Company considers that the following accounting policies should be considered critical.

The preparation of the financial statements requires Management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates and assumptions mainly relate to the fair valuation of the unquoted fixed asset investments. Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances. The estimates and the assumptions are under continuous review with particular attention paid to the carrying value of the investments.

Current asset investments comprising money market funds and deposits are held at amortised cost.

Investments are regularly reviewed to ensure that the fair values are appropriately stated. Unquoted investments are valued in accordance with current International Private Equity and Venture Capital ('IPEVC') valuation guidelines, although this does rely on subjective estimates such as appropriate sector earnings multiples, forecast results of investee companies, asset values of subsidiary companies and liquidity or marketability of the investments held. For the avoidance of doubt, Octopus Apollo VCT 3 plc only invests in unquoted investments.

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values. This could lead to additional changes in fair value in the future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

I. Principal accounting policies (continued)

Fixed assets investments

Purchases and sales of investments are recognised in the financial statements at the date of the transaction (trade date).

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board. Accordingly as permitted by FRS 26, the investments are designated as being at fair value through profit or loss ("FVTPL") on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. The Company's investments are measured at subsequent reporting dates at fair value.

In the case of unquoted investments, fair value is established by using measures of value such as price of recent transaction, earnings multiple and net assets. This is consistent with International Private Equity and Venture Capital valuation guidelines.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the capital reserve – holding gains/(losses). Fixed returns on non-equity shares and debt securities which are held at fair value are computed using the effective interest rate, to distinguish between the interest income receivable (which is disclosed as interest income within the revenue column of the Income Statement) and other fair value movements arising on these instruments (which are disclosed as holding gains within the capital column of the Income Statement.)

In preparation of the valuations of assets the Directors are required to make judgements and estimates that are reasonable and incorporate their knowledge of the performance of the investee companies.

Current asset investments

Current asset investments comprise money market funds and are designated as FVTPL. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve - gains/(losses) on disposal.

The current asset investments are all invested with the Company's cash manager and are readily convertible into cash at the option of the Company. The current asset investments are held for trading, are actively managed and the performance is evaluated in accordance with a documented investment strategy. Information about them has to be provided internally on that basis to the Board.

Income

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis (including time amortisation of any premium or discount to redemption) so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course. Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

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

Dividends receivable are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will not be received. Fixed returns on debt and money market funds are recognised on a time apportionment basis, provided there is no reasonable doubt that payment will not be received in due course.

I. Principal accounting policies (continued)

Expenses

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

The transaction costs incurred when purchasing or selling assets are written off to the income statement in the period that they occur.

Revenue and capital

The revenue column of the Income Statement includes all income and revenue expenses of the Company. The capital column includes holding gains and losses on investments, as well as gains and losses on disposal. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement.

Taxation

Corporation tax payable is applied to profits chargeable to corporation tax, if any, at the current rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the "marginal" basis as recommended in the SORP.

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), and investments in money market funds.

Loans and receivables

The Company's loans and receivables are initially recognised at fair value which is usually transaction cost and subsequently measured at amortised cost using the effective interest method.

Financing strategy and capital structure

FRS 29 'Financial Instruments: Disclosures' comprises disclosures relating to financial instruments.

We define capital as shareholders' funds and our financial strategy in the medium term is to manage a level of cash that balances the risks of the business with optimising the return on equity. The Company currently has no borrowings nor does it anticipate that it will drawdown any borrowing facilities in the future to fund the acquisition of investments.

The Company does not have any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Principal accounting policies (continued)

The value of the managed capital is indicated in note 15. The Board considers the distributable reserves and the total return for the year when recommending a dividend. In addition, the Board is authorised to make market purchases up to a maximum of 5% of the issued ordinary share capital of the Company in accordance with Special Resolution 8 in order to maintain sufficient liquidity in the VCT.

Financial instruments

The Company's principal financial assets are its investments and the policies in relation to those assets are set out above. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Capital management is monitored and controlled using the internal control procedures set out on page 30 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors. The Company does not have any externally imposed capital requirements.

Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established. This liability is established for interim dividends when they are paid, and for final dividends when they are approved by the shareholders.

2. Income

	31 January 2011 £'000	31 January 2010 £'000
Interest receivable on bank balances and bonds	14	92
Money market securities – dividend income	21	101
Loan note interest receivable	882	445
	917	638

3. Investment management fees

	31 January 2011			31 January 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	127	379	506	124	372	496

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio.

3. Investment management fees (continued)

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 27 July 2006 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 fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given. The basis upon which the management fee is calculated is disclosed within note 19 to the financial statements.

4. Other expenses

	31 January 2011 £'000	31 January 2010 £'000
Directors' remuneration	53	53
Fees payable to the Company's auditor for the audit of the financial statements	12	12
Fees payable to the Company's auditor for other services – tax compliance	3	4
Accounting and administration services	74	75
Legal and professional expenses	2	1
Other expenses	197	124
	341	269

The total expense ratio for the Company for the year to 31 January 2011 was 2.9 per cent (2010: 3.1 per cent). Total annual running costs are capped at 3.3 per cent.

5. Directors' remuneration

	31 January 2011 £'000	National Insurance £'000	31 January 2010 £'000	National Insurance £'000
Directors' emoluments				
Mr Tony Morgan (Chairman)	21	2	21	2
Mr Rob Johnson (appointed 01/06/10)	11	1	–	–
Mr Matt Cooper	16	1	16	1
Mr Neil Wilson (resigned 01/06/10)	5	–	16	1
	53	4	53	4

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 (2010: three).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax on ordinary activities

The corporation tax charge for the year was £nil (2010: £nil).

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below.

Current tax reconciliation:	31 January 2011 £'000	31 January 2010 £'000
Profit on ordinary activities before tax	677	244
Non taxable gains/(losses)	(570)	(371)
Net return on ordinary activities	107	(127)
Current tax at 28% (2010: 28%)	30	(36)
Unutilised tax losses	–	54
Income not liable to tax	(16)	(18)
Utilisation of tax losses	(14)	–
Total current tax charge	–	–

The Company has excess management charges of approximately £142,000 (2010: £193,000) to carry forward to offset against future taxable profits.

Approved venture capital trusts are exempt from tax on capital gains within the Company. Since the Directors intend that the Company will continue to conduct its affairs so as to maintain its approval as a venture capital trust, no current deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

7. Dividends

	31 January 2011 £'000	31 January 2010 £'000
Recognised as distributions in the financial statements for the year		
Previous year's final dividend	408	409
Current year's interim dividend	408	409
	816	818
Paid and proposed in respect of the year		
Interim dividend – 1.5p per share (2010: 1.5p per share)	408	409
Final dividend 1.5p per share (2010: 1.5p per share)	407	409
	815	818

The final dividend of 1.5p per share for the year ended 31 January 2011, subject to shareholder approval at the Annual General Meeting, will be paid on 15 July 2011 to shareholders on the register on 17 June 2011.

8. Earnings/(loss) per Share

The revenue earnings per share is based on 27,215,442 (2010: 27,262,160) shares, being the weighted average number of shares in issue during the year; and on a return after tax of £449,000 (2010: £245,000).

The capital earnings per share is based on 27,215,442 (2010: 27,262,160) shares, being the weighted average number of shares in issue during the year; and on a return after tax of £228,000 (2010: loss of £1,000).

The total earnings per share is based on 27,215,442 (2010: 27,262,160) shares, being the weighted average number of shares in issue during the year; and a return for the year totaling £677,000 (2010: £244,000)

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted earnings per share are therefore identical.

9. Net asset value per Share

The calculation of net asset value per share as at 31 January 2011 is based on net assets of £24,332,000 (2010: £24,552,000) divided by the 27,153,642 (2009: 27,256,003) shares in issue at that date.

10. Fixed asset investments at fair value through profit or loss

Effective from 1 January 2009 the Company adopted the amendment to Financial Reporting Standard 29 *Financial Instruments: Disclosures* regarding financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held is the current bid price. These instruments are included in level 1 and comprise money market funds classified as held at fair value through profit or loss. See note 12.

Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company holds no such investment in the current or prior year.

Level 3: the fair value of financial instruments that are not traded in an active market (for example investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There have been no transfers between these classifications in the period (2009: none). The change in fair value for the current and previous year is recognised through the profit and loss account.

All items held at fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 January 2011 are summarised below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Fixed asset investments at fair value through profit or loss (continued)

Fixed asset investments:

	Level 3: Unquoted investments £'000	Total unquoted investments £'000
Valuation and net book amount:		
Book cost at 1 February 2010	17,724	17,724
Cumulative revaluation	(16)	(16)
Opening fair value at 1 February 2010	17,708	17,708
Movement in the year:		
Purchases at cost	1,735	1,735
Proceeds from the sale of investments	(360)	(360)
Loss on disposal of investments	(25)	(25)
Change in fair value in year	576	576
Closing fair value at 31 January 2011	19,634	19,634
Closing cost at 31 January 2011:	19,074	19,074
Closing holding gain at 31 January 2011:	560	560
Valuation at 31 January 2011	19,634	19,634

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect impairment of financial assets held at the price of recent investment, or to adjust earnings multiples. The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 16.

The loan and equity investments are considered to be one instrument due to the legal binding within the investment agreement.

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 7 to 16.

11. Debtors

	31 January 2011 £'000	31 January 2010 £'000
Other debtors	–	9
Prepayments and accrued income	274	239
	274	243

12. Current asset investments

Current asset investments at 31 January 2011 comprised bonds and money market funds (31 January 2010: bonds and money market funds).

	Level 1: money market funds	
	£'000	Total £'000
<hr/>		
Valuation and net book amount:		
Book cost at 1 February 2010:		
Bonds	5,321	
Money market funds	1,410	
		6,731
Revaluation to 1 February 2010:		
Bonds	(426)	
Money market funds	–	
		(426)
<hr/>		
Valuation as at 1 February 2010		6,305
Movement in the year:		
Purchases at cost:		
Money market funds	9,068	
		9,068
Disposal proceeds:		
Bonds	(2,983)	
Money market funds	(8,172)	
		(11,155)
Profit in year on realisation of investments:		
Bonds	19	
		19
Revaluation in year:		
Bonds	37	
		37
<hr/>		
Valuation as at 31 January 2011		4,274
<hr/>		
Cost at 31 January 2011:		
Bonds	1,983	
Money market funds	2,306	
		4,289
Revaluation to 31 January 2011:		
Bonds	(15)	
Money market funds	–	
		(15)
<hr/>		
Valuation as at 31 January 2011		4,274

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Current asset investments (continued)

All current asset investments held at the year end sit with the level 1 hierarchy for the purposes of FRS 29. Level 1 money market funds: Level 1 valuations are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

At 31 January 2011 and 31 January 2010 there were no commitments in respect of investments approved by the Manager but not yet completed.

13. Creditors: amounts falling due within one year

	31 January 2011 £'000	31 January 2010 £'000
Accruals	54	78
Other creditors	3	-
	57	78

14. Share capital

	31 January 2011 £'000	31 January 2010 £'000
Authorised:		
50,000,000 Ordinary shares of 10p	5,000	5,000
Allotted and fully paid up:		
27,153,642 Ordinary shares of 10p (2010: 27,256,003)	2,715	2,725

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set out on page 20. The Company is not subject to any externally imposed capital requirements.

The Company did not issue any shares in the year (2010: nil).

During the year the Company repurchased the following shares for cancellation:

- 13 May 2010: 24,486 Ordinary shares at a price of 81.0p
- 29 July 2010: 24,215 Ordinary shares at a price of 79.0p
- 29 October 2010: 13,140 Ordinary shares at a price of 77.75p
- 12 November 2010: 22,210 Ordinary shares at a price of 79.0p
- 23 December 2010: 18,210 Ordinary shares at a price of 79.9p

The total nominal value of the shares repurchased was £10,226 representing 0.38% of the issued share capital.

15. Reserves

	Special distributable reserve* £'000	Capital redemption reserve £'000	Capital reserve gains/(losses) on disposal £'000	Capital reserve holding gains/(losses) £'000	Revenue reserve* £'000
As at 1 February 2010	22,617	13	(406)	(479)	82
Repurchase of own shares	(81)	10	–	–	–
Return on ordinary activities after tax	–	–	–	–	449
Management fees allocated as capital expenditure	–	–	(379)	–	–
Current year gains/losses on disposal	–	–	(6)	–	–
Prior period holding gains/losses now crystallised	–	–	(374)	374	–
Current period holding gains on investments	–	–	–	613	–
Dividends paid	(789)	–	–	–	(27)
As at 31 January 2011	21,747	23	(1,165)	508	504

*Distributable reserves

All investments are designated as fair value through profit or loss at the time of acquisition, and all capital gains or losses on such investments are so designated.

When the Company revalues the investments still held during the period, any gains or losses arising are credited/ charged to the Capital reserve – holding gains & losses.

When an investment is sold any balance held on the Capital reserve – holding gains & losses is transferred to the Capital reserve – gains & losses on disposal as a movement in reserves.

At 31 January 2011 there were no commitments in respect of investments approved by the Manager but not yet completed.

Reserves available for potential distribution by way of a dividend are:

	£'000
As at 1 February 2010	21,814
Movement in year	(728)
As at 31 January 2011	21,086

The purpose of the special distributable reserve was to create a reserve which will be capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount to net asset value at which the Company's ordinary shares trade. In the event that the revenue reserve and capital reserve gains/(losses) on disposal do not have sufficient funds to pay dividends, these will be paid from the special distributable reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial instruments and risk management

The Company's financial instruments comprise equity, investments, unquoted loans, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying unquoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Classification of financial instruments

Apollo 3 held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 31 January 2011:

	31 January 2011 £000	31 January 2010 £000
Assets at fair value through profit or loss		
Investments	17,708	4,690
Current asset investments	6,305	16,847
Total	24,013	21,537
Loans and receivables		
Cash at bank	207	374
Accrued income	268	233
Total	475	607
Liabilities at amortised cost		
Accruals and other creditors	57	78
Total	57	78

Fixed asset investments (see note 10) are valued at fair value. Unquoted investments are carried at fair value as determined by the Directors in accordance with current venture capital industry guidelines as detailed within the Investment Managers Review. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the period-end is equal to their book value.

In carrying on its investment activities, the Company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the Company are price risk, interest rate risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

16. Financial instruments and risk management (continued)

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 20. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Directors' Report on pages 19 to 31, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on page 9.

80.7% (31 January 2010: 72.6%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 10% overall increase in the valuation of the unquoted investments at 31 January 2011 would have increased net assets and the total profit for the year by £1,963,000 (31 January 2010: £1,771,000) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

The Investment Manager considers that the majority of the investment valuations are based on earnings multiples which are ascertained with reference to the individual sector multiple or similarly listed entities. It is considered that due to the diversity of the sectors, the 10% sensitivity discussed above provides the most meaningful potential impact of average multiple changes across the portfolio.

17.6% (31 January 2010: 25.7%) by value of the Company's net assets comprises money market funds held at fair value. A 1% overall increase in the valuation of the money market funds at 31 January 2011 would have increased net assets and the total profit for the year by £42,740 (31 January 2010: £63,100) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

Interest rate risk

Some of the Company's financial assets are interest-bearing. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial instruments and risk management (continued)

Fixed rate

The table below summarises weighted average effective interest rates for the fixed interest-bearing financial instruments:

	As at 31 January 2011			As at 31 January 2010		
	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years
Unquoted fixed-interest investments	7,901	13.20%	3.0	1,824	10.82%	3.0

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market funds. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.5% at 31 January 2011 (31 January 2010: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 January 2011 £000	31 January 2010 £000
Unquoted floating loan notes	3,585	–
Listed floating rate notes	–	1,931
Money market funds	4,274	4,374
Cash on deposit	207	374
	8,039	6,679

Every 1% increase or decrease in the base rate would increase or decrease income receivable from these investments and the total profit for the year by £44,810 (31 January 2010: £66,790)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager and the Board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

16. Financial instruments and risk management (continued)

At 31 January 2011 the Company's financial assets exposed to credit risk comprised the following:

	31 January 2011 £000	31 January 2010 £000
Investments in floating rate instruments	3,585	1,931
Cash on deposit	207	374
Investments in fixed rate instruments	7,901	1,824
Accrued dividends and interest receivable	268	5
	11,961	4,134

Credit risk relating to listed money market funds is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government and major UK institutions. Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Credit risk arising on the sale of investments is considered to be small due to the short settlement and the contracted agreements in place with the settlement lawyers.

The Company's interest-bearing deposit and current accounts are maintained with HSBC Bank plc. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. Should the credit quality or the financial position of either entity deteriorate significantly the Investment Manager will move the cash holdings to another bank.

Other than cash or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 31 January 2011 or 31 January 2010.

Liquidity risk

The Company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's listed money market funds are considered to be readily realisable as they are of high credit quality as outlined above.

The Company's liquidity risk is managed on a continuing basis by the Investment Manager in accordance with policies and procedures laid down by the Board. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 January 2011 these investments were valued at £4,481,000 (31 January 2010: £6,679,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Post balance sheet events

The following events occurred between the balance sheet date and the signing of these financial statements:

- on 23 March 2011 the Company invested £1 million into Clifford Thames Group Limited
- on 23 March 2011 Greenco Services Limited purchased shares in CSL DualCom Limited
- on 23 March 2011 PubCo Services Limited purchased shares in Salus Services I Limited
- on 13 April 2011 the Company invested £950,000 into Aashman Power Limited

18. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments as at 31 January 2011 (2010: none).

19. Related party transactions

Matt Cooper, a non-executive Director of Octopus Apollo VCT 3 plc ('Apollo 3'), is also Chairman of Octopus Investments Limited. Apollo 3 plc has employed Octopus Investments throughout the year as Investment Manager. Apollo 3 has paid Octopus Investments £506,000 (2010: £496,000) in management fees. At 31 January 2011, £nil was outstanding (2010: £nil). The management fee is payable quarterly in advance and is based on 2.0% of the NAV calculated at annual intervals as at 31 January.

Octopus Investments also provides accounting and administrative services to the Company, payable quarterly in advance for a fee of 0.3% of the NAV calculated at annual intervals as at 31 January. During the year £73,653 (2010: £75,417) was paid to Octopus Investments and there is £nil outstanding at the balance sheet date, for the accounting and administrative services.

No performance related incentive fee will be payable over the first five years. Thereafter, Octopus Investments will be entitled to an annual performance related incentive fee. This performance fee is equal to 20% of the amount by which the NAV from the start of the sixth accounting and subsequent accounting period exceeds simple interest of the HSBC Bank plc base rate for the same period. The NAV at the start of the sixth accounting period must be at least 100p. Any distributions paid out by the Fund will be added back when calculating this performance fee.

The Board considers that the liability becomes due at the point that the performance criteria are met; this has not been achieved and therefore no liability has been recognised.

During the year to 31 January 2011, the Directors received the following dividends from the Company:

	Dividend received
Tony Morgan (Chairman)	£150
Matt Cooper	£301

DIRECTORS AND ADVISERS

Board of Directors

Tony Morgan (Chairman)
Rob Johnson
Matt Cooper

Company Number

Registered in England No 05840377

Secretary and Registered Office

Celia L Whitten FCIS
20 Old Bailey
London
EC4M 7AN

Investment and Administration Manager

Octopus Investments Limited
20 Old Bailey
London
EC4M 7AN
Tel: 0800 316 2298
www.octopusinvestments.com

Corporate Broker

Matrix Corporate Capital LLP
1 Vine Street
London
W1J 0AH
Tel: 0203 206 7176

Independent Auditor and Taxation Adviser

Grant Thornton UK LLP
3140 Rowan Place
John Smith Drive
Oxford Business Park South
Oxford
OX4 2WB

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers

HSBC Bank plc
31 Holborn
London
EC1N 2HR

Registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0871 664 0300
(calls cost 10p per minute plus network extras. Lines are open Monday – Friday 8.30am – 5.30pm)
www.capitaregistrars.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus Protected VCT plc will be held at 20 Old Bailey, London, EC4M 7AN on Wednesday, 22 June 2011 at 2.30 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 January 2011 and the Directors' and Auditor's Reports thereon.
2. To approve a final dividend of 1.5 pence per share.
3. To approve the Directors' Remuneration Report.
4. To re-elect Rob Johnson 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, 8 and 9 as Special Resolutions:-

6. AUTHORITY TO ALLOT RELEVANT SECURITIES

THAT the Directors be generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to allot shares up to a maximum of 2,715,364 shares (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 s571(1) of the Companies Act 2006 to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the said Act) for cash pursuant to the authority referred to in resolution 6 as if s560(1) of the said Act did not apply to any such allotments and so that:

- (a) Reference to allotment in this Resolution shall be construed in accordance with s560(1) 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 s693(4) of the Companies Act 2006 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 5% 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;
- (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

17 May 2011

NOTICE OF ANNUAL GENERAL MEETING

(continued)

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, The Registry, (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU** 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 the Listing Rules Articles of Association 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 at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion, as well as on the Investment Manager's website www.octopusinvestments.com.

PROXY FORM

OCTOPUS APOLLO VCT 3 PLC

Annual General Meeting – 22 June 2011 at 2.30 p.m.

I/We.....

(BLOCK CAPITALS PLEASE)

of

being a member of Octopus Apollo VCT 3 plc, hereby appoint the Chairman of the meeting or;

Name of Proxy..... Number of Shares.....

as my/our proxy and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 22 June 2011, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 31 January 2011, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting.

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made.

For the appointment of one or more proxy, please refer to the explanatory note (d) below.

Resolution number	FOR	AGAINST	WITHHELD
ORDINARY BUSINESS			
1. To receive, consider and adopt the financial statements for the year ended 31 January 2011	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 1.5 pence per 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 elect Rob Johnson 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"/>
SPECIAL BUSINESS			
6. To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To disapply s561 of the Companies Act 2006 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:2011

If you are unable to attend the AGM and wish to pass on any comments to the Board, please use the box below:



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, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** 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) As an alternative to returning a hard-copy proxy form by post, you can appoint a proxy by sending it by fax to Octopus Investments Limited on 020 7657 3338. For the proxy appointment to be valid, your appointment must be received by Octopus Investments Limited in such time as it can be transmitted to the registrars of the Company so as to be received no later than 48 hours before the time appointed for the meeting or any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll. Capita Registrars will not be liable for any proxy forms rendered illegible by means of fax transmission.
- (d) Any person receiving a copy of the Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in Notes (a) and (b) above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
- (e) Section 319A of the Companies Act 2006 requires the Directors to answer any question raised at the AGM which relates to the business of the meeting although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.
- (f) Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.
- (g) Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:
- (i) To give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or
 - (ii) To include the business to be dealt with at the meeting any matters (other than a proposed resolution) which may be properly included in the business.
- A resolution may properly be moved or a matter may properly be included in the business unless:
- (i) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise);
 - (ii) It is defamatory of any person; or
 - (iii) It is frivolous or vexatious.
- Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
- (h) A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.octopusinvestments.com under Products/Venture Capital Trusts.
- (i) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules 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 at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion, as well as on the Investment Manager's website www.octopusinvestments.com.

PLEASE USE THE REPLY PAID ENVELOPE PROVIDED

