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# OCTOPUS

VCT PLC

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# FINANCIAL HEADLINES

2.5% Total return for the year to 28 February 2011

95.3p Net Asset Value per share at 28 February 2011

## CONTENTS

1	Shareholder Information and Contact Details
3	About Octopus VCT plc
4	Financial Summary
5	Chairman's Statement
7	Investment Manager's Review
16	Details of Directors
17	Directors' Report
30	Directors' Responsibility Statement
31	Directors' Remuneration Report
33	Report of the Independent Auditor
35	Income Statement
37	Reconciliation of Movements in Shareholders' Funds
38	Balance Sheet
39	Cash Flow Statement
41	Notes to the Financial Statements
56	Directors and Advisers
57	Notice of Annual General Meeting

# SHAREHOLDER INFORMATION AND CONTACT DETAILS

## Financial Calendar

The Company's financial calendar is as follows:

- 5 July 2011 – Annual General Meeting
- 29 July 2011 – Final dividend paid (subject to shareholder approval)
- October 2011 – Half-yearly results to 31 August 2011 published
- May/June 2012 – Final results for year to 28 February 2012 announced; Annual Report and financial statements published

## Share Price

The Company's share price can be found on various financial websites, including [www.londonstockexchange.com](http://www.londonstockexchange.com) with the following TIDM/EPIC code:

	Ordinary shares
TIDM/EPIC code	OVCT
Latest share price 3 June 2011	95.0 pence per share (mid-price)

## 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 Shareholders should contact their independent financial adviser if they have any queries.

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 bought in shares. Matrix can be contacted as follows:

Chris Lloyd  
020 3206 7176 [chris.lloyd@matrixgroup.co.uk](mailto:chris.lloyd@matrixgroup.co.uk)

Paul Nolan  
020 3206 7177 [paul.nolan@matrixgroup.co.uk](mailto: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.

## 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](http://www.octopusinvestments.com) by navigating to Services, Investor Services, Venture Capital Trusts, Octopus VCT. All other statutory information can also be found there.

# SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

## **Warning to Shareholders**

Many companies are aware that their 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, offer to buy shares at a discount or offer for free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar 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 on page 56.

# ABOUT OCTOPUS VCT PLC

Octopus VCT plc (“Octopus VCT,” “Company” or “Fund”) is a venture capital trust (“VCT”) and is managed by Octopus Investments Limited (“Octopus”).

Octopus VCT was incorporated on 30 June 2009 under the name of Octopus Secure VCT plc; this was subsequently amended to Octopus VCT plc on 18 November 2009. Octopus VCT opened for subscription (the “Offer”) on 17 September 2009 and raised £50 million through the Offer by the time it closed on 5 April 2010. A further £1.8 million was raised through a top up issue of shares on 30 April 2010. The investment policy of Octopus VCT is to focus on making Qualifying Investments into companies which have contractual revenues from financially sound counterparties or which have a strong asset base.

Further details of the Fund’s progress are discussed in the Chairman’s Statement and Investment Manager’s Review on pages 5 to 15.

## **Venture Capital Trusts (VCTs)**

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in smaller 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 30%
- exemption from income tax on dividends paid
- exemption from capital gains tax on disposals of shares in VCTs

The Company has been provisionally approved as a VCT by Her Majesty’s Revenue & Customs (‘HMRC’). In order to maintain its approval, the Company must comply with certain requirements on a continuing basis. By the end of the Company’s 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 £7 million at the time of investment, and whose total number of employees is less than 50, also at the time of investment. The Company will do all it can to ensure its compliance with these qualification requirements.

# FINANCIAL SUMMARY

Ordinary shares	Year to 28 February 2011	Period to 28 February 2010
Net assets (£'000s)	<b>49,765</b>	4,729
Return/(loss) on ordinary activities after tax (£'000s)	<b>492</b>	(76)
Net asset value per share	<b>95.3p</b>	93.0p

# CHAIRMAN'S STATEMENT

## Introduction

I am pleased to present the second Annual Report of Octopus VCT plc for the year ended 28 February 2011.

## Performance

It is pleasing to report a stable performance for the year and one that has been in line with the investment mandate of the VCT. The net asset value ('NAV') of the VCT has increased from 94.5 pence per share (being the initial investment price net of costs) to 95.3 pence per share as at 28 February.

The one trading investment made during the year into AIM quoted company EKF Diagnostics plc has performed well, recognising an uplift of £237,000 in the year.

## Dividend

Given the level of income earned during the year, we are proposing a final dividend of 1.0 pence per in respect of the year ended 28 February 2011. If approved by shareholders at the AGM, this dividend will be paid on 29 July 2011 to shareholders on the register on 1 July 2011.

## Investment Portfolio

A full list of the Fund's investment portfolio as at the year end is set out on page 9. Alongside the investment into EKF Diagnostics plc, a total of 8 additional investments were made during the year totalling £8.0 million into companies that have been set up to acquire qualifying trades.

However it is the investment activity after the year end that I would like to emphasise. Indeed, since the year end a total of £10.9 million has been invested. This increase in activity, largely a result of the solar installation opportunities, has given comfort to your Board that the Manager is actively investing in line with the objectives of the Fund.

Solar investments have been identified as suitable for the VCT because a high level of security is obtained through investments being asset backed and supported by government subsidies.

## Investment Strategy

As set out in the prospectus, the Fund has adopted a strategy that is aimed at generating more secure returns than are typically available from investments in unquoted companies. The Qualifying Investments will be made into companies where the Octopus team is confident that there is the opportunity to invest in a manner that should provide the Fund with a high level of capital security. These companies will typically have contractual revenues from financially sound customers or a revenue stream that is generated from predictable transactions with a range of customers. The Fund may also consider investing in businesses which have an asset base that can be used to provide the Fund with security for its investment.

## The Budget

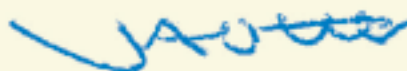
It is encouraging that, subject to EU approval, the gross asset limit for investee companies for VCTs is to be raised from £7m to £15m, and the number of employees is to be raised from 50 to 250 with effect from 6 April 2012. Should approval be obtained, this will open a wider area of investment opportunities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

# CHAIRMAN'S STATEMENT (continued)

## 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.

Despite the reluctance of banks to lend to small companies continuing to provide relevant investment opportunities for your VCT, I continue to remain cautious as commentators and newspapers reiterate their concerns about the major issues facing the economy.



**James Otter**

Chairman

3 June 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 VCT plc is to seek lower risk investments. Nearly all of the companies in which Octopus VCT invests operate in sectors where there is a high degree of predictability. Investments are sought in companies that have contractual revenues from financially sound customers and will provide an exit for shareholders within three to five years.

## Performance

As at 28 February 2011 the NAV stood at 95.3 pence per share, compared to 93.0 pence per share at 28 February 2010. This increase is partly due to a larger number of shares being issued in the year; spreading the fixed running costs of the VCT over a larger asset base, and partly due to the strong performance of the investment made, and bank interest earned.

The majority of investments are either loan based on which a steady flow of interest is received into the Fund or are invested in equity where there is no prior ranking investment, for example in the case of our solar and care home construction companies that have been invested into post year end.

## 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, since the year end we have made an investment of £1.3 million into CSL DualCom Group Limited, a profitable trading business that provides communication products and services for burglar alarms. We also invested £1 million into Salus Services Holdings Limited, injecting capital into the company to enable the business to build a second care home.

# INVESTMENT MANAGER'S REVIEW (continued)

Further to this, we have invested a total of £8.6 million into solar companies. We expect to invest significantly in this area over the next year. We believe that the installation of solar panels is well suited to the risk/return profile of the Fund. Whilst the Government has altered some of the tariffs for producing electricity this way and limited the way in which VCTs can invest in this sector this remains a significant investment opportunity for Octopus VCT.

## 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 2295.



## Stuart Nicol

Investment Director  
Octopus Investments  
3 June 2011

## Investment Portfolio

Fixed asset investments	Sector	Cost of investment as at 28 February 2011 (£'000)	Movement in fair value to 28 February 2011 (£'000)	Fair value as at 28 February 2011 (£'000)	Movement in year (£'000)	% equity held by Octopus VCT	% equity managed by Octopus
Salus Services 2 Limited	Care homes	1,000	–	1,000	–	49.0%	49.0%
Personnel Advisory Services Limited	Advisory	1,000	–	1,000	–	49.0%	49.0%
GreenCo Services 2 Limited	Environmental	1,000	–	1,000	–	49.0%	49.0%
SaaS Business Services Limited	Business Services	1,000	–	1,000	–	49.0%	49.0%
BusinessCo Services 2 Limited	Business Services	1,000	–	1,000	–	16.3%	49.0%
Resilient Corporate Services Limited	Business Services	1,000	–	1,000	–	16.3%	49.0%
Healthcare Education Business Services Ltd	Healthcare	1,000	–	1,000	–	49.0%	49.0%
MediaCo Business Services Limited	Media	1,000	–	1,000	–	49.0%	49.0%
EKF Diagnostics plc	Healthcare	378	237	615	237	1.5%	8.9%
<b>Total fixed asset investments</b>		<b>8,378</b>	<b>237</b>	<b>8,615</b>	<b>237</b>		
Money market funds		35,038	–	35,038	–		
Cash at bank		6,235	–	6,235	–		
<b>Total investments</b>		<b>49,651</b>	<b>237</b>	<b>49,888</b>			
Debtors less creditors				(123)			
<b>Total net assets</b>				<b>49,765</b>			

### Valuation Methodology

The unquoted investments held by Octopus VCT have 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 28 February 2011 where applicable, and adjustment

to the fair value has also been made according to any significant under or over performance of the business.

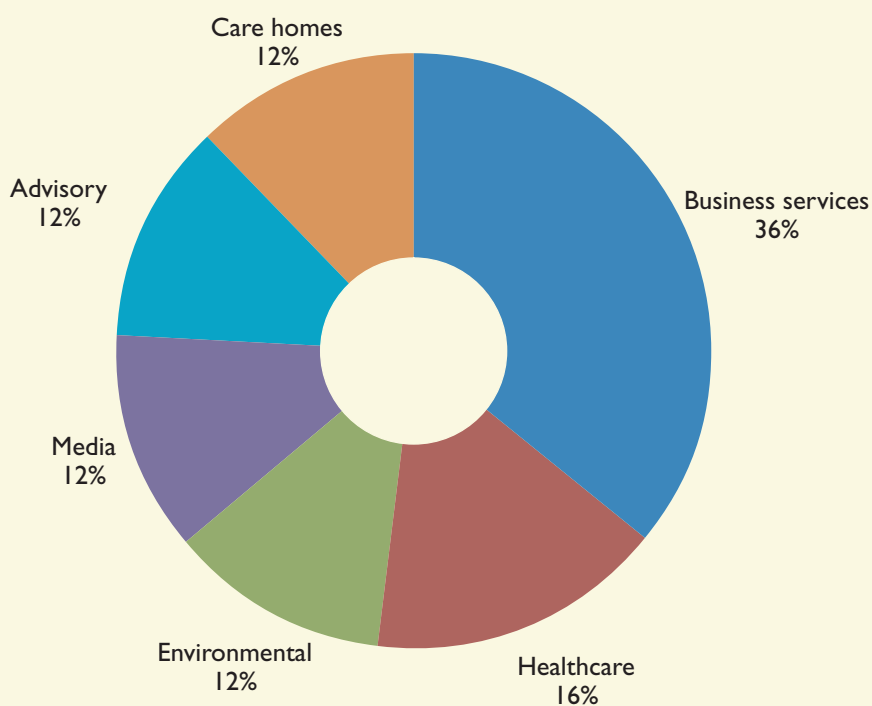
Quoted investments are valued at market bid price. No discounts are applied.

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](http://www.privateequityvaluation.com).

# INVESTMENT MANAGER'S REVIEW (continued)

## Sector Analysis

Total Qualifying Investments by fair value, including companies preparing to trade:



## Largest Holdings

Listed below are the largest investments by value as at 28 February 2011 (the Company had only acquired 9 investments at this date):

### Salus Services 2 Limited

Salus Services 2 is a company that has been set up to seek and invest into a qualifying trade in the care home sector:

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total £1,000,000</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

<b>Initial investment date:</b>	November 2010
<b>Equity held:</b>	49.0%
<b>Last audited accounts:</b>	N/A
<b>Profit before tax:</b>	N/A
<b>Net assets:</b>	N/A

### Personnel Advisory Services Limited

Personnel Advisory Services is a company that has been set up to seek and invest into a qualifying trade in the advisory sector:

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

<b>Initial investment date:</b>	November 2010
<b>Equity held:</b>	49.0%
<b>Last audited accounts:</b>	N/A
<b>Profit before tax:</b>	N/A
<b>Net assets:</b>	N/A

### GreenCo Services 2 Limited

GreenCo Services 2 is a company that has been set up to seek and invest into a qualifying trade in the environmental sector:

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

<b>Initial investment date:</b>	November 2010
<b>Equity held:</b>	49.0%
<b>Last audited accounts:</b>	N/A
<b>Profit before tax:</b>	N/A
<b>Net assets:</b>	N/A

# INVESTMENT MANAGER'S REVIEW (continued)

## Saas Business Services Limited

Saas Business Services is a company that has been set up to seek and invest into a qualifying trade in the business services sector:

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

Initial investment date:	November 2010
Equity held:	49.0%
Last audited accounts:	N/A
Profit before tax:	N/A
Net assets:	N/A

## BusinessCo Services 2 Limited

BusinessCo Services 2 is a company that has been set up to seek and invest into a qualifying trade in the business services sector:

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

Initial investment date:	November 2010
Equity held:	16.3%
Last audited accounts:	N/A
Profit before tax:	N/A
Net assets:	N/A

**Resilient Corporate Services Limited**

Resilient Corporate Services is a company that has been set up to seek and invest into a qualifying trade in the business services sector.

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

<b>Initial investment date:</b>	November 2010
<b>Equity held:</b>	16.3%
<b>Last audited accounts:</b>	N/A
<b>Profit before tax:</b>	N/A
<b>Net assets:</b>	N/A

**Healthcare Education Business Services Limited**

Healthcare Education Business Services is a company that has been set up to seek and invest into a qualifying trade in the healthcare sector.

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

<b>Initial investment date:</b>	November 2010
<b>Equity held:</b>	49.0%
<b>Last audited accounts:</b>	N/A
<b>Profit before tax:</b>	N/A
<b>Net assets:</b>	N/A

# INVESTMENT MANAGER'S REVIEW (continued)

## MediaCo Services Limited

MediaCo Services is a company that has been set up to seek and invest into a qualifying trade in the media sector.

Asset class	Cost	Valuation
Ordinary shares	£300,000	£300,000
Loan stock	£700,000	£700,000
<b>Total</b>	<b>£1,000,000</b>	<b>£1,000,000</b>

Initial investment date:	November 2010
Equity held:	49.0%
Last audited accounts:	N/A
Profit before tax:	N/A
Net assets:	N/A

## EKF Diagnostics plc

EKF designs, develops, manufactures and distributes diagnostic instruments and reagents focused on the diabetes anaemia and chronic kidney disease markets. It has operations in Germany, Poland and Russia.

Asset class	Cost	Valuation
Ordinary shares	£378,000	£615,000
Loan stock	–	–
<b>Total</b>	<b>£378,000</b>	<b>£615,000</b>

Initial investment date:	July 2010
Equity held:	1.5%
Last audited accounts:	31 December 2009
Loss before tax:	(£0.3) million
Net assets:	£5.6 million

### **How Octopus creates and delivers value for the shareholders of Octopus VCT plc**

Octopus VCT plc focuses on providing established, development and expansion funding to predominantly unquoted companies with a typical investment per company of £1.0 million to £2.0 million. The Fund is being invested on the basis of taking less risk than a typical VCT. Principally 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 investees' 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

## **James Otter (Chairman – Age 53)**

James is currently CEO of Glide Pharmaceuticals Technologies Limited, a drug development company based near Oxford. He remains an observer on the Board of Hallmarq Veterinary Imaging Limited. He is also an active investor in TCS Cellworks Limited, a supplier of primary human cell cultures, and is Chairman of Hygea VCT plc. Previous positions include being a main board director of Spectris plc working on a turnaround project in Denmark. The bulk of his career has been spent in international commercial roles with Zeneca Agrochemicals (formerly ICI and now Syngenta). James has an MBA from INSEAD and a degree in Natural Sciences from Cambridge.

## **Charles Breese (Director – Age 64)**

Charles has 28 years of experience of investing in start-up, early stage and quoted smaller companies harnessing technology to derive competitive advantage. He worked for KPMG from 1969 until 1982. He joined Larpent Newton in 1982 and was appointed Managing Director in 1986. Larpent Newton provides the resources required to assist technology-based companies wanting to develop from being unquoted through to an AIM listing, and ultimately to achieving a trade sale. He has developed an Investment Template which has proved successful in identifying early stage companies which have delivered attractive long term returns. Charles is also a director of Hygea VCT plc and is a Chartered Accountant.

## **Chris Hulatt (Director – Age 34)**

Chris Hulatt is Chief Financial Officer and co-founder of Octopus. He has particular responsibility for finance, compliance and risk management. He oversaw the transfer of three VCTs from Close Brothers to Octopus in August 2008 and is responsible for analysing acquisition opportunities. He sits on the investment committees of a number of funds managed by Octopus and is also a director of four other VCTs managed by Octopus. Chris has a first class MA in pharmacology from the University of Cambridge and is a chartered financial analyst.

# DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 28 February 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 33 and 34.

For the avoidance of doubt, the corporate governance statement commencing on page 25 forms an integral part of the Directors' Report.

## Principal Activity and Status

The principal activity of the Company is to make Qualifying Investments into companies which have contractual revenues from financially sound counterparties or which have a strong asset base. The Company has been granted provisional approval as a VCT by HMRC. 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 Company is an investment company in accordance with s833 of the Companies Act 2006.

The Directors are required by the Articles of Association to propose an Special Resolution at the Company's fifth Annual General Meeting in 2015 that the Company shall continue in being or whether it be liquidated. If a resolution to liquidate the Company is passed, the Directors will initiate an orderly disposal of all of the Fund's investments and the prompt return of The Directors are required by s417 of the Companies Act 2006 to include a business review to shareholders.

## 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 15 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:

- 22 March 2011: £1,300,000 was invested into CSL DualCom Limited, a company that produces security devices
- 22 March 2011: £1,000,000 was invested into Salus Services I Holdings Limited, a company involved with the build of a care home
- 22 March 2011: £500,000 was invested into solar company Cyrah Power Limited
- 22 March 2011: £500,000 was invested into solar company Tonatiuh Power Limited
- 22 March 2011: £500,000 was invested into solar company Grian Power Limited
- 22 March 2011: £500,000 was invested into solar company Tuwale Power Limited

# DIRECTORS' REPORT (continued)

- 22 March 2011: £500,000 was invested into solar company Nima Power Limited
- 22 March 2011: £500,000 was invested into solar company Helaku Power Limited
- 22 March 2011: £500,000 was invested into solar company Intina Power Limited
- 22 March 2011: £500,000 was invested into solar company Aashman Power Limited
- 31 March 2011: £500,000 was invested into solar company Kala Power Limited
- 31 March 2011: £500,000 was invested into solar company Howbery Power Limited
- 31 March 2011: £500,000 was invested into solar company Tonatiuh Power 2 Limited
- 31 March 2011: £500,000 was invested into solar company Evaki Power Limited
- 31 March 2011: £500,000 was invested into solar company Gnowee Power Limited
- 31 March 2011: £500,000 was invested into solar company Teruka Power Limited
- 31 March 2011: £500,000 was invested into solar company Sula Power Limited
- 31 March 2011: £500,000 was invested into solar company Donoma Power Limited
- 31 March 2011: £500,000 was invested into solar company Yata Power Limited
- 13 May 2011: £500,000 was invested into solar company Palk Power Limited
- 27 May 2011: £720,000 was invested into solar company Donoma Power Limited

## Performance and Key Performance Indicators

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of AIM quoted and unquoted UK companies which meet the relevant criteria for VCTs. The Board has a number of performance measures to assess the Company's success in meeting its objectives. Performance, measured by the change in NAV and

total return per share, is also measured against the FTSE All-Share index and the FTSE UK Small-Cap ex investment trusts index, although shareholders should note that the Company is not managed in order to deliver a return against these indices. These indices have been adopted as an informal benchmark. The Chairman's Statement includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review. Further details of the Company's financial risk management policies are provided in note 14 to the financial statements.

## Results and dividend

	Year ended 28 February 2011	Period ended 28 February 2010
	£'000	£'000
Net return attributable to shareholders	492	(76)
Appropriations:		
Final dividend proposed – 1.0p per share (2010: nil)	522	–

## 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. The Company will not borrow money for the purposes of making investments and

any investment decisions made must adhere to the HMRC qualification rules as stated below.

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 financial risk management policies are provided below and in note 14 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:

# DIRECTORS' REPORT (continued)

*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 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 period. 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 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:* 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 The Cooperative Bank and in cash funds managed by professional cash managers Fidelity, J P Morgan, HSBC 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. A breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. To mitigate this the Investment Manager ensures rigorous compliance checks and attends regular seminars on regulation updates.

*Reputational risk:* inadequate or failed controls might result in breaches of regulation or loss of shareholder trust. The Investment Manager regularly reviews these risks and ensures controls are in place to mitigate it.

*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.

*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.

The Board seeks to mitigate the internal risks by setting policy, regularly reviewing 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 25 to 29.

Further details of the Company's financial risk management policies are provided in note 14 to the financial statements

## Directors

The Directors of the Company during the period and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued Ordinary shares of 1p are shown in the table below:

	28 February 2011	28 February 2010
James Otter (Chairman)	5,275	–
Charles Breese	5,275	–
Chris Hulatt	5,275	–

All of the Directors' shares were held beneficially. There have been no changes in the Directors share interests since 28 February 2011 and the date of this report.

Chris Hulatt retires in accordance with the Articles of Association, and being eligible, offers himself for re-election. The Board has considered provision A.7.2 of the Combined Code 2006 and believes that Chris Hulatt continues to be effective and to demonstrate commitment to his role, the Board and the Company. The Board therefore has no hesitation in recommending him for re-election at the forthcoming Annual General Meeting.

Brief biographical notes on the Directors are given on page 16.

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.

### 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.

## 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 note 16 to the financial statements. Chris Hulatt is a Director of Octopus Investments Limited, which 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 the investment portfolio within other Funds which are managed by Octopus, 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

# DIRECTORS' REPORT (continued)

VCT are detailed in note 16 to the financial statements.

The Company has established a performance incentive scheme whereby the Investment Manager is entitled to a performance related incentive fee in the event that certain performance criteria are met by August 2015. Further details of this scheme are disclosed within note 16 to the financial statements.

It should be noted that there is no formal Management Engagement Committee as matters of this nature are dealt with by the independent Non-Executive Directors.

## Share Issues

47,150,659 shares were allotted during the year to 28 February 2011. There were a total of 52,214,787 shares in issue at 28 February 2011.

## Share Buy-backs

During the year, the company purchased 19,757 shares for a weighted average price of 86.4 pence per share for total consideration of £17,070. The total nominal value of these shares re-purchased in the year amounted to £198, representing 0.4% of the total issued share capital. These shares were cancelled following re-purchase. They were purchased in accordance with the Company's share buy-back facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

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

The Company's Ordinary share capital as at 28 February 2011 was 52,214,787 Ordinary shares of 1p 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 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

# DIRECTORS' REPORT (continued)

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 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 28 February 2011 there were no trade creditors (2010: none).

In accordance with section 410a of the Companies Act 2006, there are no off-balance sheet financing arrangements, and therefore no such balances requiring disclosure.

## **Environmental, Employee and Social and Community Policies**

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.

In accordance with section 417 of the Companies Act 2006, there are no employees of the Company, and therefore no such impact upon investment decisions.

All investment decisions are made with regard to their impact on social or community issues and minimising any negative impact.

## **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 15. Further details on the management of financial risk may be found in note 14 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 (82.9% 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**

The Notice convening the 2011 Annual General Meeting of the Company and a form of proxy in relation to the meeting can be found at the end of this document.

## **Independent Auditor**

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

### Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 7 is required so that the Directors may make purchases of up to approximately 5 per cent of the Company's issued share capital and also 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 be cancelled.

## Corporate Governance

The Board of Octopus VCT 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 period 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 on pages 28 and 29.

### Board of Directors

The Company has a Board of three non-executive Directors, two of whom are considered to be independent of the Company's Investment Manager, Octopus Investments Limited. Mr Chris Hulatt is not considered to be independent due to his role as a Director 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;
- 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

# DIRECTORS' REPORT (continued)

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 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.

In relation to the year ended 28 February 2011, the following were held:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
James Otter	3	3	1	1
Charles Breese	3	3	1	1
Chris Hulatt	3	3	1	N/A

Board and Committee meetings were held as required to address specific issues including allotments and bank accounts. A brief biographical summary of each Director is given on page 16.

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 by rotation. This practice was followed in respect to the period under review.

	Date of Original Appointment	Due date for Re-election/ election
James Otter	19/08/2009	AGM 2012
Charles Breese	26/08/2009	AGM 2013
Chris Hulatt	10/08/2009	AGM 2011

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

## Audit Committee:

Charles Breese (Chairman)

James Otter

The Audit Committee, chaired by Mr Breese, consists of two independent Directors. The Audit Committee believes Mr Breese 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 changes 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 28 February 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 statements and half-yearly reports prior to Board approval; and
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements.

#### **Nomination Committee:**

Charles Breese (Chairman)

James Otter

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 31 and 32.

#### **Internal Control**

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. In order to review the effectiveness of the controls and systems of the Manager, the Board uses a risk analysis report and matrix based on the Turnbull guidelines. The Directors confirm that they have established a continuing process throughout the period and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control

# DIRECTORS' REPORT (continued)

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.

In addition, the Board regularly reviews financial results and the 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. Octopus identifies the investment opportunities for the consideration of the Board who ultimately make the decision whether to proceed with that opportunity. Octopus monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals, as well as further acquisitions.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Quoted investments are held in CREST. Octopus regularly reconciles the client asset register with the physical documents. Internal control systems include the production and review of monthly bank 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 auditor is the same auditor as other VCTs managed by the Investment Manager. 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 14 to the Financial Statements and within the Directors' Report on pages 17 to 29.

## **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 2295.

## **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 28 February 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, James Otter and Charles Breese, as defined by the 2008 Combined Code. Chris Hulatt holds directorships of other companies with the same Investment Manager and is a Director of 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 and nature 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 function 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

3 June 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:

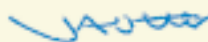
- there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The 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



**James Otter**

Chairman

# DIRECTORS' REMUNERATION REPORT

## Introduction

This report is submitted in accordance with s420 of the Companies Act 2006, in respect of the year ended 28 February 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 17 and 29.

## 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 period (although the Directors expect from time to time to review the fees against those paid to the boards of directors of other VCTs).

## Statement of the Company's Policy on Directors' Remuneration

The Board consists entirely of Non-Executive Directors, who meet at least three 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 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 and subsequent 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 period to any of the current Directors.

The Company has no employees other than the non-executive directors and therefore there are no employee remuneration factors to consider when determining the directors' remuneration. The Board has not sought advice nor services from any person in respect of its consideration of directors' remuneration during the year.

## Company performance

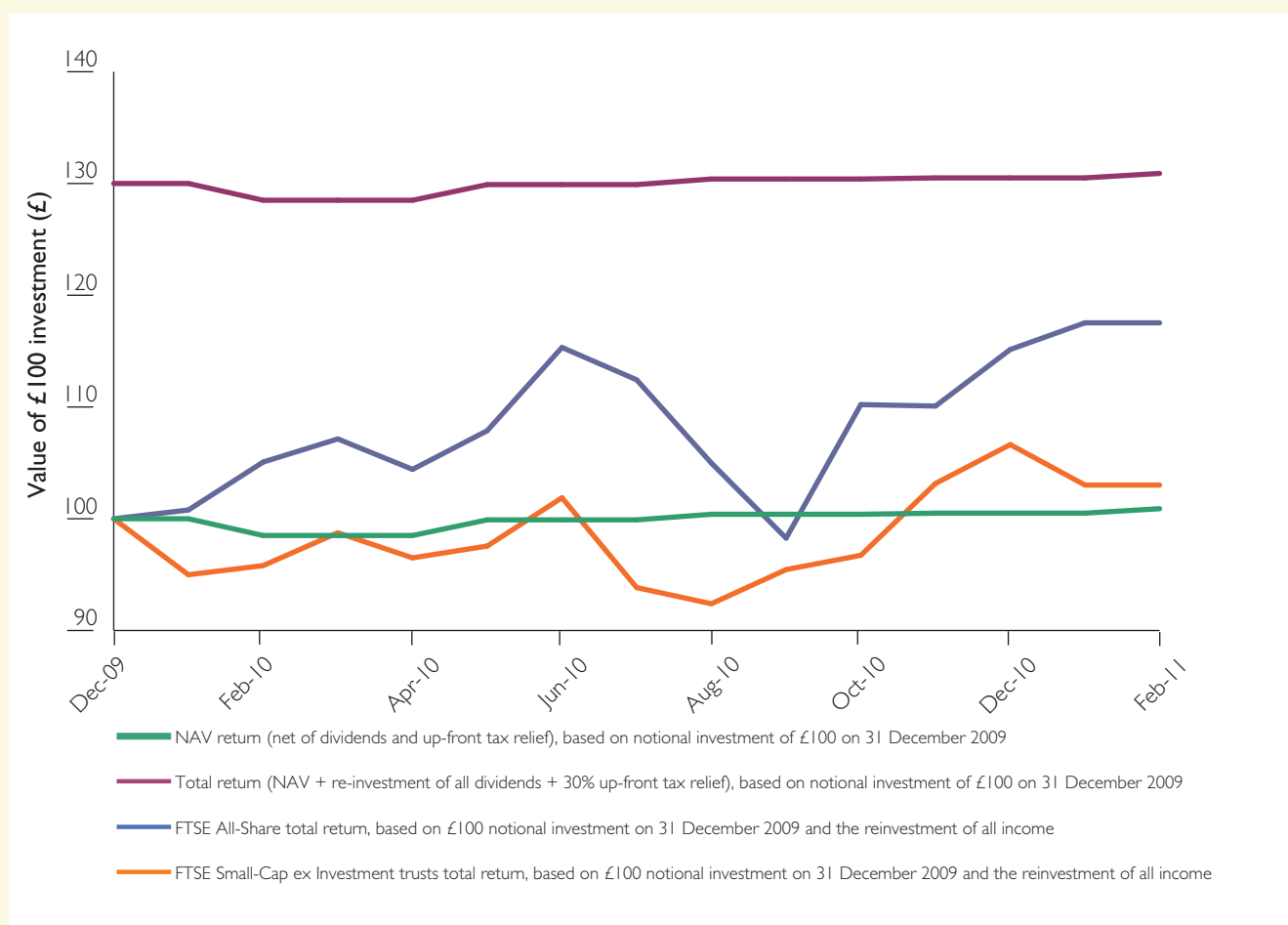
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report.

The graph overleaf compares the NAV return and total return (including dividends and up-front tax relief at 30%) of Octopus VCT over the period from December 2009 to February 2011, with the total return from a notional investment in the FTSE All-Share index and the FTSE Small-Cap ex investment trusts index 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 VCT plc performance graph



### Directors' emoluments (information subject to audit)

	Year ended 28 February 2011	Period ended 28 February 2010
	£	£
Mr James Otter (Chairman)	£20,000	£4,167*
Mr Charles Breese	£15,000	£3,125*
Mr Chris Hulatt (paid to Octopus Investments)	£15,000	£3,125*
<b>Total</b>	<b>£50,000</b>	<b>£10,417</b>

\*The annual rate for the Chairman is £20,000 per annum and for the two non-executive Directors is £15,000 per annum.

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  
3 June 2011

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

We have audited the financial statements of Octopus VCT plc for the year ended 28 February 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 30, 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](http://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 28 February 2011 and of its profit 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 statements.

## 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 VCT PLC (continued)

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on page 24, 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

3 June 2011

# INCOME STATEMENT

	Notes	Year to 28 February 2011		
		Revenue £'000	Capital £'000	Total £'000
Fixed asset investment holding gain		–	237	237
Investment income	2	602	–	602
Investment management fees		–	–	–
Other expenses	3	(304)	–	(304)
<b>Return on ordinary activities before tax</b>		<b>298</b>	<b>237</b>	<b>535</b>
Taxation on return on ordinary activities	5	(43)	–	(43)
<b>Return on ordinary activities after tax</b>		<b>255</b>	<b>237</b>	<b>492</b>
<b>Earnings per share – basic and diluted</b>	<b>6</b>	<b>0.5p</b>	<b>0.5p</b>	<b>1.0p</b>

- 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 is not required and has not included the effects of fair value accounting when considering historical cost, profits and losses.

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

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

# INCOME STATEMENT

## (continued)

	Notes	Period from 30 June 2009 to 28 February 2010		
		Revenue £'000	Capital £'000	Total £'000
Investment income	2	3	–	3
Investment management fees		–	–	–
Other expenses	3	(79)	–	(79)
Loss on ordinary activities before tax		(76)	–	(76)
Taxation on loss on ordinary activities	5	–	–	–
Loss on ordinary activities after tax		(76)	–	(76)
Earnings per share – basic and diluted	6	(7.1)p	–	(7.1)p

- 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 period as set out above.

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

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year to 28 February 2011 £'000	Period from 30 June 2009 to 28 February 2010 £'000
Shareholders' funds at start of period	4,729	–
Return/(loss) on ordinary activities after tax	492	(76)
Issue of equity (net of expenses)	44,562	4,805
Shares bought back for cancellation	(18)	–
Shareholders' funds at end of period	49,765	4,729

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

# BALANCE SHEET

	Notes	As at 28 February 2011		As at 28 February 2010	
		£'000	£'000	£'000	£'000
Fixed asset investments*	8		<b>8,615</b>		–
Current assets:					
Debtors	9		<b>12</b>		3
Investments – money market funds*	10		<b>35,038</b>		–
Cash at bank			<b>6,235</b>		4,843
			<b>41,285</b>		4,846
Creditors: amounts falling due within one year	11		<b>(135)</b>		(117)
Net current assets			<b>41,150</b>		4,729
Total assets less current liabilities			<b>49,765</b>		4,729
Called up equity share capital	12		<b>522</b>		51
Special distributable reserve	13		<b>48,827</b>		–
Share premium	13		–		4,754
Capital reserve holding gains	13		<b>237</b>		–
Revenue reserve	13		<b>179</b>		(76)
Total shareholders' funds			<b>49,765</b>		4,729
<b>Net asset value per share</b>	7		<b>95.3</b>		93.0p

\*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 3 June 2011 and are signed on their behalf by:

**James Otter**

Chairman

Company No: 06948448

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

# CASH FLOW STATEMENT

	Notes	Year to 28 February 2011 £'000	Period from 30 June 2009 to 28 February 2010 £'000
<b>Net cash inflow from operating activities</b>		<b>264</b>	<b>38</b>
<b>Financial investment</b>			
Purchase of fixed asset investments	8	(8,378)	—
<b>Management of liquid resources</b>			
Purchase of current asset investments	10	(64,155)	—
Sale of current asset investments	10	29,117	—
<b>Financing:</b>			
Issue of own shares		47,156	5,064
Share issue expenses		(2,594)	(259)
Purchase of own shares		(18)	—
<b>Increase in cash</b>		<b>1,392</b>	<b>4,843</b>

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

# CASH FLOW STATEMENT

## (continued)

### RECONCILIATION OF RETURN/(LOSS) BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 28 February 2011 £'000	Period from 30 June 2009 to 28 February 2010 £'000
Return/(loss) on ordinary activities before tax	492	(76)
Increase in debtors	(9)	(3)
Increase in creditors	18	117
Holding gain on fixed asset investments	(237)	–
<b>Inflow from operating activities</b>	<b>264</b>	<b>38</b>

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 28 February 2011 £'000	Period from 30 June 2009 to 28 February 2010 £'000
Increase in cash at bank	1,392	4,843
Movement in cash equivalent securities	35,038	–
Opening cash funds	4,843	–
<b>Net funds at 28 February</b>	<b>41,273</b>	<b>4,843</b>

#### Net Funds at 28 February comprised:

	As at 28 February 2011 £'000	As at 28 February 2010 £'000
Cash at bank	6,235	4,843
Money market funds	35,038	–
<b>Net funds at 28 February</b>	<b>41,273</b>	<b>4,843</b>

# 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 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.

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 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.

Current asset investments comprising money market funds and deposits are held at fair value through profit and loss.

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.

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.

In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted. This is consistent with the International Private Equity and Venture Capital ('IPEVC') valuation guidelines.

Gains and losses arising from changes in fair value of investments (attributable to capital values) are recognised as part of the capital return within the income statement and allocated to the capital reserve – holding gains/(losses).

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 fair value through profit and loss ('FVTPL'). Gains and losses arising from changes in fair value of investments (attributable to capital values) 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 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 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 difference 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' covers disclosures relating to financial instruments.

Capital is defined as shareholders' funds and the 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, other than those imposed by company law.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. Principal accounting policies (continued)

The value of the managed capital is indicated in note 14. 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 7 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 27 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

	Year to 28 February 2011 £'000	Period ended 28 February 2010 £'000
Interest receivable on bank balances	532	3
Money market securities – dividend income	66	–
Loan note interest receivable	4	–
	602	3

### 3. Other expenses

	Year to 28 February 2011 £'000	Period ended 28 February 2010 £'000
Directors' remuneration	50	10
Fees payable to the Company's auditor for the audit of the financial statements	7	5
Fees payable to the Company's auditor for other services – tax compliance	2	1
UK Listing fees	5	50
Other expenses	240	13
	<b>304</b>	<b>79</b>

The total expense ratio for the Company (as set out in the prospectus) for the year to 28 February 2011 was 0.6% (2010: 1.6 per cent).

### 4. Directors' remuneration

	Year to 28 February 2011 £'000	National Insurance £'000	Period ended 28 February 2010 £'000	National Insurance £'000
<b>Directors' emoluments</b>				
James Otter (Chairman)	20	2	4	–
Charles Breese	15	1	3	–
Chris Hulatt (paid to Octopus Investments Limited)	15	–	3	–
	<b>50</b>	<b>3</b>	<b>10</b>	<b>–</b>

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)

## 5. Tax on ordinary activities

The corporation tax charge for the period was £43,000 (2010: £nil).

The current tax charge for the period differs from the standard rate of corporation tax in the UK of 21% (2010: 28%). The differences are explained below.

Current tax reconciliation:	28 February 2011 £'000	28 February 2010 £'000
Return/(loss) on ordinary activities before tax	535	(76)
Current tax at 21% (2010: 28%)	112	(21)
Utilisation of tax losses	(5)	7
Income not taxable for tax purposes	(64)	–
Expenses not deductible for tax purposes	–	14
<b>Total current tax charge</b>	<b>43</b>	<b>–</b>

The company has excess management charges of £nil (2010: £25,000) to carry forward to offset against future taxable profits.

## 6. Return per share

The total return per share is based on 49,318,293 (2010: 1,066,869) shares, being the weighted average number of Ordinary shares in issue during the period, and a return for the period totalling £492,000 (2010: £(76,000)).

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

## 7. Net asset value per Share

The calculation of net asset value per share as at 28 February 2011 is based on net assets of £49,765,000 (2010: £4,729,000) and 52,214,787 (2010: 5,083,885) Ordinary shares in issue at that date.

## 8. Fixed asset investments at fair value through profit or loss

The Company has adopted 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 and AIM quoted investments classified as held at fair value through profit or loss.

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.

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

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 (2010: 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 28 February 2011 are summarised below.

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.

**Fixed asset investments:**

	Level 1: AIM- quoted Equity investments £'000	Level 3: Unquoted equity investments £'000	Level 3: Unquoted loan investments £'000	Total unquoted investments £'000
Valuation and net book amount:				
Book cost at 1 March 2010	–	–	–	–
Cumulative revaluation	–	–	–	–
<b>Valuation at 1 March 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Movement in the year:				
Purchases at cost	378	2,400	5,600	8,378
Change in fair value in year	237	–	–	237
<b>Closing fair value at 28 February 2011</b>	<b>615</b>	<b>2,400</b>	<b>5,600</b>	<b>8,615</b>
<b>Closing cost at 28 February 2011:</b>	<b>378</b>	<b>2,400</b>	<b>5,600</b>	<b>8,378</b>
<b>Closing holding loss at 28 February 2011:</b>	<b>237</b>	<b>–</b>	<b>–</b>	<b>237</b>
<b>Valuation at 28 February 2011</b>	<b>615</b>	<b>2,400</b>	<b>5,600</b>	<b>8,615</b>

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 14.

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 7 to 15.

## 9. Debtors

	Year to 28 February 2011 £'000	Period ended 28 February 2010 £'000
Prepayments and accrued income	12	3
	12	3

## 10. Current asset investments

Current asset investments at 28 February 2011 comprised money market funds (28 February 2010: money market funds).

	Level 1: money market funds Total £'000
Valuation and net book amount:	
Book cost at 1 March 2010:	
Money market funds	–
Revaluation to 1 March 2010:	
Money market funds	–
Valuation as at 1 March 2010	–
Movement in the year:	
Purchases at cost:	
Money market funds	64,155
Disposal proceeds:	
Money market funds	(29,117)
Profit in year on realisation of investments:	
Money market funds	–
Revaluation in year:	
Money market funds	–
<b>Valuation as at 28 February 2011</b>	<b>35,038</b>

**10. Current asset investments (continued)**

Cost at 28 February 2011:	
Money market funds	35,038
Revaluation to 28 February 2011:	
Money market funds	–
<b>Valuation as at 28 February 2011</b>	<b>35,038</b>

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 28 February 2011 and 28 February 2010 there were no commitments in respect of investments approved by the Manager but not yet completed.

**11. Creditors: amounts falling due within one year**

	28 February 2011 £'000	28 February 2010 £'000
Corporation tax	43	–
Accruals	75	27
Other creditors	17	90
	<b>135</b>	<b>117</b>

**12. Share capital**

	28 February 2011 £'000	28 February 2010 £'000
Authorised:		
100,000,000 Ordinary shares of 10p	5,000	5,000
Allotted and fully paid up:		
52,214,787 Ordinary shares of 1.00p (2010: 5,083,885)	522	51

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 on page 18. The Company is not subject to any externally imposed capital requirements, other than those imposed by company law.

During the year the Company issued the following shares:

- 1 March 2010: 2,318,384 Ordinary shares at a price of 100.0p
- 16 March 2010: 5,690,133 Ordinary shares at a price of 100.0p
- 23 March 2010: 5,854,853 Ordinary shares at a price of 100.0p
- 24 March 2010: 2,380,758 Ordinary shares at a price of 100.0p
- 30 March 2010: 9,720,461 Ordinary shares at a price of 100.0p
- 31 March 2010: 4,827,999 Ordinary shares at a price of 100.0p

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. Share capital (continued)

- 1 April 2010: 5,514,257 Ordinary shares at a price of 100.0p
- 5 April 2010: 10,260,774 Ordinary shares at a price of 100.0p
- 30 April 2010: 325,194 Ordinary shares at a price of 100.0p
- 28 May 2010: 257,846 Ordinary shares at a price of 100.0p

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

- 28 May 2010: 1,250 Ordinary shares at a price of 100.0p
- 13 January 2011: 18,507 Ordinary shares at a price of 85.5p

The Company issued 47,150,659 Ordinary shares during the period at a price of 100p per share.

The total nominal value of the shares repurchased was £197.57 representing 0.04% of the issued share capital.

## 13. Reserves

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital reserve holding gains £'000	Revenue reserve* £'000
As at 1 March 2010	51	4,754	–	–	(76)
Issue of shares	471	44,089	–	–	–
Repurchases of own shares	–	–	(16)	–	–
Cancellation of share premium account	–	(48,843)	48,843	–	–
Return on ordinary activities after tax	–	–	–	–	255
Current period gains on fair value of investments	–	–	–	237	–
As at 28 February 2011	522	–	48,827	237	179

Following the Company's petition, the companies court ordered that the special resolution passed by the shareholders on 5 October 2010 to effect the cancellation of the share premium account be confirmed. The order relating to the same was duly registered by the Register of Companies on 20 October 2010.

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.

All fixed asset investments are designated as fair value through profit or loss at the time of acquisition, and all capital gains or losses on investments so designated. Given the nature of the Company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as holding gains or losses.

**13. Reserves (continued)**

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 28 February 2011 there were no commitments in respect of investments approved by the Investment Manager but not yet completed.

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

	£'000
As at 1 March 2010	–
Movement in year	49,006
<b>As at 28 February 2011</b>	<b>49,006</b>

**14. 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**

Octopus VCT held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 28 February 2011:

	28 February 2011 £000	28 February 2010 £000
<b>Assets at fair value through profit or loss</b>		
Investments	8,615	–
Current asset investments	35,038	–
<b>Total</b>	<b>43,653</b>	<b>–</b>
<b>Loans and receivables</b>		
Cash at bank	6,235	4,843
Accrued income	11	3
<b>Total</b>	<b>6,246</b>	<b>4,846</b>
<b>Liabilities at amortised cost</b>		
Accruals and other creditors	135	117
<b>Total</b>	<b>135</b>	<b>117</b>

Fixed asset investments (see note 8) 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. The fair value

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14. Financial instruments and risk management (continued)

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.

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.

### Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 16. 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 17 to 29, 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 pages 9 and 14.

17.3% (28 February 2010: 0.0%) 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 28 February 2011 would have increased net assets and the total profit for the year by £861,500 (28 February 2010: £nil) 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.

70.3% (28 February 2010: 0.0%) 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 28 February 2011 would have increased net assets and the total profit for the year by £350,380 (28 February 2010: £nil) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

#### 14. Financial instruments and risk management (continued)

##### Interest rate risk

At the period end, some of the Company's financial assets are interest-bearing, some of which are at variable rates. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

##### Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts, loan notes 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 28 February 2011 (28 February 2010: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	28 February 2011 £000	28 February 2010 £000
Cash on deposit & money market funds	35,038	4,843

A 1% increase in the base rate would increase income receivable from these investments and the total return by £350,380 (2010: £48,430) on an annualised basis.

##### Credit risk

Credit risk is the risk that 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.

At 28 February 2011 the Company's financial assets exposed to credit risk comprised the following:

	28 February 2011 £000	28 February 2010 £000
Cash on deposit	8,615	4,843
Investments in floating rate instruments	35,038	–
Accrued dividends and interest receivable	11	–
	<b>43,644</b>	4,843

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 and the Cooperative bank. 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14. Financial instruments and risk management (continued)

Other than cash or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 28 February 2011 or 28 February 2010.

### Liquidity risk

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 28 February 2011 these investments were valued at £35,038,000 (2010: £4,843,000).

## 15. Post balance sheet events

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

- 22 March 2011: £1,300,000 was invested into CSL DualCom Limited, a company that produced security devices
- 22 March 2011: £1,000,000 was invested into Salus Services 1 Holdings Limited, a company involved with the build of a care home
- 22 March 2011: £500,000 was invested into solar company Cyrah Power Limited
- 22 March 2011: £500,000 was invested into solar company Tonatiuh Power Limited
- 22 March 2011: £500,000 was invested into solar company Grian Power Limited
- 22 March 2011: £500,000 was invested into solar company Tuwale Power Limited
- 22 March 2011: £500,000 was invested into solar company Nima Power Limited
- 22 March 2011: £500,000 was invested into solar company Helaku Power Limited
- 22 March 2011: £500,000 was invested into solar company Intina Power Limited
- 22 March 2011: £500,000 was invested into solar company Aashman Power Limited
- 31 March 2011: £500,000 was invested into solar company Kala Power Limited
- 31 March 2011: £500,000 was invested into solar company Howbery Power Limited
- 31 March 2011: £500,000 was invested into solar company Tonatiuh Power 2 Limited
- 31 March 2011: £500,000 was invested into solar company Evaki Power Limited
- 31 March 2011: £500,000 was invested into solar company Gnowee Power Limited
- 31 March 2011: £500,000 was invested into solar company Teruka Power Limited
- 31 March 2011: £500,000 was invested into solar company Sula Power Limited
- 31 March 2011: £500,000 was invested into solar company Donoma Power Limited
- 31 March 2011: £500,000 was invested into solar company Yata Power Limited
- 13 May 2011: £500,000 was invested into solar company Palk Power Limited
- 27 May 2011: £720,000 was invested into solar company Donoma Power Limited

## 16. Contingencies, guarantees and financial commitments

Under the terms of the Investment Management agreement, Octopus is entitled to an annual management fee of 2.0% of net assets. However, the annual management fee will be rolled up (without interest) and will only be paid to Octopus once shareholders have received dividends and distributions during the life of the Fund totalling or exceeding 105p per share. Octopus will only be entitled to receive an annual management fee for the period from the date on which shares are first allotted under the Offer until the date on which the general meeting is held (expected to be in August 2015) at which shareholders will be asked to approve a motion regarding the future of the company.

In view of the early stage of the investment process, the Directors do not currently believe there is sufficient certainty that any management fee will be paid, and have therefore made no accrual in respect of any fee potentially payable.

There were no further contingencies, guarantees or financial commitments as at 28 February 2011 (2010: none).

## 17. Related party transactions

Chris Hulatt, a non-executive director of Octopus VCT plc, is a director of Octopus Investments Limited. Octopus VCT plc has employed Octopus throughout the period as Investment Manager. Octopus VCT plc has paid Octopus £nil in the period as a management fee and there is £nil outstanding at the balance sheet date.

Octopus provides investment management and administration & accounting services to the Company under a management agreement which runs for a period of five years with effect from 16 September 2009 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 administration and accounting fee is payable quarterly in arrears for a fee of 0.3% of the NAV calculated at annual intervals as at 28 February. During the year £141,000 (2010: £nil) was paid to Octopus Investments and there was £nil outstanding at the balance sheet date (2010: £nil), for the accounting and administrative services.

Octopus is entitled to an annual management fee of 2.0% of net assets. In order to ensure the alignment of interests between Octopus and Shareholders, the annual management fee will be rolled up (without interest) and will only be paid to Octopus once shareholders have received dividends during the life of the Fund and distributions totaling or exceeding 105p per Share. Octopus will only be entitled to receive an annual management fee for the period from the date on which shares are first allotted under the Offer until the date on which the general meeting is held (expected to be in August 2015) at which shareholders will be asked to approve a notion regarding the future of the Company.

In addition, Octopus also provides secretarial services for an additional fee of £15,000 per annum. During the year £15,000 (2010: £3,700) was due to Octopus Investments Limited and there was £nil (2010: £3,700) outstanding at the balance sheet date.

Octopus will also be entitled to receive a performance related incentive fee of 20% on returns to shareholders in excess of 105p per share. The calculation of this fee is based wholly on the payment of cash proceeds to shareholders and will, therefore, not be paid until after the general meeting in 2015.

# DIRECTORS AND ADVISERS

## Board of Directors

James Otter (Chairman)  
Charles Breese  
Chris Hulatt

## Company Number

Registered in England No. 06948448

## 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 2295  
[www.octopusinvestments.com](http://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](http://www.capitaregistrars.com)

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus VCT plc will be held at 20 Old Bailey, London, EC4M 7AN on 5 July 2011 at 11.15 a.m. for the following purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions:

## ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 28 February 2011 and the Directors' and Auditor's Reports thereon.
2. To approve the Directors' Remuneration Report.
3. To re-elect Chris Hulatt as a Director.
4. To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

## SPECIAL BUSINESS

### 5. 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 5,223,329 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).

### 6. 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.

## 7. 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 1p 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 1p;
- (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

3 June 2011

20 Old Bailey  
London  
EC4M 7AN

# 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, 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](http://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](http://www.octopusinvestments.com).

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## PROXY FORM

# OCTOPUS VCT PLC

### Annual General Meeting – 5 July 2011 at 11.15 a.m.

I/We.....

(BLOCK CAPITALS PLEASE)

of .....

being a member of Octopus VCT 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 5 July 2011, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 28 February 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 more than one proxy, please refer to the explanatory note 4 overleaf.

Resolution number	FOR	AGAINST	WITHHELD
<b>ORDINARY BUSINESS</b>			
1. To receive, consider and adopt the financial statements for the year ended 28 February 2011	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Chris Hulatt as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. 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"/>
<b>SPECIAL BUSINESS</b>			
5. 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"/>
6. 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"/>
7. 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

1. To be valid, the proxy form must be received by the Registrars of Octopus VCT plc at, **Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** no later than 48 hours before the commencement of the meeting. If delivering by courier please use the full address of Capita set out in the Notice.
2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
3. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement. (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.)
4. To appoint more than one proxy, you may photocopy this form. Please indicate next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. The 'Vote Withheld' option is provided to enable you to abstain on any particular Resolution. However; it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a Resolution.
6. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300. (calls cost 10p per minute plus network extras, lines are open 8.30 a.m. - 5.30 p.m. Monday - Friday) to request a change of address form.)
9. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

**PLEASE USE THE REPLY PAID ENVELOPE PROVIDED**

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