

# OCTOPUS TITAN VCT 2 PLC



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# FINANCIAL HIGHLIGHTS

	Six months to 30 April 2008
Net assets	£14,509,000
Total return after tax	£70,000
Net asset value per share	95.0p

**Octopus Titan VCT 2 plc ("Titan 2" or "Fund") is a venture capital trust ("VCT") which aims to provide shareholders with attractive tax-free dividends and long-term capital growth.**

The Investment Manager is Octopus Ventures Limited ("Octopus" or "Manager"). Titan 2 will invest primarily in unquoted UK smaller companies and aims to deliver absolute returns on its investments. Titan 2 was launched in November 2007 and, together with Octopus Titan VCT 1 plc ("Titan 1"), raised over £30.8 million in aggregate (£29.5 million net of expenses) through an offer for subscription which closed on 16 May 2008.

# CHAIRMAN'S STATEMENT

I am delighted to be presenting to you in my capacity as Chairman the first interim report for Octopus Titan VCT 2 plc for the six months to 30 April 2008.

## BACKGROUND

The Fund opened in November 2007 and had raised over £15.4 million by the time it closed on 16 May 2008. When combined with Titan 1, over £30.8 million was raised in the Offer, making it one of the largest VCTs launched in the 2007/2008 tax year.

## NET ASSET VALUE ("NAV")

The NAV per share, the measure by which the net assets of the company are split equally across the number of shares in issue, was 95.0p at 30 April 2008. Although little changed from the initial NAV per share of 94.5p, I am pleased to be reporting an increase. Since the close of the Offer, the net proceeds raised have been actively managed by our cash managers, Goldman Sachs, and invested in a range of low risk money market securities. As well as this, up to 12% of net proceeds raised will be invested in the CF Octopus Opportunities Fund and likewise in the CF Octopus Dynamic Fund. We envisage the additional performance of these funds will enhance returns for investors whilst the cash awaits investment in suitable qualifying companies. The income generated from cash management has been in excess of the running costs of the Fund leading to an increase in the net assets.

## INVESTMENT PORTFOLIO

During the period under review the Fund was engaged in seeking funds from investors rather than looking to make investments. During the period the Fund committed £1.7 million to the CF Octopus Dynamic Fund and £0.5 million to the CF Octopus Opportunities Fund. The manager is actively sourcing suitable qualifying investments and since the period end has completed on two qualifying transactions.

Further information on these recent investments is contained in the Investment Manager's review.

## SHARE PRICE AND BUY-BACK FACILITY

The Company's mid-market share price currently stands at 100p. As mentioned in the prospectus, in order to improve the liquidity of the

shares of Titan 2, Octopus is developing strategies that it will use to increase the awareness of the attractions of buying shares in VCTs in the secondary market with the aim of creating a market for those Shareholders who want to dispose of their holdings. However, in order to underpin the ability of shareholders to dispose of their holdings, it is intended that Titan 2 will operate a buy-back policy where (subject to having the requisite authorisations in place and having distributable reserves and sufficient financial resources) it is envisaged that purchases of Shares would happen at no more than a 10% discount to the prevailing NAV per share.

Shareholders should note that if they sell their shares within five years of the original investment they forfeit any income tax relief obtained. If you need to sell your shares, please contact Octopus on **020 7710 2800** or alternatively your Financial Adviser.

#### **VCT QUALIFYING STATUS**

PricewaterhouseCoopers LLP ("PwC") provides the Board and Investment Manager with advice on the ongoing compliance with Her Majesty's Revenue & Customs ("HMRC") rules and regulations concerning VCTs. HMRC has given provisional approval of Titan 2 as a Venture Capital Trust. PwC will assist the Investment Manager in establishing the status of investments as Qualifying Holdings and monitoring the progress towards achieving full VCT approval. Further details of the requirements to comply as a qualifying VCT will be set out in the annual report published after the year end.

#### **OUTLOOK**

Since the fundraising period came to an end the investment team have met with a number of companies that are suitable for investment. The first investments have been made and there remains a strong flow of opportunities that may lead to suitable investment opportunities. The Board, and the investment Manager, will update you in due course as investments are completed.

With the tightening of the credit markets and a downturn in the economic environment affecting both quoted and unquoted companies we believe the Fund is strongly positioned to build a portfolio to deliver attractive returns to shareholders in the medium to long term.

John Hustler  
Chairman  
26 June 2008

# INVESTMENT MANAGER'S REVIEW

#### **PERSONAL SERVICE**

At Octopus, we pride ourselves not only on our team's track record but also on our personalised customer service. We believe in open communication and our regular updates are designed to keep you informed. If you have any questions or would like to speak to one of our fund managers, please do not hesitate to contact us on **020 7710 2800**.

#### **PORTFOLIO REVIEW**

At the period end the Fund had made no investments into qualifying companies. The Fund has made an investment into the CF Octopus Dynamic Fund of £1.7 million and the CF Octopus Opportunities Fund of £0.5 million. Both funds had contributed to Titan 2 an aggregate net unrealised gain of £98,000 at the period end.

#### **RECENT INVESTMENTS**

Since the period end we have made two investments into qualifying companies:

##### **The Key Revolution Limited**

Titan 2 invested £411,068 in The Key Revolution. The Key Revolution provides nomadic computer users with an entirely secure, cost effective and portable office solution, through the use of its patented 'Mobiu' USB dongle. Patented by Vodafone, the technology has been licensed to The Key Revolution and will also be brought to market by an ex-Vodafone team.

##### **GB Environmental Limited**

Titan 2 invested £200,000 in GB Environmental with a commitment to invest a further £200,000 subject to the achievement of set commercial milestones. GB Environmental markets patent protected technology to the food and drinks industry for use in the disinfection of air, liquids, surfaces and food.

# PROFIT AND LOSS ACCOUNT

	Six months ended 30 April 2008		
	Revenue £'000	Capital £'000	Total £'000
Gain on valuation of current asset investments	-	98	98
Other income	65	-	65
Investment management fees	(11)	(33)	(44)
Other expenses	(49)	-	(49)
<b>Profit on ordinary activities before tax</b>	<b>5</b>	<b>65</b>	<b>70</b>
Taxation on profit on ordinary activities	-	-	-
<b>Profit on ordinary activities after tax</b>	<b>5</b>	<b>65</b>	<b>70</b>
<b>Revenue and capital return per share - basic and diluted</b>	<b>0.1p</b>	<b>1.6p</b>	<b>1.8p</b>

- The total column of this statement is the profit and loss account of the Company
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the interim financial information
- 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 securities.

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Six months ended 30 April 2008
	£'000
Shareholders' funds at start of period	-
Profit on ordinary activities after tax	70
Issue of equity (net of expenses)	14,439
<b>Shareholders' funds at end of period</b>	<b>14,509</b>

# BALANCE SHEET

	As at 30 April 2008	
	£'000	£'000
Current assets:		
Investments - OEIC investments	2,239	
Investments - money market securities	7,065	
Debtors	5	
Cash at bank	5,537	
	14,846	
Creditors: amounts falling due within one year	(337)	
Net current assets		14,509
<b>Net assets</b>		<b>14,509</b>
Called up equity share capital	1,528	
Share premium account	12,911	
Capital reserve realised	(33)	
Capital reserve unrealised	98	
Profit and loss account	5	
<b>Total shareholders' funds</b>		<b>14,509</b>
<b>Net asset value per share</b>		<b>95.0p</b>

# CASH FLOW STATEMENT

	Six months ended 30 April 2008
	£'000
Net cash inflow from operating activities	304
Management of liquid resources:	
Increase in money market securities	(7,065)
Increase in OEIC investments	(2,141)
Financing:	
Issue of own shares	15,280
Share issue expenses	(841)
<b>Increase in cash resources</b>	<b>5,537</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN LIQUID RESOURCES

	Six months ended 30 April 2008
	£'000
Increase in cash resources	5,537
Movement in liquid resources	9,303
Opening net liquid resources	-
<b>Net liquid resources at end of period</b>	<b>14,840</b>

## RECONCILIATION OF OPERATING PROFIT BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Six months ended 30 April 2008
	£'000
Profit on ordinary activities before tax	70
Increase in debtors	(5)
Increase in creditors	337
Gain on valuation of current asset investments	(98)
<b>Inflow from operating activities</b>	<b>304</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### Basis of accounting

The Company is an investment company as defined in s266 of the Companies Act 1985. The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments, and in accordance with applicable accounting standards in the UK and with the Statement of Recommended Practice "Financial Statements and Investment Trust Companies" issued in January 2003 and revised in December 2005. The half-yearly report has not been reviewed by the Company's auditor.

### Current asset investments

Current asset investments comprise money market securities and bonds, and Open Ended Investment Companies ("OEIC") and are designated as fair value through profit and loss. Unrealised gains or losses on valuation are recognised through the profit and loss account. The money market securities and bond investments are all invested with the Company's cash manager, Goldman Sachs International, and are readily convertible into cash at the choice of the Company. The OEIC investments are invested into OEICs managed by Octopus Investments Limited, and are readily convertible into cash at the choice of the Company.

### Other income

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

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

### Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue with the exception of the investment management fee, which has been charged 25% to the revenue

account and 75% to the realised capital reserve to reflect, in the Directors' opinion, the expected long term split of returns in the form of income and capital gains respectively from the investment portfolio.

### Taxation

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

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

### Capital reserve - realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies;

### Capital reserve - unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the period end;

### Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities, investment grade bonds and investments in money market managed funds, as well as those investments stated above in OEICs.

## 2. PUBLICATION OF NON-STATUTORY ACCOUNTS

The unaudited interim results for the six months ended 30 April 2008 do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies.

## 3. EARNINGS PER SHARE

The calculation of the revenue and capital return per share is based on the return on ordinary activities after tax for the period and on 3,942,592 shares, being the weighted average number of shares in issue during the period.

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

## 4. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets at 30 April 2008 and on 15,279,887 shares being the number of shares in issue at the same date.

## 5. ISSUE OF EQUITY

During the six months ended 30 April 2008 the Company issued 15,279,887 shares at a price of 100p per share.

## 6. DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors confirm that to the best of their knowledge the half-yearly financial report has been prepared in accordance with the Disclosure and Transparency rules and in accordance with applicable accounting standards, and includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements.

## 7. PRINCIPAL RISKS

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks.

## 8. RELATED PARTIES

Matt Cooper, a non-executive Director of Octopus Titan VCT 2 plc, is a Director of Octopus. Titan 2 has employed Octopus throughout the year as Investment Manager. Under the management agreement, the Manager receives a fee of 2.0% per annum of the net assets of the Company. During the period, Titan 2 has paid Octopus £44,000 in management.

9. Copies of this statement are being sent to all shareholders. Copies are also available from the registered office of the Company at 8 Angel Court, London EC2R 7HP.