

Octopus Second AIM VCT PLC

Unaudited half-yearly report
for the six months ended 31 August 2008



OCTOPUS
INVESTMENTS

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Financial Highlights

	Six months to 31 August 2008	Six months to 31 August 2007	Year to 29 February 2008
Ordinary shares			
Net assets ('000)	£2,533	£3,731	£3,036
Net loss after tax ('000)	£(331)	£(335)	£(910)
Net asset value per share ("NAV")	34.85p	48.65p	40.18p
Cumulative dividends paid since launch	21.60p	19.60p	20.60p
Total return (NAV plus dividends paid)	56.45p	68.25p	60.78p

	Six months to 31 August 2008	Six months to 31 August 2007	Year to 29 February 2008
C & D shares			
Net assets ('000)	£16,036	£19,673	£18,065
Net (loss)/profit after tax ('000)	£(1,770)	£413	£(993)
Net asset value per share ("NAV")	79.52p	97.20p	89.25p
Cumulative dividends paid since launch	3.96p	1.96p	2.96p
Total return (NAV plus dividends paid)	83.48p	99.16p	92.21p

Shareholder return per share since launch

Period ended	Ordinary shares (pence per share)	C shares (pence per share)	D shares (pence per share)
28 February 2003	1.60	–	–
28 February 2006	1.00	–	–
28 February 2007	7.00	0.75	0.75
31 August 2007	10.00	1.21	1.21
29 February 2008	1.00	1.00	1.00
31 August 2008	1.00	1.00	1.00
Total dividends (capital and revenue)	21.60	3.96	3.96
Net asset value as at 31 August 2008	34.85	79.52	79.52
Total return as at 31 August 2008	56.45	83.48	83.48

Ordinary shares

The board has declared an interim dividend to be paid on Ordinary shares of 1.0 pence per share for the six months ending 31 August 2008. This dividend is subject to approval by HM Revenue & Customs. The record date and payment date of this dividend will be announced on the London Stock Exchange RNS service in due course.

C & D shares

The board has declared an interim dividend to be paid on C & D shares of 1.0 pence per share for the six months ending 31 August 2008. This dividend is subject to approval by HM Revenue & Customs. The record date and payment date of this dividend will be announced on the London Stock Exchange RNS service in due course.

Interim Management Report

Following the move of Andrew Buchanan and Kate Tidbury from Close Investments to Octopus Investments with whom they have joined forces to form a larger and better resourced team, the company changed its name to Octopus Second AIM VCT plc at an Extraordinary General Meeting in September. Shareholders should note that existing share certificates remain valid.

While there was a small recovery in stock market sentiment during April and May, the story has been one of growing concern, of continuing selling pressure on small company share prices and of increasing difficulties in the financial sector, culminating, since the period end, in the part nationalisation of several banks. The result when overlaid with the events in the finance sector worldwide has been poor liquidity in the smaller company market and of low share prices, which reflect a lack of interest in this investment class. It has been a particularly poor period in which to announce any shortfall of previous expectations. Although smaller growing companies cannot reasonably be expected always to comply with their business plan, some share price reactions in the market as a whole have been very savage. Needless to say, your company's portfolio has not been immune from these conditions.

As a result of the volatility and fear which dominated the stock market in the six months to 31 August, the AIM All Share index fell by 21.4%. To some extent this fall can be attributed to the lower share prices of many resource companies, which were for so long the reason for this index's rise. As shareholders will recall, this sector is one which the VCT rules preclude from investment, which is why the AIM index is not a good comparison. The FTSE SmallCap Index (excluding investment trusts) fell by 14.5% in the period.

Given that your company has to maintain a high exposure to equities to maintain VCT status, it is not surprising that the Ordinary share portfolio Net Asset Value ("NAV") fell by 13.3%, to 34.85p per share during the period. Adding back the 1p of dividend paid, the total return was -7.1%. With a slightly higher proportion of cash as it achieves the required level of investment, the C & D portfolio saw its NAV reduce by 10.9%, a total return of -9.5% if the 1p dividend is added back. Your board believes that this is a reasonable performance in the circumstances. The tumultuous times, through which we are living, call for rational behaviour. For the C & D portfolio therefore, there is the potential opportunity to invest in the next few months at values which will prove very rewarding in the years ahead. In the meantime, it would be wrong to assume that all companies in the two portfolios are themselves trading poorly. That would not seem to be the case for many holdings as far as the recent results, which your managers have seen.

Dividends

Your board has declared a first interim dividend of 1p per Ordinary share and also of 1p per C & D share. Both these dividends are subject to HM Revenue & Customs approval and the record date and payment date will be announced on the London Stock Exchange RNS service.

Interim Management Report (continued)

Portfolio

It should surprise nobody that there have been no new holdings in the Ordinary portfolio in the six months covered by this report. Perhaps it is more surprising that some sound companies have been raising new capital, but they have and the C & D portfolio has made four new investments in the period totalling £2.9m. These are Essentially Group, IS Pharma, Advanced Computer Software and Optare. Essentially is a profitable company, operating in the sports management area, with players, teams and events under contract. IS Pharma, also profitable, distributes medicines, both its own and other parties, to hospitals in both America and Europe. Advanced Computer Software is the vehicle of an established management team, set up to consolidate software companies in the healthcare sector and Optare is a bus manufacturer formed out of two existing operators in the sector.

Despite the prevailing conditions, your company's manager expects to make other investments in the next few months.

In Specie Distribution

The prospectus for the C & D share issues allowed D shareholders the choice of having a portfolio of the VCTs investments established for them, which, under present legislation, should qualify for Inheritance Tax relief after a further two years or to convert their D shares into C shares. This process is expected to be completed next summer. D shareholders will be written to shortly setting out the process in more detail.

VAT on Management Fees

The Government has recently announced that VCT's will be exempt from paying VAT on investment management fees with effect from 1 October 2008. This follows a European Court of Justice judgement against the Government in a case relating to VAT payable by investment trusts. It is now almost certain a VAT repayment will be obtained for VAT paid on management fees for the last three years. However, given the change in manager in the period, it is not yet clear to what magnitude this may be or when a repayment is likely, but as the situation progresses we would very much hope to be in a position to report on the magnitude and timing of the VAT repayment in the annual financial statements for the year ended 28 February 2009.

Outlook

Everyone has seen some quite shocking events, particularly in the last few weeks, but also in the six months directly covered by this report. Major financial institutions, especially in America, have been rescued by the government. The same has also been true of European countries and, of course, of the UK. Throughout this period sentiment has worsened and fear has escalated. The consequence has been falling share prices and, while fear remains the dominant force in the stock market, it seems reasonable to assume that prices will remain low and indeed volatile. The AIM index has fallen by a further 47% since the end of August to the time of writing and the FTSE SmallCap index

Interim Management Report (continued)

by 35% in the same period. As at 29 October 2008 the Ordinary share NAV was 27.9p per share and for a C & D share NAV was 69.4p per share.

To some extent falling share prices reflect the expectation that economic conditions will continue to deteriorate further and talk of recession has grown more prevalent in the last few weeks.

None of this describes optimism in the short term and it is difficult to escape the conclusion that small companies' share prices now seem to discount an outright and prolonged recession. With most major companies trading at greatly reduced share prices liquidity in smaller stocks is almost non-existent and many are now trading on low single figure price earnings ratios. It is difficult to predict what will cause confidence to return, sentiment to become positive and when this might happen.

Against this background, your manager will continue to invest in sound companies, to support holdings that merit capital for sensible expansion plans and to take advantage of lower valuations, in the belief that the long term view, which a VCT affords, will be able to reap rewards for shareholders in due course.

Elizabeth Kennedy
Chairman

29 October 2008

Investment Portfolio

AIM quoted investments – Ordinary shares	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 August 2008 (£'000)	Change in valuation in the period (£'000)	Carrying value as a % of total investments and cash
Research Now plc	73	112	185	36	7.2%
Mears Group plc	130	46	176	20	6.9%
Brooks MacDonald Group plc	100	59	159	(35)	6.2%
Mattioli Woods plc	61	62	123	(10)	4.8%
Atlantic Global plc	187	(67)	120	15	4.7%
Concateno plc	77	38	115	8	4.5%
Bond International Software plc	43	67	110	(14)	4.3%
Cello Group plc	145	(48)	97	(57)	3.8%
Clerkenwell Ventures plc	122	(27)	95	3	3.7%
Brulines (Holdings) plc	68	20	88	10	3.4%
Zetar plc	65	21	86	(76)	3.4%
Datong Electronics plc	100	(22)	78	(1)	3.1%
Melorio plc	82	(6)	76	(15)	3.0%
Vertu Motors plc	150	(85)	65	(38)	2.5%
Medical House plc	167	(115)	51	(6)	2.0%
Win plc	87	(37)	49	(13)	1.9%
Clapham House Group plc	46	(1)	45	(45)	1.8%
Altitude Group plc	100	(58)	42	(13)	1.6%
Strategic Thought Group plc	54	(15)	39	26	1.5%
Craneware plc	21	12	33	7	1.3%
Media Square plc	108	(77)	31	(20)	1.2%
Pilat Media Global plc	88	(58)	31	(29)	1.2%
Optimisa plc	68	(51)	17	(33)	0.7%
Independent Media Support plc	150	(135)	14	(10)	0.6%
Playgolf (Holdings) plc	150	(137)	14	(23)	0.5%
Freedom4 Comm plc	9	1	11	(23)	0.4%
Total AIM quoted investments	2,451	(501)	1,950	(336)	76.3%
Floating rate notes	–	–	–	–	–
Total investments	2,451	(501)	1,950	(336)	76.3%
Cash	606	–	606	–	23.7%
Total investments and cash	3,057	(501)	2,556	(336)	100.0%

Investment Portfolio (continued)

AIM quoted investments – C & D shares	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 August 2008 (£'000)	Change in valuation in the period (£'000)	Carrying value as a % of total investments and cash
IS Pharma plc	902	(187)	715	(187)	4.6%
Research Now plc	600	60	660	130	4.3%
Advanced Comp Soft plc	650	(38)	612	(38)	4.0%
Neuropharm Group plc	502	102	604	(67)	3.9%
Pressure Technologies plc	302	250	553	110	3.6%
Optare plc	750	(225)	525	(225)	3.4%
Essentially Group plc	571	(51)	520	(51)	3.4%
Animalcare Group plc	485	(18)	467	(44)	3.0%
Melorio plc	490	(34)	456	(93)	3.0%
Clerkenwell Ventures plc	550	(139)	411	15	2.7%
Mount Engineering plc	431	(31)	400	(18)	2.6%
Ibox plc	189	151	340	69	2.2%
Hexagon Human Capital plc	507	(175)	332	(71)	2.2%
Plastics Capital plc	464	(150)	314	(93)	2.1%
Brulines Holdings plc	204	61	265	30	1.7%
Vertu Motors plc	601	(341)	260	(150)	1.7%
Craneware plc	140	79	219	46	1.4%
Telephonetics plc	364	(214)	150	9	1.0%
Twenty plc	500	(356)	144	(56)	0.9%
Lombard Medical Technologies plc	300	(161)	139	(139)	0.9%
Fishworks Plc	220	(92)	128	(92)	0.8%
Optimisa plc	443	(330)	113	(215)	0.7%
Individual Restaurant plc	175	(70)	105	(35)	0.7%
Bglobal plc	151	(57)	94	(24)	0.6%
Claimar Care Group plc	402	(361)	40	(361)	0.3%
Total AIM quoted investments	10,893	(2,327)	8,566	(1,550)	55.6%
Floating rate notes	5,004	(101)	4,903	(34)	31.8%
Total investments	15,897	(2,428)	13,469	(1,584)	87.4%
Cash	1,936	–	1,936	–	12.6%
Total investments and cash	17,833	(2,428)	15,405	(1,584)	100.0%

Directors' Responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board;
- the Interim Management Report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the significant events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements.
- the Statement of Principal Risks and Uncertainties on page 9 is a fair summary of the information required by DTR 4.2.7R, being an account of the principal risks and uncertainties for the remaining six months of the year; and
- the financial statements include a fair review of the information required by the DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year, have materially affected the financial situation of your Company and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Elizabeth Kennedy
Chairman

29 October 2008

Principal Risks and Uncertainties

The Company's assets consist of equity and floating rate 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. These risks, and the way in which they are managed, are described in more detail in the Company's Annual Report and Accounts for the year ended 29 February 2008. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Related Party Transactions

Octopus Investments Limited acts as the investment manager of the Company. Under the management agreement, Octopus receives a fee of 2.0% per annum of the net assets of the Company for the investment management services. This is described in more detail under Note 17 in the Annual Report and Accounts for the year ended 29 February 2008. During the period, the Company incurred management fees of £31,000 payable to Octopus. At the period end there was £31,000 outstanding to Octopus.

Prior to 1 August 2008, Close Investments Limited acted as the investment manager of the Company. During the period 1 March 2008 to 31 July 2008, the Company incurred management fees of £194,000 payable to Close. At the period end there was £Nil outstanding to Close.

No Director has, or during the period had, a contract of service with the Company. Elizabeth Kennedy is a divisional Director of Brewin Limited, the Company's broker. Other than this exception, no Director was party to, or had an interest in, any contract or arrangement with the Company at any time during the period under review or as at the date of this report.

Company Information

Board of Directors

Elizabeth Anita Kennedy
Sir Aubrey Thomas Brocklebank
Alastair James Ritchie

Company Secretary

Celia L Whitten FCIS
Octopus Investments Limited
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Registered office

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VCT Status Adviser

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Octopus Second AIM VCT plc is a member of the Association of Investment Companies.

*(calls cost 10 pence per minute plus network extras)

Income Statement

	Ordinary Shares								
	Six months to 31 Aug 2008			Six months to 31 Aug 2007			Year to 29 Feb 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of investments	-	25	25	-	274	274	-	258	258
Loss on valuation of investments	-	(336)	(336)	-	(608)	(608)	-	(1,147)	(1,147)
Income	25	-	25	34	-	34	55	-	55
Investment management fees	(8)	(23)	(31)	(13)	(38)	(51)	(22)	(67)	(89)
Other expenses	(16)	-	(16)	(14)	-	(14)	(30)	-	(30)
Profit/(loss) on ordinary activities before tax	1	(334)	(333)	7	(372)	(365)	3	(956)	(953)
Taxation on loss on ordinary activities	2	-	2	1	29	30	3	40	43
Profit/(loss) on ordinary activities after tax	3	(334)	(331)	8	(343)	(335)	6	(916)	(910)
Earnings/(loss) per share – basic and diluted	0.04p	(4.49)p	(4.45)p	0.10p	(4.44)p	(4.34)p	0.08p	(11.95)p	(11.87)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 accompanying notes are an integral part of the financial statements
- 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.

Income Statement (continued)

	C & D Shares								
	Six months to 31 Aug 2008			Six months to 31 Aug 2007			Year to 29 Feb 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Loss)/gain on disposal of investments	-	(192)	(192)	-	(11)	(11)	-	188	188
(Loss)/gain on valuation of investments	-	(1,584)	(1,584)	-	324	324	-	(1,342)	(1,342)
Income	269	-	269	421	-	421	774	-	774
Investment management fees	(48)	(146)	(194)	(58)	(176)	(234)	(113)	(340)	(453)
Other expenses	(67)	-	(67)	(57)	-	(57)	(117)	-	(117)
Profit/(loss) on ordinary activities before tax	154	(1,922)	(1,768)	306	137	443	544	(1,494)	(950)
Taxation on (profit)/loss on ordinary activities	(27)	25	(2)	(77)	47	(30)	(130)	87	(43)
Profit/(loss) on ordinary activities after tax	127	(1,897)	(1,770)	229	184	413	414	(1,407)	(993)
Earnings/(loss) per share – basic and diluted	0.63p	(9.39)p	(8.76)p	1.13p	0.91p	2.04p	2.05p	(6.95)p	(4.90)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 accompanying notes are an integral part of the financial statements
- 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.

Income Statement (continued)

	Total								
	Six months to 31 Aug 2008			Six months to 31 Aug 2007			Year to 29 Feb 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Loss)/gain on disposal of investments	-	(167)	(167)	-	263	263	-	446	446
Loss on valuation of investments	-	(1,920)	(1,920)	-	(284)	(284)	-	(2,489)	(2,489)
Income	294	-	294	455	-	455	829	-	829
Investment management fees	(56)	(169)	(225)	(71)	(214)	(285)	(135)	(407)	(542)
Other expenses	(83)	-	(83)	(71)	-	(71)	(147)	-	(147)
Profit/(loss) on ordinary activities before tax	155	(2,256)	(2,101)	313	(235)	78	547	(2,450)	(1,903)
Taxation on (profit)/loss on ordinary activities	(25)	25	-	(76)	76	-	(127)	127	-
Profit/(loss) on ordinary activities after tax	130	(2,231)	(2,101)	237	(159)	78	420	(2,323)	(1,903)

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

Reconciliation of Movements in Shareholders' Funds

	Six months ended 31 August 2008 £'000	Ordinary Shares Six months ended 31 August 2007 £'000	Year to 29 Feb 2008 £'000
Shareholders' funds at start of period	3,036	4,889	4,889
Loss for the period	(332)	(335)	(910)
Shares purchased for cancellation	–	(55)	(55)
Shares purchased and held in Treasury	(97)	–	(44)
Dividends paid	(74)	(768)	(844)
Shareholders' funds at end of period	2,533	3,731	3,036
		C & D Shares Six months ended 31 August 2007 £'000	Year to 29 Feb 2008 £'000
Shareholders' funds at start of period	18,065	19,505	19,505
(Loss)/profit for the period	(1,770)	413	(993)
Shares purchased and held in Treasury	(56)	–	–
Dividends paid	(202)	(245)	(447)
Shareholders' funds at end of period	16,037	19,673	18,065
		Total Six months ended 31 August 2007 £'000	Year to 29 Feb 2008 £'000
Shareholders' funds at start of period	21,101	24,394	24,394
(Loss)/profit for the period	(2,102)	78	(1,903)
Shares purchased for cancellation	–	(55)	(55)
Shares purchased and held in Treasury	(153)	–	(44)
Dividends paid	(276)	(1,013)	(1,291)
Shareholders' funds at end of period	18,570	23,404	21,101

Balance Sheet

	Ordinary Shares			
	As at 31 August 2008 £'000	As at 31 August 2007 £'000	As at 29 February 2008 £'000	As at £'000
Fixed asset investments	1,950	2,986		2,426
Current assets:				
Money market securities	–	300	–	
Debtors	8	14	48	
Cash at bank	606	463	577	
	614	777	625	
Creditors: amounts falling due within one year	(31)	(32)	(15)	
Net current assets	583	745		610
Net assets	2,533	3,731		3,036
Called up equity share capital	383	383	383	
Special distributable reserve	7,333	7,333	7,333	
Capital redemption reserve	61	61	61	
Capital reserve – realised	(4,194)	(4,014)	(4,124)	
Capital reserve – unrealised	(501)	377	(162)	
Own shares held in treasury	(141)	–	(44)	
Revenue Reserve	(408)	(409)	(411)	
Total equity shareholders' funds	2,533	3,731		3,036
Net asset value per share	34.9p	48.7p		40.2p

Balance Sheet (continued)

	C & D Shares			
	As at 31 August 2008 £'000	As at 31 August 2007 £'000	As at 29 February 2008 £'000	As at £'000
Fixed asset investments	8,566	5,831		7,356
Current assets:				
Money market securities	4,903	11,195	8,475	
Debtors	698	110	85	
Cash at bank	1,936	3,195	2,263	
	7,537	14,500	10,823	
Creditors: amounts falling due within one year	(67)	(658)	(114)	
Net current assets	7,470	13,842		10,709
Net assets	16,036	19,673		18,065
Called up equity share capital	1,012	1,012	1,012	
Special distributable reserve	18,077	18,077	18,077	
Capital redemption reserve	–	–	–	
Capital reserve – realised	(709)	(377)	(302)	
Capital reserve – unrealised	(2,428)	729	(937)	
Own shares held in treasury	(56)	–	–	
Revenue Reserve	139	232	215	
Total equity shareholders' funds	16,036	19,673		18,065
Net asset value per share	79.5p	97.2p		89.3p

Balance Sheet (continued)

	As at		Total		As at	
	31 August 2008 £'000	31 August 2007 £'000	31 August 2007 £'000	29 February 2008 £'000	31 August 2008 £'000	29 February 2008 £'000
Fixed asset investments		10,516		8,817		9,782
Current assets:						
Money market securities	4,903		11,495		8,475	
Debtors	706		124		133	
Cash at bank	2,542		3,658		2,840	
	8,151		15,277		11,448	
Creditors: amounts falling due within one year	(97)		(690)		(129)	
Net current assets	8,053		14,857		11,319	
Net assets	18,570		23,404		21,101	
Called up equity share capital	1,396		1,395		1,395	
Special distributable reserve	25,411		25,410		25,410	
Capital redemption reserve	61		61		61	
Capital reserve – realised	(4,903)		(4,391)		(4,426)	
Capital reserve – unrealised	(2,929)		1,106		(1,099)	
Own shares held in treasury	(197)				(44)	
Revenue Reserve	(269)		(177)		(196)	
Total equity shareholders' funds	18,570		23,404		21,101	

Cash Flow Statement

	Ordinary Shares		
	Six months to 31 Aug 2008 £'000	Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
Net cash inflow/(outflow) from operating activities	34	32	(9)
Financial investment:			
Purchase of fixed asset investments	–	(66)	(221)
Sale of fixed asset investments	166	692	869
Management of cash equivalent resources:			
Net sale of cash equivalents	–	–	300
Dividends paid	(74)	(768)	(844)
Financing:			
Intercompany account movement	–	47	–
Own shares held in treasury	(97)	–	(44)
Repurchase of own shares	–	(55)	(55)
Increase/(decrease) in cash resources	29	(118)	(4)

Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Ordinary Shares		
	Six months to 31 Aug 2008 £'000	Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
Increase/(decrease) in cash at bank	29	(118)	(4)
Decrease in cash equivalents	–	–	(300)
Opening net liquid resources	577	881	881
Net liquid resources at 31 August/29 February	606	763	577

Reconciliation of Profit before Taxation to Cash Flow from Operating Activities

	Ordinary Shares		
	Six months to 31 Aug 2008 £'000	Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
Loss on ordinary activities before tax	(333)	(365)	(953)
Decrease in debtors	40	41	50
Increase in creditors	16	22	5
Gain on realisation of investments	(25)	(274)	(258)
Loss on valuation of investments	336	608	1,147
Inflow/(outflow) from operating activities	34	32	(9)

Cash Flow Statement (continued)

	Six months to 31 Aug 2008 £'000	C & D Shares Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
Net cash (outflow)/inflow from operating activities	(652)	186	231
Financial investment:			
Purchase of fixed asset investments	(2,877)	(1,983)	(5,675)
Sale of fixed asset investments	-	-	377
Management of cash equivalent resources:			
Net sale of cash equivalents	3,460	4,993	7,487
Dividends paid	(202)	(245)	(447)
Financing:			
Intercompany account movement	-	(47)	
Issue of share capital	-	5	4
Own shares held in treasury	(56)	-	-
(Decrease)/increase in cash resources	(327)	2,909	1,977

Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Six months to 31 Aug 2008 £'000	C & D Shares Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
(Decrease)/increase in cash at bank	(327)	2,909	1,977
Decrease in cash equivalents	(3,572)	(7,462)	(7,685)
Opening net liquid resources	10,739	16,447	16,447
Net liquid resources at 31 August/29 February	6,840	11,894	10,739

Reconciliation of Profit before Taxation to Cash Flow from Operating Activities

	Six months to 31 Aug 2008 £'000	C & D Shares Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
(Loss)/profit on ordinary activities before tax	(1,768)	443	(950)
(Increase)/decrease in debtors	(613)	20	44
(Decrease)/increase in creditors	(47)	36	(17)
Loss/(gain) on realisation of investments	192	11	(188)
Loss/(gain) on valuation of investments	1,584	(324)	1,342
(Outflow)/inflow from operating activities	(652)	186	231

Cash Flow Statement (continued)

	Six months to 31 Aug 2008 £'000	Total Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
Net cash (outflow)/inflow from operating activities	(618)	218	222
Financial investment:			
Purchase of fixed asset investments	(2,877)	(2,049)	(5,896)
Sale of fixed asset investments	166	692	(1,246)
Management of cash equivalent resources:			
Net sale of cash equivalents	3,460	4,993	7,787
Dividends paid	(276)	(1,013)	(1,291)
Financing:			
Issue of share capital	–	5	4
Own shares held in treasury	(97)	–	(44)
Repurchase of own shares	(56)	(55)	(55)
(Decrease)/increase in cash resources	(298)	2,791	1,973

Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Six months to 31 Aug 2008 £'000	Total Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
(Decrease)/increase in cash at bank	(298)	2,791	1,973
Decrease in cash equivalents	(3,572)	(7,462)	(7,985)
Opening net liquid resources	11,316	17,328	17,328
Net liquid resources at 31 August/29 February	7,446	12,657	11,316

Reconciliation of Profit before Taxation to Cash Flow from Operating Activities

	Six months to 31 Aug 2008 £'000	Total Six months to 31 Aug 2007 £'000	Year to 29 Feb 2008 £'000
(Loss)/profit on ordinary activities before tax	(2,101)	78	(1,903)
(Increase)/decrease in debtors	(573)	61	94
(Decrease)/increase in creditors	(31)	58	(12)
Loss/(gain) on realisation of investments	167	(263)	(446)
Loss/(gain) on valuation of investments	1,920	284	2,489
(Outflow)/inflow from operating activities	(618)	218	222

Notes to the Interim Financial Statements

1. Basis of preparation

The unaudited interim results which cover the six months to 31 August 2008 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 29 February 2008.

2. Publication of non-statutory accounts

The unaudited interim results for the six months ended 31 August 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. The comparative figures for the year ended 29 February 2008 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements under Section 235 of the Companies Act 1985 was unqualified. This half-yearly report has not been reviewed by the Company's auditor.

3. Earnings per share

Ordinary Shares

The revenue return per Ordinary share is based on the net profit on ordinary activities after taxation of £3,000, (31 August 2007 net profit of £8,000, 29 February 2008 net profit of £6,000). Whilst the capital return is based on the capital loss on ordinary activities after taxation of £(334,000), (31 August net loss of £(343,000), 29 February 2008 net loss of £(916,000)). This is in respect of 7,451,750 Ordinary Shares (31 August 2008 7,709,176 shares and 29 February 2007 7,668,121 shares), being the weighted average number of Ordinary shares, excluding shares held in treasury, in issue during the year.

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

C & D Shares

The revenue return per C & D share is based on the revenue return on ordinary activities after taxation of £127,000 (31 August 2007 net profit of £229,000, 29 February 2008 net profit of £414,000). Whilst the capital return is based on the capital loss on ordinary activities after taxation of £(1,897,000), (31 August net profit of £184,000, 29 February 2008 net loss of £(1,407,000)). This is in respect of 20,216,744 (31 August 2007 20,240,793 shares and 29 February 2008 20,240,793 shares), being the weighted average number of C & D shares in issue during the year.

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

4. Net asset value per share

Ordinary Shares

The calculation of net asset value per share is based on the net assets at 31 August 2008 and on 7,267,837 shares being the number of shares in issue, excluding shares held in Treasury, at the same date (31 August 2007: 7,669,349 and 29 February 2008: 7,555,693).

C & D Shares

The calculation of net asset value per share is based on the net assets at 31 August 2008 and on 20,165,793 shares being the number of shares in issue, excluding shares held in Treasury, at the same date (31 August 2007: 20,240,793 and 29 February 2008: 20,240,793).

5. Dividends

Ordinary Shares

The interim dividend declared of 1.0 pence per Ordinary share for the six months ending 31 August 2008 is subject to approval by HM Revenue & Customs. The record date and payment date of this dividend will be announced on the London Stock Exchange RNS service in due course. A final dividend of 1.0 pence per share, relating to the year ended 29 February 2008, was paid on 8 August 2008 to shareholders on the register on 11 July 2008.

C & D Shares

The interim dividend declared of 1.0 pence per C & D share for the six months ending 31 August 2008 is subject to approval by HM Revenue & Customs. The record date and payment date of this dividend will be announced on the London Stock Exchange RNS service in due course. A final dividend of 1.0 pence per share, relating to the year ended 29 February 2008, was paid on 25 July 2008 to shareholders on the register on 27 June 2008.

6. During the six months ended 31 August 2008 there were no share issues. For Ordinary-shares 287,856 shares were bought back in the period; these shares are currently held by treasury. For C & D shares there were no buy-backs in the period.
7. 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, and will also be available to view on the Investment Manager's website at www.octopusinvestments.com.




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