OCTOPUS
AIM VCT PLC

ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED
28 FEBRUARY 2014

OCTOPUS
INVESTMENTS

Octopus AIM VCT Plc is a venture capital trust which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominantly AIM-quoted companies. The Company is managed by Octopus Investments Limited.

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FINANCIAL SUMMARY

	As at 28 February 2014	As at 28 February 2013
Net assets (£'000)	**69,730**	44,123
Net profit after tax (£'000)	**19,148**	5,471
Net asset value (NAV) per share	**125.2p**	93.7p
Dividends per share paid in year	**5.0p**	5.0p
Final proposed dividend	**3.0p**	2.5p

KEY DATES

Final dividend payment date	24 July 2014
Annual General Meeting	17 July 2014 (12.30 pm. at 20 Old Bailey, London EC4M 7AN)
Half yearly results to 31 August 2014 announced	October 2014
Annual results to 28 February 2015 announced	June 2015
Annual Report and financial statements published	June/July 2015

SHAREHOLDER INFORMATION AND CONTACT DETAILS

Octopus AIM VCT plc ("the Company or Fund") was launched as Close AIM VCT PLC in the spring of 1998 and raised £10.1 million from private investors through an issue of Ordinary shares.

Between October 2000 and March 2001 a further £20.0 million was raised through an issue of C shares. Furthermore, between 16 March 2004 and final closing on 5 April 2004 the Company raised £3.3 million by way of a D share issue.

The C Shares were merged and converted into Ordinary shares on 31 May 2004 at a conversion ratio determined by a price mechanism related to the respective net assets per share of both the Ordinary shares and C shares at 29 February 2004 (which resulted in C Shareholders receiving 1.0765 Ordinary shares for each C share held).

A further £15.0 million was raised between 6 January 2005 and 8 April 2005 through an issue of New D shares.

On 31 May 2008, the Ordinary shares converted into D shares at a conversion ratio of 0.5448 D shares for each Ordinary share. All of the D shares were then re-designated into New Ordinary shares.

With effect from 1 August 2008, the management of the Company was transferred to Octopus Investments Limited.

On 4 August 2010 the share capital was restructured and each existing Ordinary share of 50 pence was subdivided into one Ordinary share of 1 pence and one Deferred share of 49 pence. The Deferred shares had no economic value and were bought back by the Company for an aggregate amount of 1 pence and cancelled.

On 12 August 2010, following approval at the Extraordinary General Meeting on 4 August 2010, shareholders of Octopus Phoenix VCT had their shares converted into Octopus AIM VCT shares on a relative net asset value basis using the conversion factor of 0.42972672. On the same day, Octopus Phoenix VCT was placed into members' voluntary liquidation.

The offer for subscription in the prospectus dated 9 July 2010 relating to the issue of new shares in connection with the merger with Octopus Phoenix VCT Plc was extended by a supplemental prospectus and closed on 19 April 2011 raising £10 million. A subsequent offer raised £1.9 million, closing on 5 April 2012.

A further offer was launched on 25 April 2012 and closed on 31 July 2012. The offer resulted in the issue of 2,843,092 new shares, raising a total of £2.6 million.

On 23 October 2012 the Company announced an Enhanced Buyback Facility ("EBB") in respect of up to 50 per cent of the issued share capital. The EBB closed on 31 January 2013. As a result of the EBB, the Company repurchased 10,801, 537 Ordinary shares and 10,289,443 new Ordinary shares were issued.

An offer for subscription of up to £10 million, which opened on 1 February 2013 and closed on 17 December 2013, raised £9.4 million. As mentioned in the Chairman's statement, the Board completed a fund-raise of £4.1 million by way of an issue of new shares in a non-prospectus offer that opened on 2 February 2014 and closed fully subscribed on 28 March 2014.

SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

Venture Capital Trusts ("VCTs")

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

- up to 30 per cent up-front income tax relief;
- exemption from income tax on dividends paid; and
- exemption from capital gains tax on disposals of shares in VCTs.

The Company has been approved as a VCT by HMRC. In order to maintain its approval, the Company must comply with certain requirements on a continuing basis including the provisions of chapter 3 of the Income Tax Act 2007; in particular s280A:

- at least 70 per cent of the Company's investments must comprise 'qualifying holdings'* (as defined in the legislation);
- at least 70 per cent of the qualifying holdings must be invested into Ordinary shares with no preferential rights (30 per cent for funds invested before 6 April 2011);
- no single investment made can exceed 15 per cent of the total company value at the time of investment; and
- a minimum of 10 per cent of each qualifying investment must be in Ordinary shares with no preferential rights.

*A 'qualifying holding' consists of up to £5 million invested in any one year in new shares or securities in a company listed on AIM (or an unquoted UK company) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment. The definition of a 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing.

Dividends

Dividends will be paid by the Company's Registrar, Capita Asset Services ("Capita") on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque sent to their registered address can complete a mandate form for this purpose or complete an instruction electronically by visiting the Capita shareholder portal at: www.capitashareportal.com. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to Capita, by calling 0871 664 0324 (calls cost 10p per minute plus network extras. Lines are open Monday–Friday 9.00am–5.30pm), or by writing to them at:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

The following table shows the Net Asset Value per share and lists the dividends that have been paid since the launch of the Company and the different share classes that have been issued:

Dividends paid in the period ended	Ordinary shares 2013/14	Ordinary shares 2012/13	Ordinary shares 2011/12	Ordinary shares 2010/11	Ordinary shares 2009/10	D shares 2003/04	C shares 2000/01	Ordinary shares 1997/98	Phoenix 'C' shares 2005/06	Phoenix Ordinary shares 2002/03
28 February 1999			–	–	–	–	–	1.88	–	–
29 February 2000			–	–	–	–	–	3.13	–	–
28 February 2001			–	–	–	–	–	37.25	–	–
28 February 2002			–	–	–	–	2.55	6.50	–	–
28 February 2003			–	–	–	–	1.50	3.50	–	–
29 February 2004			–	–	–	–	0.50	0.50	–	0.15
28 February 2005			–	–	–	0.50	0.50	0.50	–	6.50
28 February 2006			–	–	–	2.25	2.31	2.15	–	1.00
28 February 2007			–	–	–	3.30	4.52	4.20	1.00	3.35
31 August 2007			–	–	–	2.50	2.69	2.50	3.00	6.00
29 February 2008			–	–	–	2.50	2.69	2.50	3.00	6.00
31 August 2008			–	–	–	2.50	2.69	2.50	2.00	5.00
28 February 2009			–	–	–	2.50	1.47*	1.36*	3.00	5.00
31 August 2009			–	–	–	2.50	1.46*	1.36*	1.35	1.00
28 February 2010			–	–	–	2.50	1.47*	1.36*	1.35*	1.00
31 August 2010			–	–	–	–	1.46*	1.36*	2.70*	2.00
28 February 2011				5.28*	5.59*	5.00	1.47*	1.36*	3.06*	2.27
31 August 2011			2.59	2.64*	2.80*	2.50	1.47*	1.36*	1.53*	1.13
29 February 2012			2.59	2.64*	2.80*	2.50	1.47*	1.36*	1.53*	1.13
31 August 2012			2.59	2.64*	2.80*	2.50	1.47*	1.36*	1.53*	1.13
28 February 2013		2.76*	2.59*	2.64*	2.79*	2.50	1.47*	1.36*	1.53*	1.13
31 August 2013	2.40*	2.76*	2.59*	2.64*	2.80*	2.50	1.47*	1.36*	1.53*	1.13
28 February 2014	2.40*	2.76*	2.59*	2.64*	2.80*	2.50	1.47*	1.36*	1.53*	1.13
Cumulative dividends paid	4.80	8.28	15.54	21.12	22.38	41.05	36.10	82.07	29.64	46.05
Adjusted NAV as at 28 February 2014 (assuming investment at 100p)**	119.9	138	129.60	132.40	140.04	125.20	73.40	68.20	72.70	53.80
Adjusted NAV plus cumulative dividends paid***	**124.70**	**146.28**	**145.14**	**153.52**	**162.42**	**166.25**	**109.50**	**150.27**	**102.34**	**99.85**

Following the merger with Octopus Phoenix VCT Plc and various share reorganisations, there is only one share class, Ordinary shares. For Octopus Phoenix VCT Plc Ordinary shares and C shares, the figures above represent a notionally adjusted NAV per share in accordance with the relevant conversion factors listed in the shareholder information sector on the preceding page.

* Notional dividends adjusting for conversion & assuming an investment at 100p, of Phoenix 'C' shares into Phoenix Ordinary shares, and relevant AIM VCT shares into AIM VCT Ordinary shares.

** NAV adjusted for conversion of relevant shares into AIM VCT Ordinary shares at the date of each conversion. Phoenix Ordinary shares adjusted as at the date of the merger.

*** NAV plus cumulative dividends based on NAV adjusting for conversion where appropriate, assuming an investment at 100p, showing the notional return to shareholders based on their original investment share class.

The proposed final dividend of 3.0p will, if approved by shareholders, be paid on 24 July 2014 to shareholders on the register on 27 June 2014.

SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

Dividend Reinvestment Scheme ("DRIS")

The Company is proposing to adopt a DRIS, under which Shareholders will be given the opportunity to re-invest automatically future dividend payments by subscribing for new Ordinary Shares. This will allow participating Shareholders to re-invest the growth in their shareholdings and, subject to personal circumstances, benefit from additional income tax reliefs.

At the Annual General Meeting, a Resolution will be proposed to give the Directors the authority to allot Ordinary Shares under the Offer whilst disapplying pre-emption rights and to allow Shareholders to have the right to elect to receive Ordinary Shares under the DRIS instead of a cash dividend.

Share Price

The Company's share price can be found on various financial websites, such as www.londonstockexchange.com, by typing the following TIDM/EPIC code in the 'Quotes search':

	Ordinary shares
TIDM/EPIC code	OOA
Latest share price (30 May 2014)	115.5p per share

Buying and selling shares

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

Buy back of Shares

The Company operates a policy of buying its own shares for cancellation as they become available, and envisages that purchases will be made at a 5 per cent discount to the prevailing NAV. 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 Panmure Gordon (UK) Limited, the Company's broker.

Panmure Gordon (UK) Limited is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought its shares. Panmure Gordon (UK) Limited can be contacted as follows:

Chris Lloyd
0207 886 2716 chris.lloyd@panmure.com

Paul Nolan
0207 886 2717 paul.nolan@panmure.com

Secondary Market

UK Income tax payers, aged 18 or over, can purchase shares in the secondary market and benefit from:

- Tax free dividends
- Realised gains not being subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

The UK tax treatment of VCTs is on a first in and first out basis and therefore tax advice should be obtained before shareholders dispose of their shares.

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 Capita, under the signature of the registered holder or via the Capita online share portal at: www.capitashareportal.com. Capita's contact details are provided on page 66.

Other information for Shareholders

Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at www.octopusinvestments.com by navigating to Investor, Shareholder, Octopus AIM VCT plc. All other statutory information will also be found there. For any queries regarding access to this, please call Octopus on 0800 316 2295.

Electronic Communications

We also publish reports and accounts and all other correspondence electronically. This cuts the cost of print and reduces the impact on the environment. If, in future, you would prefer to receive an email telling you a report is available to view or to receive documents by email, please complete the enclosed form or contact Octopus Investments Limited ("Octopus") on 0800 316 2295 or Capita on 0871 664 0324. Alternatively you can sign up to receive e-communications via the Capita online shareholder portal: www.capitashareportal.com.

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.

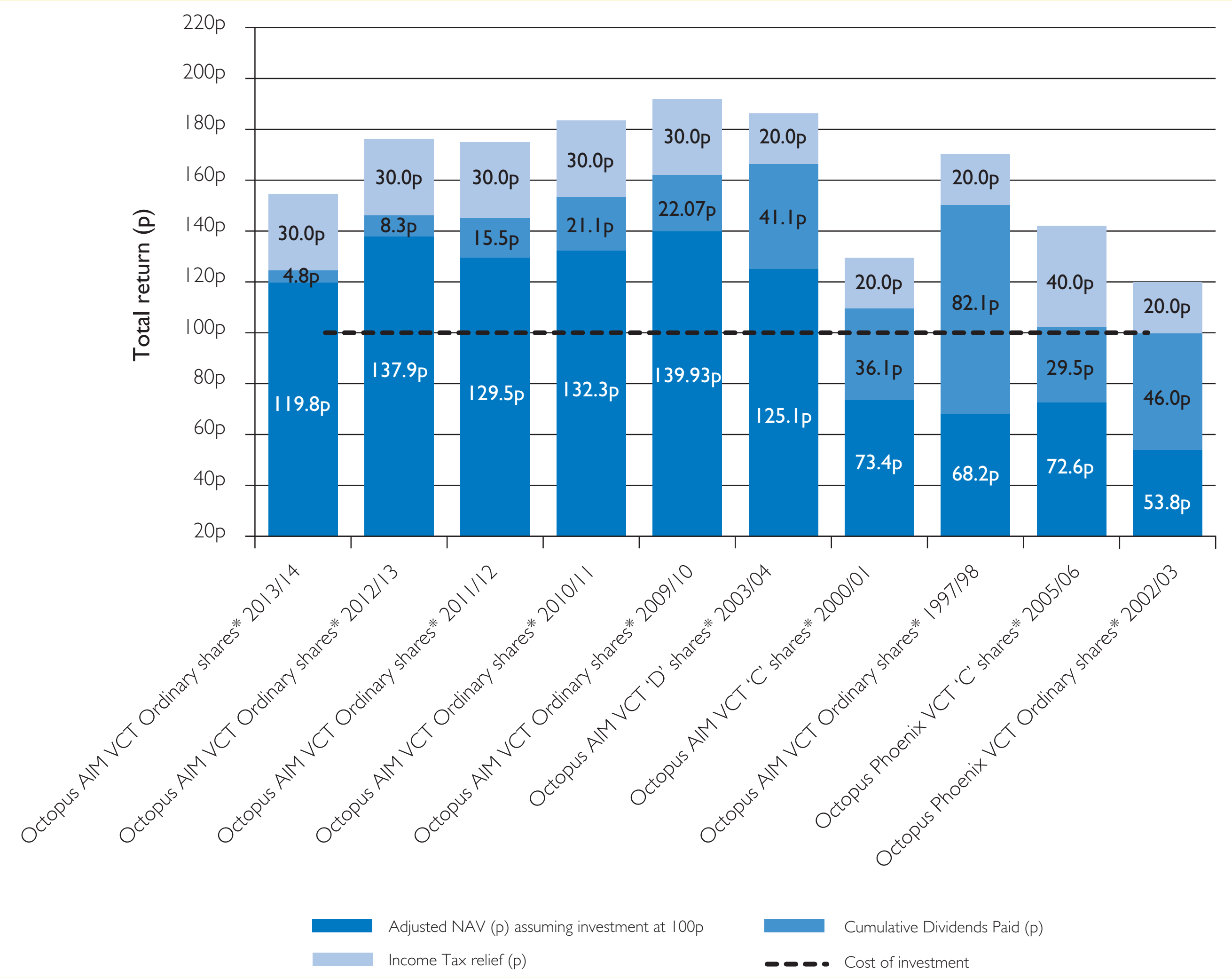
Please note that it is very unlikely that either the Company, Octopus or the Registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and would never be in respect of investment advice.

If you are in any doubt about the authenticity of an unsolicited phone call, please call Octopus on 0800 316 2295.

The Financial Conduct Authority have also issued guidelines on how to avoid share fraud and further information can be found on their website: http://www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams. You can report any share fraud to them by calling 0800 111 6768.

SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

The graph below depicts the Net Asset Value (NAV) per share and the dividends that have been paid since the launch of Octopus AIM VCT Plc for each class of share issued since the start, assuming an investment at 100p including the up-front tax relief and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year:



*Following the merger of Octopus AIM VCT and Octopus Phoenix VCT and various share re-organisations, there is only one share class, Ordinary shares. At various dates, indicated above, Ordinary shares (pre May 2008), 'C' shares and 'D' shares together with Octopus Phoenix VCT Ordinary shares and 'C' shares were acquired. The figures above represent a NAV, rebased to assume investment at 100p, and adjusted in accordance with the relevant conversion factors listed on pages I and I. Investment has been assumed at the first allotment of each tax year.

CHAIRMAN'S STATEMENT

Introduction

Your Company has had another good year. The net asset value of your shares continued to increase in the second half of the year with the result that a total increase of 38.8 per cent was achieved in the year to 28 February 2014 including the 5p dividend which was paid in the year. This may be compared with the increase in the AIM Index of 20.5 per cent in the same period.

Your Company invests in company shares quoted on AIM but is restricted to the type of activity an investee company pursues which effectively eliminates approximately 30 per cent of AIM companies. Recent changes which make investment in AIM shares more attractive include nil stamp duty on purchase with effect from 28 April 2014 and their eligibility to be held in ISA portfolios. It is most refreshing to see the Government take such positive steps to enhance the attraction of investing in Europe's most important small companies. As our Investment Manager points out in their review on page 17, ISA eligibility is believed to account for a 20 per cent increase in AIM trading volume compared to a year earlier. This is most encouraging for the future of your Company and may herald a new era of recognising that, as the banking system continues to draw in its horns, small company equity financing is becoming ever more important.

The major tax concessions applicable to investors in VCTs which were designed to attract capital to small businesses only apply to investors in new shares. Therefore there is little secondary market in VCT shares. However it should not be forgotten that income from shares acquired in that market is not subject to income tax and realised gains are not subject to Capital Gains Tax.

Fund raising

Since 28 February 2013 we have raised a total of £9.8 million pursuant to a prospectus offer and £4.1 million under the Top- up offer which closed on 28 March 2014. In total we have issued 2,332,244 shares since that date. In the year ended 28 February 2014 we bought back 1,237,083 shares. The average month end discount to net asset value at which your shares have traded through the year has been 5.8 per cent compared to the closing monthly bid price in line with the Board's policy of 5 per cent.

Performance

In the interim accounts I reported that we had invested £2.4 million in new qualifying holdings, namely Cambridge Cognition, Quixant, Nektan and Clean Air Power. In the second half of the year we invested £2.2 million in four new holdings, Enables IT, Proxama and Nasstar together with another unquoted company Rated People. The latter followed a Board decision to invest in unquoted companies where there was a high expectation that they would float within the next 9 to 12 months. We also made additional investments in Corac and Nektan.

We made disposals totalling £3.5 million at a net profit of £0.9 million. We sold our entire holding in Corero and Marwyn Management and took profits in Proxama, Quixant, WANdisco, Plus500 and Omega Diagnostics. Active Risk was the subject of a takeover.

Further details of performance are contained in the Investment Managers' Review on pages 17 to 25.

Your Company, like all Venture Capital Trusts, invests in smaller companies, which by their nature are riskier than more established larger companies and hence attract the tax concessions, which encourage such investment. The fact that the fair market value of your company's investment portfolio is approximately twice its cost is a just tribute to the ability of your Investment Managers to fish successfully in such difficult waters.

Dividend

An interim dividend of 2.5p was paid to shareholders in January 2014. Shareholders will know that it is the Company's present policy to pay a dividend of at least 2.5p a share twice yearly and this remains the case. However, in the light of the recent rises in the Net

CHAIRMAN'S STATEMENT (continued)

Asset Value your Board has pleasure in recommending a rise in the final dividend to 3.0p which will be paid in July 2014. This is equivalent to an annualised yield of 5% based on the share price of 119p on 28 February 2014.

In refining the dividend policy it is your Board's intention to continue to pay a minimum of 2.5p each half year or a 5% yield based on share price, whichever is the greater at the time. This will enable dividends to progress with a rising NAV, whilst maintaining the minimum historic level.

VCT Status

PricewaterhouseCoopers LLP provides your Board and Investment Manager with advice concerning continuing compliance with HMRC regulations for VCTs. Your Board has been advised that Octopus AIM VCT is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT.

A key requirement is to maintain at least a 70 per cent qualifying investment level. As at 28 February 2014 some 82.8 per cent of the portfolio as measured by HMRC rules was invested in qualifying investments.

Risks and uncertainties

In accordance with the Listing Rules under which your Company operates your Board has to comment on the potential risks and uncertainties which could have a material impact on the Company's performance. A risk arises from the requirement to maintain compliance with HMRC regulations requiring 70 per cent of your Company's assets to be invested in qualifying holdings. Other risks include economic conditions which impact particularly on smaller companies in which your Company invests and this could have an adverse impact on share prices.

Alternative Investments Fund Managers Directive ("AIFMD")

AIFMD was introduced under EU Legislation to bring consistency of reporting across all fund types. In accordance with this legislation, the Company applied to the Financial Conduct Authority to register as its own Alternative Investment Fund Manager and confirmation of the registration was received on 14 April 2014. The Company will be required to make an annual report, which will include investments made, principal exposures, liquidity and risk management.

Annual General Meeting

The Annual General Meeting will be held on Thursday 17 July 2014. I very much hope that you will be able to come. After the formal business our Investment Managers will make a presentation and refreshments will be provided.

At the Annual General Meeting, a resolution will be proposed to extend the life of the Company until 2020 in order to preserve the ability of the company to conduct Top-Up offers in the future.

Outlook

The economic outlook is certainly brighter than it was but there are still quite a lot of uncertainties. The UK might be performing better than many of its trading partners but ultimately its performance is to a degree dependent on their performance. There is still considerable scope for fluctuations in market prices, often quite substantial as we have seen in recent months. Your Company's investment portfolio cannot be immune from what is happening in the market generally. The latest unaudited NAV of 120.9p struck on 26 May, which is slightly below the level at the end of February, reflects this.

Success in the future ultimately rests with your Investment Managers' continuing ability to pick investments with long term growth and potential to increase in value It is worth recalling that in the much covered Pfizer Astra Zeneca debate, an often overlooked fact is six out of seven of Astra's mid stage pipeline assets, which it said hold the key to its future prosperity, were bought-in. The overwhelming evidence is that smaller, more entrepreneurial businesses are the engine room of the economy, are better at research and new product innovation as measured in almost any terms. That is why companies such as yours are important to the future of our country and that is why your Board believes that we are in the right place to bring prosperity to all shareholders.

Michael Reeve

Michael Reeve
Chairman
30 May 2014

STRATEGIC REPORT

The Directors are required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to include a Strategic Report to Shareholders.

The following sections form part of the Strategic Report:

- Our Strategy
- Business Review
- Investment Manager's Review

The purpose of the report is to provide Shareholders with sufficient information to enable them to assess the extent to which the Directors have performed their legal duty to promote the success of the Company in accordance with section 172 of the Companies Act.

Our Strategy

The Company's Objective

The objective of the Company is to invest in a broad range of predominantly AIM-quoted companies in order to generate income and long-term capital growth. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value. Start-up companies will usually be avoided.

Investment Policy

The Company's investment policy has been designed to enable it to comply with the VCT qualifying conditions. The Board intends that the long-term disposition of Company's assets will be not less than 80 per cent in a portfolio of qualifying AIM, ISDX Growth Market traded investments or unquoted companies where the management view an initial public offering (IPO) on AIM or the ISDX Growth Market is a short to medium term objective. Now the qualifying target has been achieved, the Board intends that approximately 20 per cent of its funds will be invested in non-qualifying investments generally comprising gilts, floating rate securities and short-term money market deposits with, or issued by, major companies and institutions with a minimum Moody's long term debt rating of 'A'. A proportion of the 20 per cent could be invested in an authorised UK smaller company fund managed by Octopus or direct in equity investments and bonds. This 20 per cent could provide a reserve of liquidity which should maximise the Company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buybacks.

Risk is spread by investing in a number of different businesses across a range of industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to the amount permitted pursuant to VCT legislation in a fiscal year and no more than 15 per cent of the Company'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 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 Company's equity shareholders' funds and it is not intended that the Company will take on any borrowings.

The Company's Articles permit borrowings of amounts up to 10 per cent of the sum equal to the aggregate of the amount paid up on the allotted or issued share capital of the Company and the amount standing to the credit of the capital and revenue reserves of the Company (whether or not distributable) after adding thereto or deducting therefrom any balance to the credit or debit of the profit and loss account.

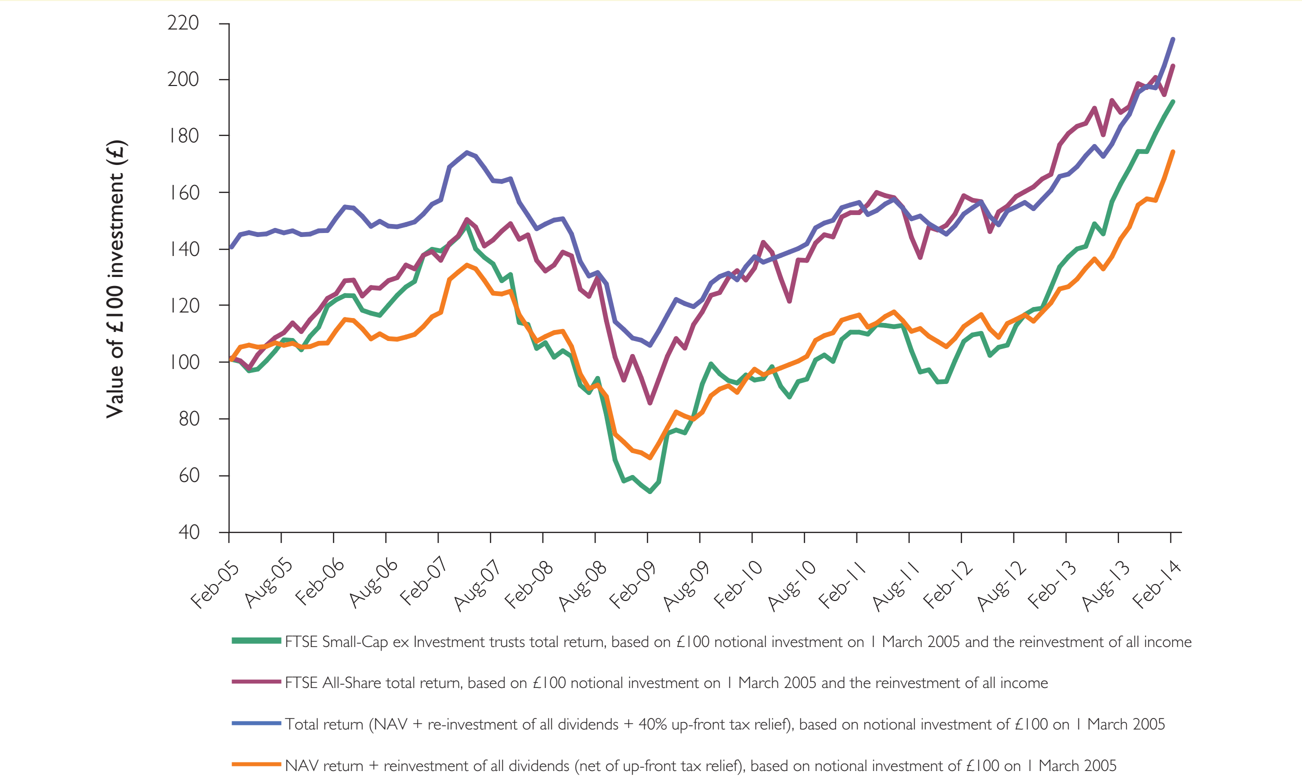
No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an Ordinary Resolution. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

Business Review

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 Octopus through the investment management agreement, as referred to in the Directors' Report. The graph below compares the total return of the Company over the period from February 2005 to February 2014 with the total return from notional investments in the FTSE All-Share Index and FTSE Small-Cap ex-investment trusts index over the same period. The Directors consider these to be the most appropriate benchmarks but would remind investors that approximately 30 per cent of the FTSE AIM All-share Index is attributable to resources or property sector stocks which venture capital trusts cannot invest in. Investors should be reminded that shares in venture capital trusts generally continue to trade at a discount to the net asset value of the Company.

Octopus AIM VCT PLC – Portfolio Performance



The ongoing charges of the Company were 2.2 per cent of average net assets during the year to 28 February 2014 (2013: 2.3 per cent).

STRATEGIC REPORT (continued)

Results and Dividend	**Year ended 28 February 2014 £'000**	Year ended 28 February 2013 £'000
Net profit/(loss) attributable to shareholders	**19,140**	5,471
Appropriations:		
Interim dividend paid: 2.5 pence per Ordinary share (2013: 2.5 pence per Ordinary share)	**1,369**	1,183
Final dividend proposed: 3.0 pence per Ordinary share (2013: 2.5 pence per Ordinary share)	**1,640**	1,265

The proposed final dividend will, if approved by shareholders, be paid on 24 July 2014 to shareholders on the register on 27 June 2014.

Key Performance Indicators ("KPIs")

As a VCT, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of AIM or ISDX Growth Market traded 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 per share and total return per share, is also measured against the FTSE Small-Cap Index and the FTSE All-Share Index. This is shown in the graphs on page 13 of the Strategic Report. These indices have been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of the other AIM VCTs. The Chairman's Statement, on pages 9 to 11 includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 17 to 25. Further details of the Company's risk management policies are provided in note 16 to the financial statements. The ongoing charges of the Company were 2.2 per cent of average net assets during the year to 28 February 2014 (2013: 2.3 per cent).

Principal Risks, Risk Management and Regulatory Environment

Investments are made on a selective, stock-picking basis. Octopus researches all potential investments carefully, meets the management before investing and continues to meet them regularly thereafter. However, as all equities carry a level of risk, the Board also sets certain other parameters to mitigate risk, namely control of gearing (the Company has never had any debt), size of investment (a maximum of 10 per cent at cost of portfolio value), sector spread and investment of the non-VCT qualifying element of the portfolio. The policy is to take some profits once a holding has reached a certain weighting of the portfolio in order to secure value.

In accordance with the Listing Rules under which your Company operates, your Board has to comment on the potential risks and uncertainties which could have a material impact on the Company's performance. Risks include the current economic conditions which impact particularly on smaller companies in which your Company invests and this could have an adverse impact on share prices.

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

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. A risk arises from the requirement to maintain compliance with HMRC regulations requiring 70 per cent of your Company's assets to be invested in qualifying holdings. 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.

Octopus keeps the Company's VCT qualifying status under continual review and reports to the Board regularly throughout the year. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Investment risk: the majority of the Company's investments are in AIM or ISDX Growth Market companies which are VCT qualifying holdings and which, by their nature, entail a higher level of risk and lower liquidity than investments in larger quoted companies. The Directors and Octopus 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 Octopus on a regular basis.

Financial risk: as a VCT, the Company is exposed to market price risk, credit risk, liquidity risk, fair value and cash flow interest rate risks. The majority of the Company's income and expenditure is denominated in sterling and hence the Company has limited foreign currency risk. The Company is financed through equity and does not have any borrowings. The Company does not use derivative financial instruments.

Credit risk: Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Octopus and the Board carry out a regular review of counterparty risk.

The Company has cash deposits which are held on the balance sheet of HSBC Bank Plc and in cash funds managed by BlackRock. The risk of loss to this cash is deemed to be low due to the historical credit ratings and a current Standard & Poor's rating of AA for HSBC and AAA for BlackRock. Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to mis-posting or breaches of regulations.

Regulatory risk: the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, the FCA AIFM rules and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

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

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

Competitive Risk: retention of key personnel is vital to the success of the Company. Incentives to the Octopus key staff are monitored by Octopus.

Economic risk: the risk that the value of a security or portfolio of securities could decline in the future is mitigated by holding a diversified portfolio, across a broad range of sectors.

Events such as an economic recession and movement in interest rates could affect smaller companies' valuations.

Price risk: the risk that the value of a security or portfolio of securities will decline in the future is mitigated by holding a diversified portfolio, across a broad range of sectors.

STRATEGIC REPORT (continued)

Cash flow risk: the risk that the Company's available cash will not be sufficient to meet its financial obligations is managed by frequent budgeting and close monitoring of available cash resources.

Market risk: A substantial portion of the Company's investments are in AIM traded companies as well as some unquoted companies. All of these investments involve a higher degree of risk than investment in larger fully listed companies. In particular, smaller companies often have limited product lines, markets or financial resources, may be dependent for their management on a small number of key individuals and may be more susceptible to political, exchange rate, taxation and other regulatory changes.

Liquidity risk: the Company's investments may be difficult to realise. The spread between the buying and selling price of shares may be wide and thus the price used for valuation may not be achievable.

The Board seeks to mitigate the internal risks by setting policy, regularly reviewing performance, enforcing contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies the principles detailed in the 'Turnbull' guidance and Octopus use testing controls, an internal audit programme and Compliance monitoring. Details of the Company's internal controls are contained in the Corporate Governance section on pages 32 to 36.

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

Gender and Diversity

The Board of Directors currently comprises one female and three male Non-Executive Directors with considerable experience of the VCT industry. The gender, diversity and constitution of the Board will be reviewed on an annual basis.

Human Rights Issues

Due to the structure of the Company with no employees and only four Non-Executive Directors, there are no Human Rights Issues to report.

Environment Policy and Greenhouse Gas Emissions

The Board has no specific environmental policy; however, the Company recognises the need to conduct its business, including investment decisions, in a manner that is responsible to the environment wherever possible.

The Company does not produce any reportable emissions as the fund management is outsourced to Octopus with no physical assets or property held by the Company. As the Company has no employees or operations, it is not responsible for any direct emissions.

Investment Manager's Review

Introduction

The NAV rose strongly in the year to 28 February 2014, building on the progress of the previous twelve months. More optimistic market sentiment has enabled smaller companies to close the gap in valuation at which they had been trading for many years and the portfolio has been further supported by continuing good trading news from many of its holdings. A revival in new issues was also helpful and many of the newer holdings in the portfolio performed exceptionally well as a result. There was an additional boost to the Alternative Investment Market's ("AIM") standing as AIM shares became eligible for inclusion in ISAs and trading volumes in AIM shares have benefitted since.

There was a reasonable amount of change to the portfolio in the period. New money raised has been invested in earlier stage companies which we expect to drive future growth. A stronger equity market has allowed us to sort out some of the remaining tail of older small investments as well as enabling us to take some profits as valuations have risen. We expect this process to continue and there are several potential new investments in the pipeline for the current financial year. There is still a bias towards profitable companies in the portfolio reflecting the maturity of the VCT.

Since the period end the market has become more volatile, reacting to news of a slowing rate of growth in China and political problems in the Ukraine. However, this is balanced by the improving economic outlook in the UK where estimates for the economic growth rate in 2013 have been revised upwards pointing to the recovery gathering pace in 2014. This should help smaller domestic companies to accelerate their growth rates, thus justifying the upwards re-rating that share prices benefitted from in 2013. We have been encouraged by upgrades to forecasts in 2014 which would appear to support this optimism.

Interestingly, takeover activity in the stock market was close to an all-time low in 2013 and we expect this to change as companies start to think about how to deploy the cash which has been building on their balance sheets.

The Alternative Investment Market

In striking contrast to the previous year, the twelve months to 28 February 2014 saw a strong rise in the FTSE AIM All Share Index, particularly during the second half of the year. That reflects both the greater acceptance of the UK's economic recovery, and of companies' trading results and also the impact of AIM shares being includable within ISAs. That last point alone is believed to account for a 20 per cent increase in AIM share trading volumes compared to a year earlier.

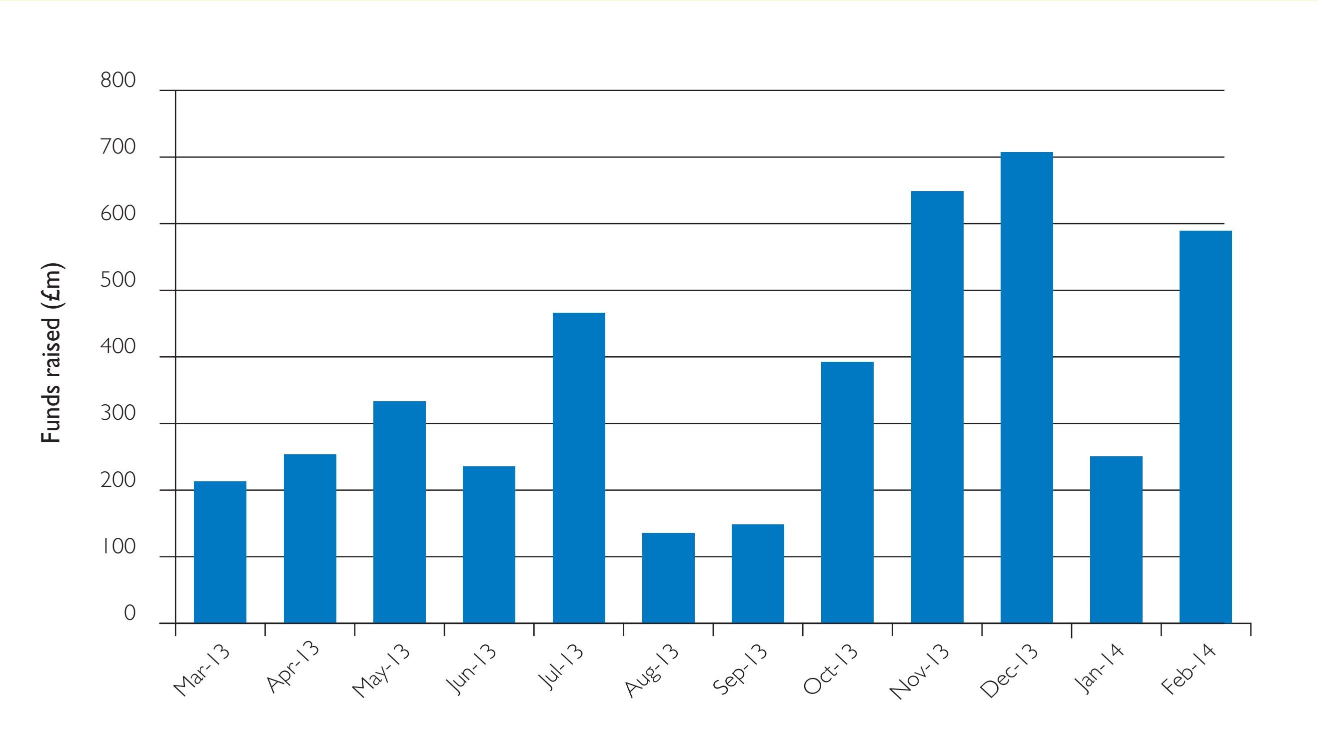
Noticeably the rise in the AIM index has again been subdued by the effect of the large resources sector within the market. Although not quite for the same period, Professors Marsh and Dimson, in compiling the Numis Smaller Companies Index, have calculated that AIM resources companies fell in the calendar year by 16.4 per cent and that without this influence the AIM index would have risen by 39.6 per cent.

It also provides a more sympathetic background against which to understand the increasing number of flotations and money raising as the year progressed. Again in the calendar year, rather than the twelve months to 28 February 2014, AIM is reported to have raised more capital for new companies than any year since 2007. The market has certainly been open and a growing number of advisers and executives have appreciated that. It is also interesting that there has been a marked change in the type of companies raising money on AIM in 2013. Less than a quarter of the cash raised on AIM last year went to oil and gas and basic materials companies combined and technology companies accounted for 18 per cent of the cash raised against 6.6 per cent in 2012. Thus, for a

STRATEGIC REPORT (continued)

VCT there were more opportunities for investment in 2013. The graph below shows the total AIM fundraising that has been undertaken in the twelve months to 28 February 2014.

Funds raised on AIM (£m): March 2013 – February 2014 (source: London Stock Exchange)



Performance

2013 as a whole was one of the best years for the performance of smaller company shares since the Numis Smaller Companies index started in 1986 and this had a very beneficial impact on NAV in the twelve months to February 2014, which rose by 38.8 per cent over the period if the dividends of 5.0p paid out in the year are added back. AIM rose by 20.5 per cent and the FTSE Smaller Companies Index ex Investment Trusts by 37.1 per cent. The fact that the AIM Index lagged can be explained once again by the underperformance of the Resource sector which is still a relatively large constituent of the Index.

Once again it was largely individual company newsflow which pushed share prices higher, with performance in the portfolio being driven by holdings in a diverse range of sectors. There were some notable successes among the more recent investments of the last two years including the software company WANdisco which has a technology enabling simultaneous access, use and editing of the same computer code as well as a 'big data' product which ensures that networks cannot fail, Quixant, a supplier of hardware and software which sits inside gaming machines, Fusionex, another software company and Mycelx a supplier of equipment to clean hydrocarbons from water at high pressure which turned profitable in the period. Proxama, a very recent holding was also a good contributor to the rise in the NAV.

Among some of the more established holdings, Staffline, Advanced Computer Software and Breedon Aggregates were all good contributors to performance, helped by acquisitions which led to upgraded profit forecasts. Tasty, the operator of Wildwood and Dim T restaurants had a successful fundraising allowing it to accelerate its roll out of restaurants and its shares reacted well. GB Group's shares performed well as awareness increased of the need for identity verification in an increasingly on-line world. It has been assembling the pieces to do this across borders in contrast to others that tend to have strengths in individual countries. Judges Scientific performed very well as profit expectations were upgraded.

There were some disappointments in the portfolio as well. IDOX suffered a series of downgrades over the year as a result of failing to land some significant orders in its engineering software division. However, the business has a profitable and cash generative core and with some changes to the sales force there should be improvements to trading in 2014. Brady, a company selling risk management software to commodity trading and energy businesses also suffered from timing on contracts. Enteq Upstream was also unable to execute its strategy of growing through acquisition in the oil services sector, and the business that it has is still too small for its central overhead. Investors are having to be patient. Indeed On Line finally had to give up its business plan to develop and dominate the on-line conveyancing market. It turned itself into a cash shell, and has since been reversed into by an on-line training business, Learning Technologies. We have added to the holding with a new qualifying investment since the period end.

2013 also saw some of the more cyclical holdings recover strongly. Vertu Motors, Cello and Plastics Capital all had their shares re-rated as investors appreciated the potential for these businesses to grow against a more favourable economic backdrop. Among the non-qualifying holdings Matchtech, Staffline, SQS and Chime Communications all performed well.

Portfolio Activity

The year under review was a busy one for your Fund reflecting the good supply of VCT qualifying fundraisings to be considered. These came in clusters during the year with the last few falling into December and January. Companies are still using equity as a source of growth capital, which has meant that we have had no trouble investing the funds raised in 2012 and 2013. As the Fund remains well above its 70 per cent HMRC investment limit in qualifying holdings, we continue to be patient when making new investments, looking for attractive opportunities at realistic prices.

The interim report referred to the new investments in Cambridge Cognition, Quixant, Nektan and Clean Air Power all of which were made in the first half of the year under review. In the second half your Company invested £2.26 million in four further qualifying investments in Enables IT, Proxama, Corac Group, Nasstar, Rated People and Nektan. Corac and Nektan were adding to existing portfolio investments.

We have added to the non-qualifying investments in the portfolio with purchases of new holdings in EMIS, Restore and Lombard Medical Technologies, investing approximately £1.2 million. We also added substantially to existing holdings in Brady and Tasty, to the tune of £0.4 million.

Since the year end we have made one further qualifying investment in Learning Technologies, an existing portfolio company and added to the GB Group holding, as well as taking a new non-qualifying investment in Skyepharma.

The year under review also included a number of disposals, many of which were a continuation of the tidying up process which has been ongoing since 2010 mixed with some profit taking after shares performed well. Only two companies have been taken over in the year, Active Risk and Datong. Sadly neither was a profitable investment. We also sold the positions in Daisy, Inditherm, Jelf, Augean, Snacktime, Corero Network Security and Marwyn Management. However, through the year profits were taken from the holdings in Chime Communications, Quixant, Mycelx Technologies, WANdisco, Omega Diagnostics, Plus500 and Proxama, which we have continued to sell since the year end. The net result of these sales was a small gain of £0.9 million.

STRATEGIC REPORT (continued)

Outlook

The past year has finally seen smaller companies close the valuation gap to trade on a similar multiple to the rest of the market. Encouragingly, the domestic economic background of slow but accelerating growth still favours smaller companies making the re-rating, which these shares have enjoyed, sustainable. Larger multinational companies will find growth harder with international growth rates still under pressure and it is likely that they will resort to acquisitions to address this, further boosting the performance of smaller company shares.

We continue to see opportunities to invest new money raised in interesting growth companies in a variety of different sectors. Many of the more mature holdings have seen upgrades to profit forecasts, which justify some quite substantial increases in share prices. We would expect to carry on taking profits in some of the more mature holdings and re-investing the money raised into earlier stage companies to provide future growth. The current balance of the portfolio is that it is more than 80 per cent invested in companies forecast to make a profit in the current year and more than 60 per cent invested in dividend paying companies. This profile has hardly changed over the past year and seems to provide a good balance of risk and reward for investors for the future.

The AIM Team
Octopus Investments Limited
30 May 2014

Investment Portfolio

Investments	Sector	Book cost as at 28 February 2014 (£'000)	Cumulative change in fair value (£'000)	Fair Value at 28 February 2014 (£'000)	Movement in year (£'000)	% equity held by AIM VCT plc	% equity held by all funds managed by Octopus
Advanced Comp Software Plc	Software & Computer Services	577	3,042	3,619	1,059	0.6%	3.3%
Breedon Aggregates Limited	Construction & Building	903	2,028	2,931	1,202	0.8%	1.2%
Staffline Recruitment Plc	Support Services	340	2,501	2,841	1,571	1.5%	10.9%
Brooks MacDonald Group Plc	Speciality & Other Finance	746	1,610	2,356	373	1.2%	3.6%
Quixant plc	Technology Hardware	697	1,498	2,195	1,498	2.3%	6.3%
EKF Diagnostics Plc	Health	931	1,063	1,994	526	1.3%	3.8%
MyCelx Technologies plc	Equities	870	1,119	1,989	999	3.1%	6.9%
Idox Plc	Software & Computer Services	353	1,547	1,900	(446)	1.3%	3.9%
Escher Group Holdings plc	Software & Computer Services	1,003	854	1,857	471	3.2%	5.5%
WANdisco Plc	Software & Computer Services	241	1,510	1,751	668	0.6%	2.2%
Netcall plc	Telecommunication Services	437	1,307	1,744	445	2.9%	5.0%
Proxama plc	Software & Computer Services	600	1,140	1,740	1,140	3.0%	8.6%
Mattioli Woods Plc	Speciality & Other Finance	526	1,182	1,708	726	2.0%	3.1%
Vertu Motors Plc	General Retailers	1,265	415	1,680	627	0.8%	6.8%
Tasty Plc	Leisure & Hotels	621	1,016	1,637	618	2.7%	5.1%
Matchtech Group Plc	Support Services	346	1,195	1,541	816	1.1%	11.7%
TLA Worldwide plc	Media & Entertainment	807	646	1,453	565	4.0%	10.0%
GB Group plc	Support Services	493	884	1,377	479	0.9%	3.1%
Fusionex International plc	Software & Computer Services	282	938	1,220	771	0.4%	1.5%
RWS Holdings Plc	Support Services	367	826	1,193	406	0.3%	4.1%
Omega Diagnostics Plc	Health	464	720	1,184	695	3.5%	6.5%
Judges Scientific Plc	Electronic & Electrical	314	823	1,137	570	0.9%	1.4%
Cello Group Plc	Media & Entertainment	895	98	993	497	1.5%	6.8%
Gooch & Housego Plc	Electronic & Electrical	489	374	863	347	0.5%	4.9%
Nektan Limited *	Software & Computer Services	725	120	845	120	3.1%	11.0%
Animalcare Group Plc	Food Producers & Processors	304	531	835	93	2.6%	6.8%
Craneware Plc	Software & Computer Services	183	617	800	241	0.5%	1.8%

Investments	Sector	Book cost as at 28 February 2014 (£'000)	Cumulative change in fair value (£'000)	Fair Value at 28 February 2014 (£'000)	Movement in year (£'000)	% equity held by AIM VCT plc	% equity held by all funds managed by Octopus
SQS Software Plc	Software & Computer Services	291	458	749	405	0.4%	8.5%
Nasstar plc	Software & Computer Services	480	264	744	264	2.7%	7.9%
Bond International Plc	Software & Computer Services	354	388	742	355	2.2%	3.4%
Brady plc	Software & Computer Services	716	21	737	(316)	1.5%	2.5%
Immunodiagnostic Systems Plc	Health	528	188	716	381	0.4%	3.5%
Cohort Plc	Aerospace & Defence	300	391	691	192	0.9%	4.0%
Plus 500 Ltd	Speciality & Other Finance	147	502	649	502	0.1%	0.3%
Futura Medical Plc	Pharmaceuticals & Biotech	613	21	634	(64)	1.4%	4.2%
Corac Plc	Engineering & Machinery	648	(23)	625		1.3%	5.7%
Restore	Support Services	467	156	623	156	0.5%	4.9%
Mears Group Plc	Support Services	139	479	618	168	0.1%	0.1%
DP Poland Plc	Leisure & Hotels	546	18	564	(382)	3.8%	6.4%
Tangent Communications Plc	Support Services	578	(58)	520	–	2.1%	5.4%
Adept Telecom Plc	Telecommunication Services	600	(86)	514	219	2.0%	3.9%
Sinclair Pharma Plc	Pharmaceuticals & Biotech	771	(266)	505	77	0.4%	1.2%
Cambridge Cognition Group plc	Healthcare Equipment	600	(103)	497	(103)	5.1%	18.1%
Plastics Capital Plc	Engineering & Machinery	400	88	488	168	1.3%	15.5%
Synectics Plc	Support Services	344	123	467	78	0.6%	1.0%
Clean Air Power Limited	Industrial	485	(19)	466	(19)	2.2%	11.6%
Enteq Upstream Plc	Oil Services	1,032	(568)	464	(206)	1.8%	3.8%
Lombard Medical Technologies Plc	Health	408	31	439	31	0.5%	0.9%
Goals Soccer Centres Plc	Leisure & Hotels	205	226	431	183	0.4%	2.8%
Rated People Limited *	Software & Computer Services	354	–	354	–	1.4%	4.1%
Chime Communications Plc	Media & Entertainment	194	121	315	94	0.1%	0.3%
Emis Group	Software & Computer Services	318	(12)	306	(12)	0.1%	1.6%
Enables IT Group plc	Software & Computer Services	300	(50)	250	(50)	3.2%	11.7%
Vianet Group Plc	Support Services	358	(139)	219	(62)	1.1%	4.6%
Access Intelligence Plc	Software & Computer Services	375	(188)	187	(38)	3.2%	9.7%
Altitude Group Plc	Media & Entertainment	600	(417)	183	(100)	3.9%	4.6%
Woodspeen Plc	Support Services	350	(233)	117	–	5.4%	11.3%
Learning Technologies Group	Software & Computer Services						
(formerly In-Deed Online Plc)	Support Services	301	(199)	102	(77)	0.2%	0.3%
Work Group Plc	Support Services	943	(849)	94	35	4.2%	6.3%
Hasgrove Plc *	Media & Entertainment	88	(9)	79	(18)	1.7%	10.2%
Tanfield Group Plc	Engineering & Machinery	226	(174)	52	(3)	0.2%	0.6%
Dods Group Plc	Media & Entertainment	204	(182)	22	(16)	0.2%	0.3%
Synarbor Plc *	Support Services	14	8	22	–	0.8%	0.8%
Total investments		**31,056**	**29,512**	**60,568**	**18,919**		
Money market funds				453			
Total investments and money market funds				**61,021**			
Cash at bank				8,629			
Debtors less creditors				80			
Total net assets				**69,730**			

* Unquoted investments classified as level 3. See note 10.

STRATEGIC REPORT (continued)

Top ten Holdings

Listed below are the ten largest investments, valued at bid price, as at 28 February 2014:

Advanced Computer Software Plc

Advanced Computer Software Plc provides software to the Healthcare Sector and other commercial markets.

Initial investment date:	July 2008
Cost:	£577,000
Valuation:	£3,619,000
Equity held:	0.61%
Last audited accounts:	February 2013
Revenue:	£120.9 million
Profit before tax:	£9.2 million
Net assets:	£139.1 million

Further information can be found at www.advancedcomputersoftware.com

Breedon Aggregates Limited

Breedon Aggregates supplies a diverse range of products to the construction and building sectors from a number of quarries and other sites in the Midlands and Scotland.

Initial investment date:	August 2010
Cost:	£903,000
Valuation:	£2,930,000
Equity held:	0.75%
Last audited accounts:	December 2013
Revenue:	£224.5 million
Profit before tax:	£11.0 million
Net assets:	£149.0 million

Further information can be found at www.breedonaggregates.com

Staffline Recruitment Plc

Staffline is a provider of labour to employers.

Initial investment date:	December 2004
Cost:	£340,000
Valuation:	£2,841,000
Equity held:	1.49%
Last audited accounts:	December 2013
Revenue:	£416.2 million
Profit before tax:	£8.6 million
Net assets:	£45.8 million

Further information can be found at www.staffline.co.uk

Brooks MacDonald Group plc

Brooks MacDonald is a provider of asset management and financial consulting services with a particular emphasis on the pensions market.

Initial investment date:	March 2005
Cost:	£746,000
Valuation:	£2,356,000
Equity held:	1.16%
Last audited accounts:	June 2013
Revenue:	£63.2 million
Profit before tax:	£10.4 million
Net assets:	£57.6 million

Further information can be found at www.brooksmacdonald.com

Quixant Plc

Quixant designs and manufactures advanced PC based computer systems for the gaming industry.

Initial investment date:	September 2013
Cost:	£697,000
Valuation:	£2,195,000
Equity held:	2.34%
Last audited accounts:	December 2013
Revenue:	£24.2 million
Profit before tax:	£6.0 million
Net assets:	£15.5 million

EKF Diagnostics Plc

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

Initial investment date:	July 2010
Cost:	£931,000
Valuation:	£1,994,000
Equity held:	1.31%
Last audited accounts:	December 2013
Revenue:	£31.8 million
Profit before tax:	£0.6 million
Net assets:	£40.9 million

Further information can be found at www.ekf-diagnostic.com

STRATEGIC REPORT (continued)

MyCelx Technologies Corporation

MyCelx Technologies is a clean water technology company.

Initial investment date:	April 2013
Cost:	£870,000
Valuation:	£1,989,000
Equity held:	3.13%
Last audited accounts:	December 2013
Revenue:	$21.4 million
Profit before tax:	£1.3 million
Net assets:	$19.0 million

Idox Plc

Idox is a leading developer and supplier of software services to local government for core functions relating to land, people and property, and also to the private sector for the management of engineering drawings.

Initial investment date:	May 2008
Cost:	£353,000
Valuation:	£1,900,000
Equity held:	1.32%
Last audited accounts:	October 2013
Revenue:	£57.3 million
Profit before tax:	£7.5 million
Net assets:	£44.7 million

Further information can be found at www.idoxgroup.com

Escher Group Holdings Plc

Escher Group Holdings Plc provides software, particularly for over the counter and financial services, to national Post Office organisations worldwide.

Initial investment date:	August 2011
Cost:	£1,003,000
Valuation:	£1,856,000
Equity held:	3.16%
Last audited accounts:	December 2013
Revenue:	$24.7 million
Profit before tax:	$1.5 million
Net assets:	$37.1 million

Further information can be found at www.eschergroup.com

WANdisco Plc

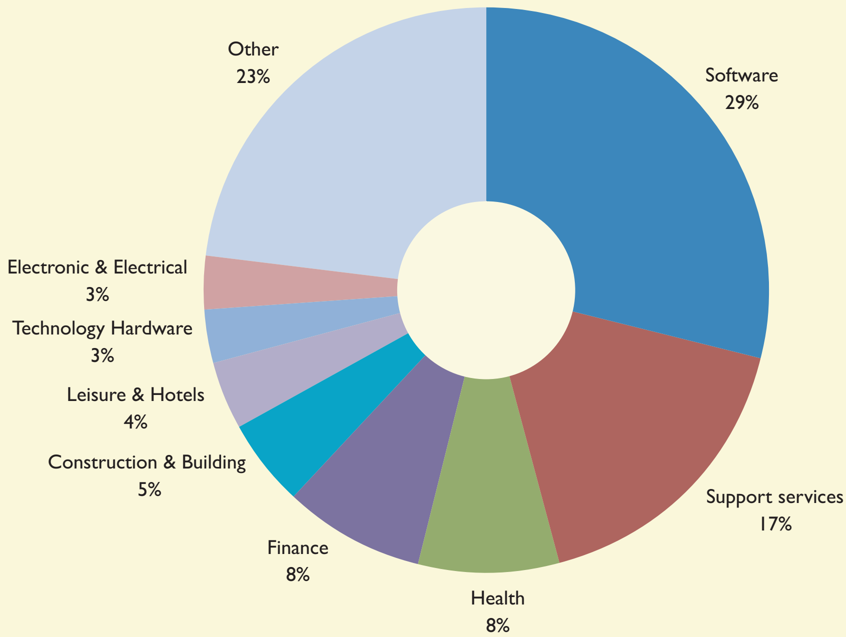
WANdisco (Wide Area Network Distributed Computing) is a provider of enterprise software enabling simultaneous collaboration and handling of big data.

Initial investment date:	May 2012
Cost:	£241,000
Valuation:	£1,751,000
Equity held:	0.56%
Last audited accounts:	December 2013
Revenue:	$8.0 million
Loss before tax:	$(17.2) million
Net assets:	$20.7 million

Further information can be found at www.wandisco.com

Sector Analysis

The graph below shows the sectors the equity portfolio Fund is invested in by value as at 28 February 2014:



THE INVESTMENT MANAGER

Personal Service

At Octopus, we have a dual focus on 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 involved about the progress of your investment.

We are working hard to manage your money in the current climate. We share your goal to make money from your investment. If you have any questions about this report, or if it would help to speak to one of the fund managers, please do not hesitate to contact Octopus on 0800 316 2295.

Octopus was established in 2000 and has a strong commitment to both smaller companies and to VCTs. Octopus Investments Limited also acts as Investment Manager of 12 other listed investment companies and has a total of approximately £3.4 billion of funds under management.

The AIM investment team of Octopus comprises:

Andrew Buchanan

Andrew originally joined Barclays Bank in 1973 to manage investment portfolios. After gaining an MBA from London Business School, he spent time with Mercury Asset Management and Hoare Govett, before joining Rutherford Asset Management in 1993. He established Beacon Investment Trust in 1994, the first Fund to specialise in investment in AIM. He joined Close Brothers when it purchased Rutherford and left to join Octopus Investments Limited in 2008. He has been involved in the management of this Company's investments since its launch in 2006 as well as other AIM VCT portfolios.

Kate Tidbury

Kate has had an extensive career which has included periods as an investment analyst with Sheppards and Chase and Panmure Gordon and then as an Investment Manager specialising in ethical and smaller companies with the Co-operative Bank and Colonial First State Investments. She joined the AIM team at Close Brothers in 2000 where she was involved in the management of this Company's investments since its launch as well as other AIM VCTs and IHT portfolios. She joined Octopus Investments Limited in 2008.

Richard Power

Richard started his career at Duncan Lawrie, where he managed a successful small companies fund. He subsequently joined Close Brothers to manage a smaller companies investment trust before moving to Octopus Investments Limited to head up the AIM team in 2004. He is involved in the management of AIM portfolios, AIM VCTs and the CFIC Octopus UK Micro Cap Growth Fund.

Edward Griffiths

Edward is a portfolio manager at Octopus Investments Limited involved particularly in the management of AIM portfolios for private individuals. He joined Octopus Investments Limited in 2004 having previously worked at Schroder's and State Street.

Paul Stevens

Paul joined Octopus Investments Limited in 2005 as a member of the AIM investment team and has been involved in the management of AIM portfolios since then.

Stephen Henderson

Stephen joined Octopus Investments Limited in 2008 as a member of the operations team. Having helped in the Multi Manager team, he joined the AIM investment team in 2011.

DETAILS OF DIRECTORS

The Board comprises four Directors all of whom are independent of the Investment Manager. The Directors operate in a Non-Executive capacity and are responsible for overseeing the investment strategy of the Company. The Board has wide experience of investment in both smaller growing companies and larger quoted companies.

Michael Reeve MBE MA FCA (Chairman)

Michael Reeve is a chartered accountant and was formerly a director of Charterhouse Bank from 1971-74, a managing director of Copleys Bank 1974-80, a director of Rea Brothers 1977-80 and managing director of Greyhound Bank 1981-87. He was the chairman of Finsbury Growth & Income Trust PLC from 1991–2008. Michael became a director and chairman in 1998.

Roger Smith BSc (Hons)

Roger Smith is chairman of a family owned investment company with a wide range of interests and investments. He was deputy chairman of Tricentrol Plc, and chairman of European Motor Holdings PLC from 1992 to 2007. He is chairman of the Central Finance Board of the Methodist Church. Roger became a director in 1998 and is chairman of the Audit Committee.

Stephen Hazell-Smith

Stephen Hazell-Smith was the Managing Director of Close Investment Limited until September 2001, having previously founded Rutherford Asset Management in 1993. Prior to this he gained experience of investment in smaller companies at GT Investment Management where he was responsible for launching its first UK Equity Fund. He also worked at Mercury Asset Management from 1989 to 1992 and was the chairman of PLUS Markets Group PLC between the years of 2005 and 2010. Prior to the merger in 2010 he was chairman of Octopus Phoenix VCT PLC. Stephen became a director in 1998.

Marion Sears BSc (Hons)

Marion Sears is Senior Non-Executive director at Dunelm Group Plc, the retailer, and a Non-Executive director of Persimmon Plc and Fidelity European Values Plc. She was the Senior Non-Executive Director of Zetar Plc, until its acquisition in 2012. She was previously a Managing Director of Investment Banking at JP Morgan. As a Non Executive she has also served on the Boards of Boehringer Ingleheim Ltd, LGC Holdings Plc and Prelude Trust Plc, a Healthcare and IT Technology focused investment trust, amongst others. Marion became a director in 2011.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 28 February 2014.

The Directors consider that the annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors

Brief biographical notes on the Directors are given on page 27.

In accordance with the Articles of Association and the Association of Investment Companies Code of Corporate Governance, Michael Reeve, Stephen Hazell-Smith, Marion Sears and Roger Smith retire as Directors at the Annual General Meeting ("AGM"), and being eligible, offer themselves for re-election. The Board has considered provision B.7.2 of The UK Corporate Governance Code and following a formal performance evaluation as part of the Board Evaluation, further details of which can be found on page 33, believe that Mr Reeve, Mr Hazell-Smith, Ms Sears and Mr Smith continue to be effective and demonstrate commitment to their roles. The Board therefore recommends their re-election at the forthcoming AGM.

Further details can be found in the Corporate Governance report on pages 32 to 36.

Directors' and Officers' Liability Insurance

The Company has, as permitted by s236 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

VCT Regulation

Compliance with required rules and regulations is considered when all investment decisions are made. The Company is further monitored on a continual basis to ensure compliance. The main criteria to which the Company must adhere is detailed on page 4.

The Company will continue to ensure its compliance with the qualification requirements.

Going Concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 9 to 11 and Investment Manager's Review on pages 17 to 25. Further details on the management of financial risk may be found in note 16 to the Financial Statements.

The Board receives regular reports from Octopus and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, 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.

A Resolution will be put to the Company's AGM on 17 July 2014 to approve the Company continuing as a VCT to 2020. The continuation to 2020 will allow shareholders who have participated in recent Offers to subscribe for Ordinary Shares to hold their shares for the five years required to receive tax relief and in addition, will also allow the Company to remain a going concern.

The assets of the Company include securities which are readily realisable (85.0 per cent of net assets) and, accordingly, the Company has adequate financial resources to continue in meeting expenses of commitments under share buybacks and in operational existence for the foreseeable future.

Management

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. The principal terms of the Company's management agreement with Octopus are set out in note 3 to the financial statements. Octopus also provides secretarial, administrative and custodian services to the Company. Octopus is not entitled to any performance fee.

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 interest of the shareholders as a whole. In reaching this conclusion the Directors have taken into account the performance of the investment portfolio and the ability of Octopus to produce satisfactory investment performance in the future. No Director has an interest in any contract to which the Company is a party.

The Board has delegated the routine management decisions such as the payment of standard running costs to Octopus. However, investment decisions are discussed and agreed with the Board.

Whistleblowing

The Board has considered the arrangements implemented by Octopus in accordance with The UK Corporate Governance Code's recommendations, to encourage staff of Octopus or Company 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.

Bribery Act

Octopus has an Anti Bribery Policy which introduced robust procedures to ensure full compliance with the Bribery Act 2010 and to ensure that the highest standards of professional ethical conduct are maintained. All employees and those working for, or on behalf of, the firm are aware of their legal obligations when conducting company business.

Share Capital

The Company's share capital as at 28 February 2014 comprised 54,695,175 Ordinary shares of 1p each.

The voting rights of the Ordinary shares on a show of hands is one vote for each member present or represented, the voting rights on a poll are one vote for each share held. There are no restrictions on the transfer of the Ordinary shares and there are no shares that carry special rights with regards to the control of the Company.

Share Issues and Open Offers

During the year 9,260,922 (2013: 5,456,453) Ordinary shares were issued through an Offer to subscribe for shares launched on 1 February 2013 which closed on 17 December 2013 and raised £9.8m, and in addition to an Offer for subscription, for the first time combined with Octopus AIM VCT 2 plc, to raise up to £4.1 million for the 2013/14 and 2014/15 tax years. This Offer closed on 28 March 2014 fully subscribed.

As at 28 February 2014 there were 1,002,324 shares to be issued, equivalent to £1,327,000 (2013: £402,000). These shares were issued on 28 March 2014. At 30 May 2014 there were 57,599,795 Ordinary shares of 1p each in issue.

Share Buybacks and Redemptions

During the year, the Company purchased for cancellation 1,237,083 shares at a weighted average price of 102.8p per share (2013: 1,082,315 shares at a weighted average price of 78.5.per share) for a total consideration of £1,203,000 (2013: £849,000). These were repurchased in accordance with the Company's share buyback facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

Rights Attaching to the Shares and Restrictions on Voting and Transfer

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

(a) the right to receive 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 a general meeting or in the case of an interim dividend in an amount determined

DIRECTORS' REPORT (continued)

by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities pari passu with the other holders of Ordinary shares; and

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

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's Articles of Association with a notice pursuant to s793 of the Companies Act 2006 (notice by the Company requiring information about interests in its shares), the Company can, until the default ceases, suspend the right to attend and speak and vote at a general meeting. If the shares represent at least 0.25 per cent 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 (principally the Companies Act 2006).

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 an Ordinary 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.

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

The authority proposed under Resolution 10 is required so that the Directors may issue shares in connection with the current offer or other offers if the Directors believe this to be in the best interests of the Company and the Shareholders as a whole. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in whole or part, to purchase Ordinary shares in the market. Resolution 10 renews the Directors' authority to allot up to 11,519,959 Ordinary shares (representing approximately 20 per cent of the Company's issued share capital as at 30 May 2014 – the latest practicable date before publication of this document). The authority conferred by this resolution will expire on the earlier of the next Annual General Meeting and the date falling 15 months after the date of the passing of the resolution.

Resolution 11 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying for the allotment of shares authorised pursuant to Resolution 10 and for the same reasons. The authority conferred by this resolution will expire on the earlier of the next Annual General Meeting and the date falling 15 months after the date of the passing of the resolution.

Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 12 is required so that the Directors may make purchases of up to approximately 10 per cent of the Company's issued share capital and the Resolution seeks renewal of such authority until the next AGM (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Share Premium Account cancellation

The Board consider it appropriate to obtain Shareholders' approval for the cancellation of the share premium account of the Company to create (subject to Court approval) distributable reserves which will enable the payment by the Company of future distributions and share buy backs and for other corporate purposes. A Special Resolution is, therefore, being proposed as Resolution 13.

Dividend Reinvestment Scheme

The Articles allow the Board, with the prior authority of an Ordinary Resolution and subject to such terms and conditions as the Board may determine, to offer to any holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any cash dividend specified by the Ordinary resolution.

Accordingly, Resolution 14 will be proposed at the AGM to approve the DRIS. The Resolution will require the approval of a simple majority of the votes cast. The authority conferred by this resolution will expire on the fifth anniversary of the date of the resolution (unless previously renewed, varied or revoked by the Company).

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).

Independent Auditor

BDO LLP offer themselves for reappointment as auditor. A Resolution to reappoint BDO LLP as auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming AGM.

Post Balance Sheet Events

Since the year end, the Company has made the investments set out in Note 17.

CORPORATE GOVERNANCE

The Board of the Company 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 UK Corporate Governance 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 UK Corporate Governance Code) will provide better information to shareholders. The UK Corporate Governance Code can be found at: www.frc.org.uk.

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in The UK Corporate Governance Code with the exceptions set out in the Compliance Statement on pages 35 and 36.

Board of Directors

The Company has a Board of four Non-Executive Directors, all of whom are considered to be independent. 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 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. As all of the Directors are Non-Executive, it is not considered appropriate to identify a member of the Board as the senior Non-Executive Director of the Company.

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

During the year the following meetings were held:

	Full Board meetings held	No. of meetings attended	Audit Committee Meetings held	Audit Committee Meetings attended
Michael Reeve	5	4	2	1
Marion Sears	5	5	2	2
Stephen Hazell-Smith	5	5	2	2
Roger Smith	5	5	2	2

Additional meetings were held as required to address specific issues including considering recommendations from the Investment Manager; approval of allotments and documentation to shareholders.

The Company's Articles of Association require that one third of Directors should retire by rotation each year and seek re-election at the AGM and that Directors appointed by the Board should seek re-appointment at the next AGM. The Directors have agreed to submit themselves for annual re-election. This practice was followed during the year under review.

	Date of Original Appointment	Due date for Re-election/ election
Michael Reeve	02/02/1998	AGM 2014
Marion Sears	01/10/2011	AGM 2014
Stephen Hazell-Smith	02/02/1998	AGM 2014
Roger Smith	02/02/1998	AGM 2014

The Board does not have a policy of limiting the tenure of any Director as the Board does not consider that a Director's length of service reduces his ability to act independently of the Manager.

The Board has discussed the ability of the Directors to remain independent and considers that this does remain the case due to the non-involvement of the Directors in the day to day running of the Company and the absence of connections with the Investment Manager.

Performance Evaluation

In accordance with The UK Corporate Governance Code, each year a formal performance evaluation is undertaken of the Board, its Committee and the Directors in the form of a questionnaire completed by each Director. The Chairman provides a summary of the findings to the Board, which are discussed at the next meeting and an action plan agreed. During the year no issues were identified requiring an action plan. The performance of the Chairman is evaluated by the other Directors.

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders at a 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 twenty one 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

CORPORATE GOVERNANCE (continued)

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 AGM of the Company following his appointment. Notwithstanding the Policy for one third to retire, in order to follow best practice, all directors stand for annual re-election. The Companies Act allows shareholders in a 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 Act, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the Company's 2013 AGM to make market purchases of up to 10 per cent of the issued ordinary share capital at any time up to the 2014 AGM and otherwise on the terms set out in the relevant resolution, and renewed authority is being sought at the 2014 AGM as set out in the notice of meeting.

Board Committees

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. 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 page 40.

The Board does not have a separate Nomination Committee as there has not been a requirement for a Committee. Gender and diversity considerations would normally be a function of a Nomination Committee but will be dealt with by the Board as a whole. The Board considers its composition to be appropriate with due regard for the benefits of diversity and gender.

The Board has appointed one committee to make recommendations to the Board in a specific area:

Audit Committee:

Roger Smith (Chairman)
Marion Sears
Stephen Hazell-Smith
Michael Reeve

The Audit Committee is chaired by Roger Smith and consists of the four independent Directors. The Audit Committee believes Roger Smith possesses appropriate and relevant financial experience as per the requirements of The UK Corporate Governance 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 Report is given on pages 37 to 38.

Internal Controls

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. The Board regularly reviews financial results and investment performance with Octopus.

The Board delegates the identification of appropriate opportunities and the investment of funds to Octopus. The Board regularly review reports upon the investments made and on the status of existing investments.

Octopus is engaged to carry out the accounting and Custodian functions of the Company. All quoted investments are held in CREST. Unquoted investments are held in certificated form.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying; evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out in accordance with the Financial Reporting Council guidelines for internal control.

Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus. The Company is subject to a full annual audit and the Audit Partner has open access to the Board. Octopus is subject to regular review by the Octopus Compliance Department.

Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 16 to the Financial Statements.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. In addition to the formal business of the AGM, the Board is available to answer any questions a shareholder may have.

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, please contact the team at Octopus to answer any queries, they can be contacted on 0800 316 2295.

Compliance Statement

The Listing Rules require the Board to report on compliance throughout the accounting period with all relevant provisions set out in The UK Corporate Governance Code. The preamble to The UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies adding that the AIC Code and AIC Guide can assist in meeting the obligations under The UK Corporate Governance Code. With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 28 February 2014 with the provisions set out in The UK Corporate Governance Code. The section references to The UK Corporate Governance Code are shown in brackets.

1. The Company does not have a Chief Executive Officer or a senior independent director. The Board does not consider this necessary due to the nature of the Company. [A.2.1 and A.4.1]
2. The Company does not have a separate Nomination Committee due to the relatively small size and structure of the Company. Appointments are dealt with by the full Board as and when appropriate. [B.2.1 – 2.4]

CORPORATE GOVERNANCE (continued)

3. The Company does not have a Remuneration Committee given the size of the Company and as such the whole board deal with any matters of this nature. [D.1.1 – 2.4]
4. The Company has no major shareholders therefore shareholders are not given the opportunity to meet any Non-Executive Directors at a specific meeting other than the Annual General Meeting. [E.1.1 and E.1.2]

By Order of the Board.

P. Standaloft.

Patricia Standaloft, ACIS
Company Secretary
30 May 2014

AUDIT COMMITTEE REPORT

This report is submitted in accordance with The UK Corporate Governance Code in respect of the year ended 28 February 2014 and describes the work of the Audit Committee in discharging its responsibilities.

The Committee's key objective is the provision of effective governance of the appropriateness of the Company's financial reporting, the performance of the auditor and the management of the internal control and business risks systems. The Directors forming the Audit Committee can be found on page 34.

The Audit Committee's terms of reference include the following 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 Octopus Investments Limited's internal controls (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 BDO LLP, the Company's external auditor. Non-audit services are not provided by the external auditor and therefore the Audit Committee does not believe there are any influences on their independence or objectivity. When considering whether to recommend the re-appointment of the external auditor, the Committee takes into account the tenure of the current auditor in addition to comparing the fees charged to similar sized VCTs.

When considering the effectiveness of the external audit, the Board considered the quality and content of the Audit Plan and Report provided to the Committee by the Auditor and the resultant reporting and discussions on topics raised. Further consideration is also given as part of the annual Board evaluation.

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. Octopus have an internal audit process, the performance of which has been outsourced to Ernst & Young. The Octopus Compliance Department report to the Board on the outcome of the internal audits that have taken place insofar as these relate to the Company and confirm the absence of any issues

AUDIT COMMITTEE REPORT (continued)

relating to internal audit of which the Board should be aware. Any significant issues arising from the Octopus internal audit that affect the Company would be raised to the Committee immediately.

The Committee will monitor the significant risks at each meeting and Octopus will work closely with the Auditor to mitigate the risks and the resultant impact.

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.

Significant Risks

The Audit Committee is responsible for considering and reporting on any significant risks that arise in relation to the audit of the financial statements. The Committee and the Auditors have identified the most significant risks for the Company as:

- Valuation of investments: The auditors give special audit consideration to the valuation of investments and supporting data provided by Octopus. The impact of this risk would be a large gain or loss in the Company's results. The valuations are supported variously by stock market quotations, investee company audited accounts and third party evidence (where relevant). These give comfort to the Audit Committee.
- Management override of financial controls: The auditors specifically review all significant accounting estimates that form part of the financial statements and consider any material judgements applied by management during the completion of the financial statements.
- Recognition of revenue from investments: Investment income is the Company's main source of revenue, the revenue return is recognised when the Company's right to the return is established in accordance with the Statement of Recommended Practice. Octopus confirms to the Audit Committee that the revenues are recognised appropriately.
- Completeness of expenditure: The auditors review the completeness of expenses recorded, with particular reference to the accounting treatment of any ad-hoc costs and whether other costs are in line with our expectations and agreements with the suppliers.

These issues were discussed with Octopus and the Auditor at the conclusion of the audit of the financial statements.

The Audit Committee is also responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements to 28 February 2014.

Roger Smith
Audit Committee Chairman
30 May 2014

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of the year ended 28 February 2014. The new reporting requirements entail two sections be included, a Policy Report and an Annual Remuneration Report which are presented below.

The Company's auditor, BDO LLP, is required to give their opinion on certain information included in this report; comprising the Directors' emoluments section below and their report on these and other matters is set out on pages 44 and 47.

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 Company does not have a Chief Executive Officer, Senior Management or any employees.

Directors' Remuneration Policy Report

The Board consists entirely of Non-Executive Directors, who meet at least quarterly 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 a period of at least 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 AGMs however as best practice the directors retire annually. Re-election will be recommended by the Board but is dependent upon shareholder votes.

Each Director received a letter of appointment. A Director may resign by notice in writing to the Board at any time giving three months' notice in writing. 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 Remuneration policy is to review the Director's fees from time to time, benchmarking the fees against other VCT boards, although such review will not necessarily result in any changes. Due to the nature of the Company, there are no employees other than the Directors and therefore no such issues to consider when determining the Directors' remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable monthly 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. The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors. There will be no payment for loss of office unless approved by a separate shareholder resolution.

In accordance with the new reporting requirements, an Ordinary resolution for the approval of the remuneration policy of the Company, to remain in force for a three year period, will also be put to the members at the AGM and effective from that date.

Annual Remuneration Report

The remuneration policy described above will be implemented with effect from 17 July 2014 subject to approval at the AGM and remain unchanged for a three year period. The Board will review the remuneration of the Directors if thought appropriate and monitor competitors in the VCT industry on an annual basis.

This section of the report is subject to approval by a simple majority of shareholders at the AGM in July 2014, as in previous years.

DIRECTORS' REMUNERATION REPORT (continued)

Statement of Voting at the Annual General Meeting

The 2013 Remuneration Report was presented to the AGM in July 2013 and received shareholder approval following a vote on a show of hands. 1.61 per cent of the votes cast on the proxy forms voted against the Remuneration Report and 2.24 per cent of votes were withheld. No communication was received from shareholders giving reasons for the votes against the report.

Shareholders' views are always welcomed and considered by the Board. The methods of contacting the Board are set out in the Shareholders Information on page 7.

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 Octopus through the investment management agreement, as referred to in the Directors' Report. The performance graph on page 13 also shows the performance of the Company.

Directors' Emoluments (audited)

The amount of each Director's fees for the year were:

Annual rate of Directors' fees, exclusive of Employers' National Insurance	**Year ended 28 February 2014 £**	Year ended 28 February 2013 £
Michael Reeve	**24,450**	24,450
Marion Sears	**18,340**	18,340
Stephen Hazell-Smith	**18,340**	18,340
Roger Smith	**18,340**	18,340
Total	**79,470**	79,470

The Directors do not receive any other form of emoluments in addition to the Directors' fees, their total remuneration is not linked to the performance of the Company and no bonuses were or will be paid to the Directors.

The Chairman of the Company receives additional remuneration over the basic director's fee in recognition of the additional responsibilities and time commitment, and additionally, to be fair and comparable to similar VCTs.

Relative Importance of Spend on Pay

The actual expenditure in the current year is as follows:

	Year to 28 February 2014 £'000	Year to 28 February 2013 £'000
Total Dividends paid	**2,633**	2,359
Total Buybacks	**1,203**	850
Total Directors Fees	**79**	79

There were no other significant payments during the year relevant to understanding the relative importance of spend on pay.

Statement of Directors' Shareholdings

There are no guidelines or requirements for Directors' to own shares in the Company. The interests of the Directors, and their connected persons, in shares of the Company during the year (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued Ordinary shares of 1.0p are shown in the table below:

	Ordinary shares of 1.0p each 28 February 2014	Ordinary shares of 1.0p each 28 February 2013
Michael Reeve	**6,959**	6,959
Marion Sears	**5,589**	5,589
Stephen Hazell-Smith	**90,100**	90,100
Roger Smith	**20,000**	20,000

All of the Directors' shares were held beneficially including Mr Reeve's connected person. Mr Smith jointly holds shares through a nominee company as of 4 November 2013. Ms Sears was allotted a further 3,983 shares on 28 March 2014 and her total holding is now 9,572 shares.

By Order of the Board

Michael Reeve

Michael Reeve
Chairman
30 May 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). 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 of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Strategic Report, Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to 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.

The directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The Directors are responsible for ensuring the annual report and the financial statements are made available on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, (United Kingdom Standard and applicable laws), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and

- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the financial position of the Company taken as a whole, together with a description of the principal risks and uncertainties that it faces.

On Behalf of the Board

Michael Reeve
Chairman
30 May 2014

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

We have audited the financial statements of Octopus AIM VCT plc for the year ended 28 February 2014 which comprise the income statement, the balance sheet, the reconciliation of movements in shareholders' funds, the 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).

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

We identified the following risks that we consider to have had the greatest impact on our audit strategy and scope:

- The assessment of the carrying value of investments. This is a key account balance where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the funds, derived using those valuations.

  We considered the controls over the pricing of quoted investments and tested the pricing of quoted investments to independent sources. We also considered whether there was any permanent diminution in value in investments held that should be reported as realised losses. We noted that the assessment of whether losses in value on quoted investments are permanent (and therefore realised) is highly subjective. However our audit procedures included, amongst others, for a sample of all investments, reviewing the recent published trading statements for the investments and considering the period over which significant falls in value below cost arose, as well as the apparent reasons and whether they were likely to be permanent and whether this supported the treatment adopted by the Company.

  We also challenged the assumptions used in valuing the four unquoted investments and we assessed the impact of estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements.
- Recognition of revenue, which consists of dividends receivable from investee companies and interest earned on cash and current asset investment balances. Revenue recognition is considered to be a significant audit risk as it is the key driver of dividend returns to investors.

  We considered the controls relating to revenue recognition and undertook testing of dividends receivable using expectations set from independent published data on dividends declared by the investee companies held in the reporting period. We sample tested the categorisation of dividends received from investee companies between revenue and capital and we also tested a sample of interest income.
- Completeness of expenditure. This was considered to be a risk area in view of industry practice to compare the performance of funds,

partly based on the level of their on-going charges, as well as the existence of an expense cap on the management fee which could increase the risk of management override in the recognition of costs.

We agreed recurring costs to expectations set based on prior years flexed for known changes. We also agreed expenditure to invoices on a sample basis and where appropriate, to contractual terms agreed with suppliers. We also confirmed the extent to which ad-hoc costs incurred in connection with the fundraising represented obligations at the end of February 2014 and we confirmed the appropriateness of the classification of costs of the share buy-backs and top-up offers being charged to reserves.

The Audit Committee's consideration of these key issues is set out in its Report on pages 37 and 38.

Purpose of this report

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 statement of directors' responsibilities, 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 Financial Reporting Council's (FRC) 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 FRC's website at: www.frc.org.uk/auditscopeukprivate.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements.

We determined materiality for the financial statements as a whole to be £695,000. In determining this, we based our assessment on a percentage of gross assets which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75 per cent of materiality, namely £520,000. Our objective in adopting this approach is to ensure

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

that total detected and undetected audit differences do not exceed our materiality of £695,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to those classes of transactions and balances, which impact on the costs and the net realised returns of the company. We determined materiality for this area to be £65,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £14,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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;
- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 32 to 36 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 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; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 42 and 43, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

Neil Fung-On
(senior statutory auditor)
For and on behalf of BDO LLP,
statutory auditor
London
United Kingdom
30 May 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT

		Year to 28 February 2014			Year to 28 February 2013		
		Revenue	**Capital**	**Total**	Revenue	Capital	Total
	Notes	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Gain/(loss) on disposal of fixed asset investments	10	**–**	**882**	**882**	–	455	455
Gain/(loss) on valuation of fixed asset investments	10	**–**	**18,919**	**18,919**	–	5,533	5,533
Investment Income	2	**584**	**–**	**584**	523	–	523
Investment management fees	3	**(243)**	**(730)**	**(973)**	(202)	(606)	(808)
Other expenses	4	**(264)**	**–**	**(264)**	(232)	–	(232)
Profit/(loss) on ordinary activities before tax		**77**	**19,071**	**19,148**	89	5,382	5,471
Taxation on profit/(loss) on ordinary activities	6	**–**	**–**	**–**	–	–	–
Profit/(loss) on ordinary activities after tax		**77**	**19,071**	**19,148**	89	5,382	5,471
Return per share – basic and diluted	8	**0.1p**	**36.8p**	**36.9p**	0.2p	11.4p	11.6p

- the 'Total' column of this statement represents the statutory Profit and Loss account of the Company; the supplementary revenue return and capital return columns have been prepared in accordance with the AIC Statement of Recommended Practice
- 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. Accordingly a statement of recognised gains and losses is not required.

Other than revaluation movements arising on investments held at fair value through the profit and loss account, there were no differences between the profit/(loss) as stated above and at historical cost.

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

BALANCE SHEET

	Notes	As at 28 February 2014 £'000	As at 28 February 2014 £'000	As at 28 February 2013 £'000	As at 28 February 2013 £'000
Fixed asset investments*	10		**60,568**		37,491
Current assets:					
Investments*	11	**453**		5,799	
Debtors	12	**254**		71	
Cash at bank		**8,629**		841	
		9,336		6,711	
Creditors: amounts falling due within one year	13	**(174)**		(79)	
Net current assets			**9,162**		6,632
Net assets			**69,730**		44,123
Called up equity share capital	14		**547**		467
Shares to be issued	14		**1,327**		402
Share premium	15		**873**		11,939
Special distributable reserve	15		**64,455**		45,182
Capital redemption reserve	15		**2**		121
Capital reserve realised	15		**(27,338)**		(22,758)
Capital reserve unrealised	15		**29,512**		8,495
Revenue reserve	15		**352**		275
Total equity shareholders' funds			**69,730**		44,123
Net asset value per share – basic and diluted	9		**125.2p**		93.7p

*held at fair value through profit & loss (FVTPL)

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

The statements were approved by the Directors and authorised for issue on 30 May 2014 and are signed on their behalf by:

Michael Reeve

Michael Reeve
Chairman

Company number: 03477519

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	**Year to 28 February 2014 £'000**	Year to 28 February 2013 £'000
Shareholders' funds at start of year		**44,123**	39,689
Profit/(loss) on ordinary activities after tax		**19,148**	5,471
Share capital bought back		**(1,203)**	(10,872)
Issue of shares		**9,371**	12,071
Increase/(decrease) in shares to be issued		**925**	123
Dividends paid	7	**(2,634)**	(2,359)
Shareholders' funds at end of year		**69,730**	44,123

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

CASH FLOW STATEMENT

	Notes	Year to 28 February 2014 £'000	Year to 28 February 2013 £'000
Net Cash outflow from operating activities		**(844)**	(533)
Taxation	6	**–**	–
Financial investment:			
Purchase of fixed asset investments	10	**(6,728)**	(3,671)
Sale of fixed asset investments	10	**3,474**	2,604
Net cash outflow from investing activities		**(3,254)**	(1,067)
Equity dividends paid		**(2,634)**	(2,359)
Management of liquid resources:			
Purchase of current asset investments	11	**(5,914)**	(7,859)
Sale of current asset investments	11	**11,260**	10,669
Net cash inflow from management of liquid resources		**5,346**	2,810
Net cash outflow before financing		**(1,386)**	(1,149)
Financing			
Proceeds from issue of shares	15	**9,371**	11,792
Increase in shares to be issued	15	**925**	402
Purchase of own shares	15	**(1,122)**	(10,872)
Net cash inflow from financing activities		**9,174**	1,322
Increase in cash		**7,788**	173

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

RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Note	**Year to 28 February 2014 £'000**	Year to 28 February 2013 £'000
Profit/(loss) on ordinary activities before tax		**19,148**	5,471
Increase in debtors	12	**(183)**	(15)
(Increase)/decrease in creditors	13	**(8)**	(1)
(Gain)/loss on disposal of fixed asset investments	10	**(882)**	(455)
(Gain)/loss on valuation of fixed asset investments	10	**(18,919)**	(5,533)
Outflow from operating activities		**(844)**	(533)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 28 February 2014 £'000	Year to 28 February 2013 £'000
Increase in cash at bank	**7,788**	173
Movement in cash equivalent securities	**(5,346)**	(2,810)
Opening net funds	**6,640**	9,277
Net funds at 28 February	**9,082**	6,640

Analysis of changes in Net Funds

	As at 1 March 2013	Cash Flows	**As at 28 February 2014**
Cash at Bank	841	7,788	**8,629**
Money market funds	5,799	(5,346)	**453**
Net funds	6,640	2,442	**9,082**

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

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting policies

Basis of accounting

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 and Venture Capital Trusts' (revised 2009).

The principal accounting policies have remained unchanged from those set out in the Company's 2013 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 accounting 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 fixed asset investments.

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 investments held are attributable to financial assets held at fair value through profit and loss. Accordingly, all interest income, fee income, expenses and investment gains and losses are attributable to assets designated as being at fair value through profit or loss.

Current asset investments comprising money market funds are held for trading and are therefore automatically classified as fair value through profit or loss.

AIM and ISDX Growth Market Quoted investments are valued in accordance with the bid-price at the relevant date. Unquoted investments are valued in accordance with International Private Equity and Venture Capital Valuation (IPEVC) guidelines. The IPEVC guidelines can be found at: the IPEVC Association's website at www.privateequityvauation.com. 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.

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

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve unrealised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. **Principal Accounting policies (continued)**

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 deposits and are designated as FVTPL. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve unrealised.

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

Income

Investment income includes interest earned on bank balances and money market securities 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 securities are recognised on a time apportionment basis so as to reflect the effective yield, 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 per cent to the revenue account and 75 per cent 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.

The transactions 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 gains and losses on disposal and holding gains and losses on investments. Upon disposal of investments gains and losses relating to the assets are transferred from the capital reserve unrealised to the capital reserve realised.

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 differences can be deducted.

1. Principal Accounting policies (continued)

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 managed funds.

Loans and receivables

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

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.

Financing strategy and capital structure

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

The Company does not have any externally imposed capital requirements.

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

	28 February 2014	28 February 2013
	£'000	£'000
Income receivable on money market securities and bank balances	**42**	73
Dividends receivable from fixed asset investments	**542**	450
	584	523

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Investment management fees

	28 February 2014			28 February 2013		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**243**	**730**	**973**	202	606	808
	243	**730**	**973**	202	606	808

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

Octopus Investments Limited provides investment management and accounting and administration services to the Company under a management agreement which initially ran with Close Investment Limited from 3 February 1998 and was then novated to Octopus Investments Limited for a period of five years with effect from 29 July 2008 and may be terminated at any time thereafter by not less than 12 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 management fee is an annual charge and is set at 2 per cent of the Company's net assets.

During the year Octopus Investments Limited charged management fees of £973,000 (2013: £808,000). At the year end there was £nil outstanding (2013: £nil). Octopus Investments Limited received £327,000 (2013: £509,000) as a result of upfront fees charged on allotments of Ordinary Shares.

4. Other expenses

	28 February 2014 £'000	28 February 2013 £'000
Directors' remuneration	**79**	79
Fees payable to the Company's auditor		
for the audit of the financial statements	**24**	25
Other expenses	**161**	128
	264	232

The ongoing charges of the Company were 2.2 per cent of average net assets during the year to 28 February 2014 (2013: 2.3 per cent).

5. Directors' remuneration

	28 February 2014 £'000	28 February 2013 £'000
Directors' emoluments		
Michael Reeve	**25**	25
Marion Sears	**18**	18
Roger Smith	**18**	18
Stephen Hazell-Smith	**18**	18
	79	79

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 four (2013: four). The above table represents the gross remuneration received by the Directors and excludes Employer's National Insurance contributions, which amounted to £7,000 (2013: £7,000). The Directors received £nil pension contributions from the Company during the year (2013: £nil).

6. Tax on ordinary activities

The corporation tax charge for the year was £nil (2013: £nil).

Factors affecting the tax charge for the current year:

The current tax charge for the year differs from the effective small company rate of corporation tax in the UK of 20.0 per cent (2013: 20.0 per cent). The differences are explained below.

Current tax reconciliation:	28 February 2014 £'000	28 February 2013 £'000
Profit/(loss) on ordinary activities before tax	**19,148**	5,471
Current tax at 20.0 per cent (2013: 20.0 per cent)	**3,830**	1,094
Income not liable to tax	**(108)**	(90)
(Gains)/losses not deductible for tax	**(3,960)**	(1,197)
Excess management expenses carried forward	**238**	193
Total current tax charge	**–**	–

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

As at 28 February 2014, there is an unrecognised deferred tax asset of £845,000 (2013: £607,000) in respect of surplus management expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Dividends

	28 February 2014 £'000	28 February 2013 £'000
Recognised as distributions in the financial statements for the year		
Previous year's final dividend – 2.5p per share	**1,263**	1,180
Current year's interim dividend – 2.5p per share	**1,371**	1,179
	2,634	2,359

	28 February 2014 £'000	28 February 2013 £'000
Paid and proposed in respect of the year		
Interim dividend – 2.5p per share (2013: 2.5p per share)	**1,371**	1,179
Final dividend proposed: 3.0p per share (2013: 2.5p share)	**1,640**	1,265
	3,011	2,444

8. Return per share – basic and diluted

The return per share is based on profit after tax of £19,140,000 (2013: £5,471,000), and 51,839,668 Ordinary shares (2013: 47,141,571), being the weighted average number of shares in issue during the year.

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

9. Net asset value per share – basic and diluted

The calculation of net asset value per share as at 28 February 2014 is based on net assets of £69,722,000 (2013: £44,123,000) divided by 55,697,499 (2013: 47,088,019), being the sum of 54,695,175 Ordinary shares in issue at that date and 1,002,324 shares to be issued at the same date.

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

10. Fixed asset investments

FRS 29, regarding financial instruments that are measured in the balance sheet at fair value 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 AIM or ISDX Growth Market listed investments classified as held at fair value through profit or loss.

10. Fixed asset investments (continued)

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 held no such investment in the current or prior year.

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

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 2014 are summarised below and in note 11.

	Level 1: AIM quoted equity investments £'000	Level 3: Unquoted investments £'000	Total £'000
Book cost at 1 March 2013	29,962	14	29,976
Opening impairment in value of investments treated as losses realised	(980)	–	(980)
Opening unrealised gain at 1 March 2013	8,487	8	8,495
Valuation at 1 March 2013	**37,469**	**22**	**37,491**
Purchases at cost	5,670	1,080	6,750
Disposal proceeds	(3,474)	–	(3,474)
Transfer of investments between level 1 and 3 at cost	(88)	88	–
Transfer of unrealised losses between level 1 and 3	9	(9)	–
Profit on realisation of investments	882	–	882
Change in fair value in year	18,799	120	18,919
Closing valuation at 28 February 2014	**59,267**	**1,301**	**60,568**
Book cost at 28 February 2014	30,354	1,182	31,536
Closing impairment in value of investments treated as losses realised	(480)	–	(480)
Closing unrealised gain at 28 February 2014	29,393	119	29,512
Valuation at 28 February 2014	**59,267**	**1,301**	**60,568**

Level 1 valuations are valued in accordance with the bid-price on the relevant date. Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review.

Level 3 investments are valued in accordance with IPEVC guidelines. Hasgrove is valued at the last available BID price, prior to delisting.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Fixed asset investments (continued)

All investments are designated as fair value through profit or loss from 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 unrealised.

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

When an investment is sold any balance held on the Capital reserve unrealised is transferred to the Capital reserve realised as a movement in reserves.

At 28 February 2014 there were no commitments in respect of investments approved by the Manager but not yet completed (2013: £nil).

Transaction costs on purchases and disposals for the year were £4,393 and £1,413 respectively.

11. Current asset investments at fair value through profit and loss

Current asset investments represent level 1 investments as described in note 10 above. All current asset investments relate to money market funds*.

	2014	2013
	£'000	£'000
Book cost and valuation at 1 March	**5,799**	8,609
Purchases at cost	**5,914**	7,859
Disposal proceeds	**(11,260)**	(10,669)
Closing book cost and valuation at 28 February	**453**	5,799

*Money market funds represent money held pending investment and can be accessed with 1 working day notice.

12. Debtors

	28 February 2014	28 February 2013
	£'000	£'000
Prepayments and accrued income	**56**	71
Other debtors	**198**	–
	254	71

13. Creditors: amounts falling due within one year

	28 February 2014	28 February 2013
	£'000	£'000
Accruals	**51**	50
Other creditors	**123**	29
	174	79

14. Share capital

	28 February 2014 £'000	28 February 2013 £'000
Allotted and fully paid up:		
54,695,175 Ordinary shares of 1.0p (2013: 46,671,336 shares of 1.0p)	**547**	467

The value of shares to be issued at 28 February 2014 amounted to £1,327,000 (2013: £402,000).

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 12. As the Company is now registered as an AIFM, it is subject to externally imposed capital requirements, namely if the value of assets under management (AUM) exceeds €250m then an additional amount of Company funds equal to 0.02% of the excess over €250m (subject to a cap of €10m capital requirement) will be required.

During the year the Company repurchased the following shares to be cancelled:

Date	Number of shares	Price per share	Total value of shares
1 March 2013	263,863	90.75p	£239,456
25 March 2013	145,961	90.0p	£131,365
18 April 2013	73,665	91.0p	£67,035
9 May 2013	20,000	91.0p	£18,200
15 May 2013	104,303	95.25p	£99,349
26 June 2013	94,710	93.75p	£88,791
19 August 2013	159,446	97.25p	£155,061
26 September 2013	99,031	102.5p	£101,507
18 October 2013	79,828	103.25p	£82,422
20 December 2013	81,246	106.75p	£86,730
3 February 2014	47,246	110.75p	£52,325
28 February 2014	67,784	119.0p	£80,663
Totals	**1,237,083**		**£1,202,904**

The total nominal value of the shares repurchased for cancellation was £12,371 representing 2.3 per cent of the issued share capital.

The Company issued the following shares during the year to 28 February 2014 in connection with the offers for subscription announced on 1 February 2013:

- 4 April 2013: 3,329,654 Ordinary shares at a price of 101.3p
- 5 April 2013: 561,039 Ordinary shares at a price of 101.3p
- 3 May 2013:523,155 Ordinary shares at a price of 104.4p
- 8 July 2013: 1,101,413 Ordinary shares at a price of 104.2p
- 9 September 2013: 1,547,685 Ordinary shares at a price of 110.5p
- 11 November 2013: 1,447,617 Ordinary shares at a price of 119.3p
- 17 December 2013: 750,359 Ordinary shares at a price of 121.6p

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Share capital (continued)

On 3 February 2014, the market was notified of an offer for subscription aimed at raising a further €5 million of funds for this Company, as part of a combined new share offer with Octopus AIM VCT 2 plc, for the tax years 2013/2014 and 2014/2015.

As at 28 February 2014 there were 54,695,175 Ordinary shares of 1p each in issue with a further 1,060,661 shares waiting to be issued.

15. Reserves

	Share capital £'000	Shares to be issued £'000	Share premium £'000	Special distributable reserve* £'000	Capital redemption reserve £'000	Capital reserve realised* £'000	Capital reserve unrealised £'000	Revenue reserve* £'000
As at 1 March 2013	467	402	11,939	45,182	121	(22,758)	8,495	275
Repurchase of own shares	(13)	–	–	(1,203)	13	–	–	–
Shares issued	93	(402)	9,794	–	–	–	–	–
Cost of issue of shares	–	–	(516)	–	–	–	–	–
Cash received for shares to be issued	–	1,327	–	–	–	–	–	–
Cancellation of share premium	–	–	(20,344)	20,344	–	–	–	–
Cancellation of capital redemption reserve	–	–	–	132	(132)	–	–	–
Profit on ordinary activities after tax	–	–	–	–	–	–	–	77
Management fees allocated as capital expenditure	–	–	–	–	–	(730)	–	–
Current year gains on disposal	–	–	–	–	–	882	–	–
Prior period losses/(gains) realised on disposal	–	–	–	–	–	(2,098)	2,098	–
Realisation of prior period unrealised losses on investments still held	–	–	–	–	–	–	–	–
Current period gains on fair value of investments	–	–	–	–	–	–	18,919	–
Dividends paid	–	–	–	–	–	(2,634)	–	–
Balance as at 28 February 2014	**547**	**1,327**	**873**	**64,455**	**2**	**(27,338)**	**29,512**	**352**

*Included within these reserves is an amount of £37,461 (2013: £22,699,000) which is considered distributable to shareholders.

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the Income Statement. Changes in fair value of investments held are then transferred to capital reserves unrealised. When an investment is sold any balance held on the capital reserve unrealised is transferred to the capital reserve realised as a movement in reserves.

16. Financial instruments and risk management

The Company's financial instruments comprise equity investments, cash balances, investments in money market funds and debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying unquoted and AIM-quoted and ISDX Growth Market securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed and current asset investments (see note 10 and 11) are valued at fair value. For quoted investments this is bid price or the last traded price. Unquoted investments are valued in accordance with IPEVC guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the year 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.

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective. 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 Corporate Governance statement on pages 32 to 36, 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 in the investment managers review.

85.0 per cent (29 February 2013: 84.9 per cent) by value of the Company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 10 per cent increase in the bid price of these securities as at 28 February 2014 would have increased net assets and the total return for the year by £5,926,700 (2013: £3,749,100); a corresponding fall would have reduced net assets and the total return for the year by the same amount. The unquoted investments are not exposed to significant market risk.

Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial instruments and risk management (continued)

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.5 per cent at 28 February 2014 (2013: 0.5 per cent). The amounts held in floating rate investments at the balance sheet date were as follows:

	28 February 2014 £'000	28 February 2013 £'000
Current asset investments	**453**	5,799
Cash at bank	**8,629**	841
	9,082	6,640

A 1 per cent increase in the base rate would increase income receivable from these investments and the total return for the year by £90,820 (2013: £66,400).

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Octopus 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 2014 the Company's financial assets exposed to credit risk comprised the following:

	28 February 2014 £'000	28 February 2013 £'000
Current investments	**453**	5,799
Cash at bank	**8,629**	841
Accrued dividends and interest receivable	**45**	20
Other debtors	**198**	–
	9,325	6,660

Credit risk relating to listed money market securities is mitigated by investing, where possible, in money market instruments issued by major companies and institutions with a minimum Moody's long term debt rating of 'A'.

Those assets of the Company which are traded on recognised stock exchanges are held on the Company's behalf by Octopus. Bankruptcy or insolvency of a custodian could cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

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 has cash deposits which are held on the balance sheet of HSBC Bank Plc and in cash investment funds managed by BlackRock.

16. 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 2014 or 28 February 2013.

Liquidity risk

The Company's financial assets include investments in AIM-quoted companies, which by their nature involve a higher degree of risk than investments on the main market. As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's listed money market securities 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 Octopus 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 2014 these investments were valued at £9,082,000 (28 February 2013: £6,640,000).

17. Post balance sheet events

Since the year end, the Company has made the following investments:

Company	Date	Number of shares	Cost £'000
Learning Technologies Group plc	8 April 2014	–	210
Skyepharma plc	10 April 2014	–	680
Skyepharma plc	22 April 2014	–	51
GB Group plc	23 April 2014	–	221

Disposals were made in Proxama Plc (14, 21 and 28 March 2014 and 4 April 2014), resulting in gains of £28,000, £21,000, £15,000 and £31,000 respectively.

The following shares have been bought back since the year end:

- 3 March 2014: 67,784 Ordinary shares at a price of 119.0p
- 19 May 2014: 166,702 Ordinary shares at a price of 116.75p

The following shares have been issued since the year end:

- 28 March 2014: 3,071,322 Ordinary shares at a price of 132.4p

18. Contingencies, guarantees and financial commitments

At 28 February 2014 there were no commitments in respect of investments approved by the manager but not yet completed (2013: £nil).

DIRECTORS AND ADVISERS

Board of Directors
Michael Reeve (Chairman)
Marion Sears
Stephen Hazell-Smith
Roger Smith

Company Number
Registered in England No: 03477519

Secretary and Registered Office
Patricia Standaloft ACIS
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Tel: 0871 664 0324
(calls cost 10p per minute plus network extras)
www.capitaassetservices.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus AIM VCT Plc ("the Company") will be held at 20 Old Bailey, London, EC4M 7AN on Thursday, 17 July 2014 at 12.30 pm for the purposes of considering and if thought fit, passing the following resolutions of which resolutions 1 to 10, 14 and 15 will be proposed as Ordinary resolutions and resolutions 11, 12 and 13 will be proposed as Special resolutions:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 28 February 2014 and the Directors' and Auditor's Reports thereon.
2. To approve a final dividend of 3.0 pence per share.
3. To approve the Directors' Remuneration Report.
4. To approve the Directors' Remuneration Policy.
5. To re-elect Michael Reeve as a Director.
6. To re-elect Roger Smith as a Director.
7. To re-elect Marion Sears as a Director.
8. To re-elect Stephen Hazell-Smith as a Director.
9. To re-appoint BDO LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass Resolutions 10, 14 and 15 as Ordinary Resolutions and Resolutions 11, 12 and 13, as Special Resolutions:-

10. 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 11,519,959 shares (representing approximately 20 per cent of the ordinary share capital in issue at 30 May 2014) 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).

11. 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 10 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.

NOTICE OF ANNUAL GENERAL MEETING (continued)

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.

12. 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 10 per cent 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.

13. CANCELLATION OF SHARE PREMIUM ACCOUNT

That, subject to the approval of the High Court of Justice, the Company be and is hereby authorised to cancel the share premium account and the capital redemption reserve of the Company.

14. DIVIDEND REINVESTMENT SCHEME

THAT, in accordance with article 153 of the Company's articles of association, the Directors of the Company be and hereby authorised to offer holders of Ordinary Shares the right to elect to receive Ordinary Shares, created as fully paid, instead of the whole (or some part to be determined by the Board) of any dividend declared in the period commencing on the date of this Resolution and ending on the fifth anniversary of this Resolution pursuant to the Company's Dividend Reinvestment Scheme.

15. CONTINUATION OF THE COMPANY AS A VCT

To continue the Company as a Venture Capital Trust until 2020.

By Order of the Board

20 Old Bailey
London
EC4M 7AN

P. Standaloft.

Patricia Standaloft ACIS
Company Secretary
30 May 2014

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 Asset Services, 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 Asset Services will not be liable for any proxy forms rendered illegible by means of fax transmission.

(d) You may submit your proxy electronically using the Shareportal Service at www.capitashareportal.com If not already registered for the share portal, you will need your investor code which can be found on your share certificate. If you cannot locate your investor code, please contact Capita Asset Services, between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday (except UK public holidays) on telephone number 0871 664 0324 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0324) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

NOTICE OF ANNUAL GENERAL MEETING (continued)

(i) A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.octopusinvestments.com under Investors/Octopus AIM VCT plc.

(j) Copies of the Directors' Letters of Appointment and the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules 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.

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PROXY FORM

OCTOPUS AIM VCT PLC

Annual General Meeting 17 July 2014 at 12.30 pm.

I/We ....

(BLOCK CAPITALS PLEASE)

of ....

being a member of Octopus AIM 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 17 July 2014, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 28 February 2014, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting.

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

For the appointment of one or more proxy, please refer to the explanatory note 4 below.

RESOLUTION NUMBER		FOR	AGAINST	WITHHELD
1.	To receive, consider and adopt the financial statements for the year ended 28 February 2014	☐	☐	☐
2.	To approve a final dividend of 3.0 pence per share	☐	☐	☐
3.	To approve the Directors' Remuneration Report	☐	☐	☐
4.	To approve the Directors' Remuneration Policy	☐	☐	☐
5.	To re-elect Michael Reeve as a Director	☐	☐	☐
6.	To re-elect Roger Smith as a Director	☐	☐	☐
7.	To re-elect Marion Sears as a Director	☐	☐	☐
8.	To re-elect Stephen Hazell-Smith as a Director	☐	☐	☐
9.	To re-appoint BDO LLP as auditor of the Company and to authorise the Directors to determine their remuneration	☐	☐	☐
10.	To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution)	☐	☐	☐
11.	To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution)	☐	☐	☐
12.	To authorise the Directors to make market purchases of its own shares (Special Resolution)	☐	☐	☐
13.	To authorise the Directors to cancel the share premium and Capital redemption reserve of the Company (Special Resolution)	☐	☐	☐
14.	To approve the Dividend Reinvestment Scheme (Ordinary Resolution)	☐	☐	☐
15.	To continue the Company as a Venture Capital Trust until 2020 (Ordinary Resolution)	☐	☐	☐

Signed: .... Dated: 2014

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 AIM VCT Plc at, **Capita Asset Services, 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 6.00 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. You may submit your proxy electronically using the Shareportal Service at www.capitashareportal.com . If not already registered for the share portal, you will need your investor code which can be found on your share certificate. If you cannot locate your investor code, please contact Capita Asset Services, between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday (except UK public holidays) on telephone number 0871 664 0324 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to Capita Registrars' helpline (0871 664 0324) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.
9. 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 0324. (calls cost 10p per minute plus network extras, lines are open. 9.00 a.m. - 5.30 p.m. Monday - Friday) to request a change of address form.
10. 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 OR RETURN THE FORM TO:

CAPITA ASSET SERVICES, PXS, THE REGISTRY, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TU