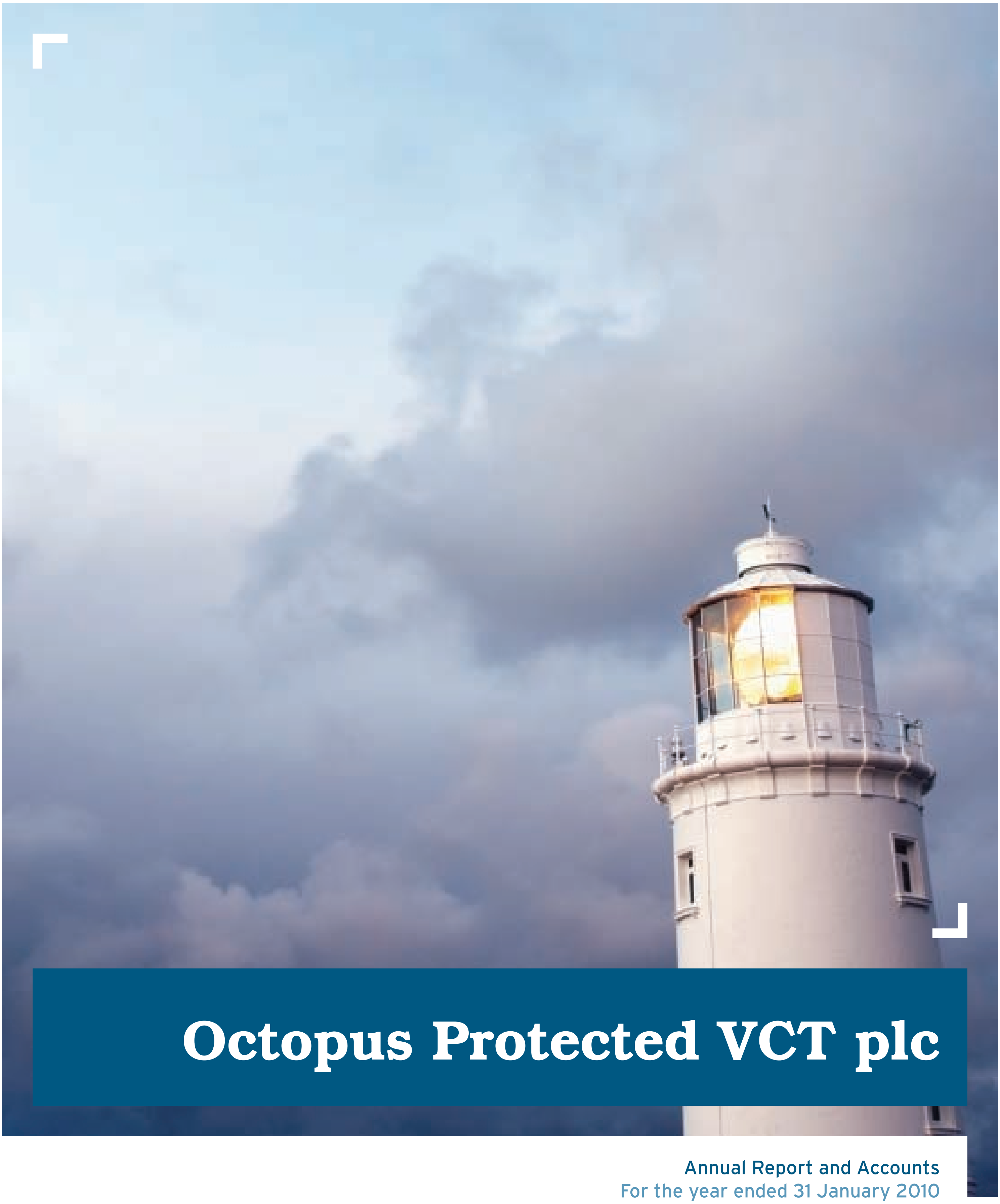
OCTOPUS INVESTMENTS



Octopus Protected VCT plc

Annual Report and Accounts
For the year ended 31 January 2010

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FINANCIAL HEADLINES

90.1p	Net Asset Value per share at 31 January 2010
6.0p	Total dividends paid since launch
96.1p	NAV plus total dividends paid since launch
1.5p	Proposed final dividend for the year to 31 January 2010
9	New qualifying investments in the year amounting to £13 million

SHAREHOLDER INFORMATION AND CONTACT DETAILS

Financial Calendar

The Company's financial calendar is as follows:

14 July 2010	Annual General Meeting
4 August 2010	2010 final dividend paid
September 2011	Half-yearly results to July 2010 published
April/May 2011	Final results for year to 31 January 2011 announced; Annual Report and financial statements published

Dividends

Dividends will be paid by the Registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's Registrar, Capita Registrars, by calling 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open Monday – Friday 8.30 a.m. – 5.30 p.m.), or by writing to them at:

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA

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

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

The proposed final dividend of 1.5 pence will, if approved by shareholders, be paid on 4 August 2010 to shareholders on the register on 9 July 2010.

Share Price

The Company's share price is published daily in the Financial Times and its FTSE classification is 'Investment Companies' 'VCTs'. The share price can also be found on various financial websites with the following TIDM/EPIC code:

	Ordinary Shares
TIDM/EPIC code	OCT
Latest share price (70.0p 2009)	76.5p 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 all or part of your holdings, so Shareholder's should contact their independent financial adviser if they have any queries.

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is, however, unable to buy back shares directly from Shareholders. If you are considering selling your shares or trading in the secondary market, please contact the Company's Corporate Broker, Matrix Corporate Capital ('Matrix').

Matrix is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has brought in shares. Matrix can be contacted as follows:

Chris Lloyd
0203 206 7176 chris.lloyd@matrixgroup.co.uk

Paul Nolan
0203 206 7177 paul.nolan@matrixgroup.co.uk

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrar, Capita Registrars, under the signature of the registered holder.

Other information for Shareholders

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

ABOUT OCTOPUS PROTECTED VCT PLC

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

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

Further details of the Fund's progress are discussed in the Chairman's Statement and Investment Manager's Review on pages 5 to 13.

Venture Capital Trusts (VCTs)

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

- up-front income tax relief of 30%
- exemption from income tax on dividends paid
- exemption from capital gains tax on disposals of shares in VCTs

The Company has been provisionally approved as a VCT by HM Revenue & Customs. In order to maintain its approval the Company must comply with certain requirements on a continuing basis. By the end of the Company's third accounting period at least 70% of the Company's investments must comprise 'qualifying holdings' of which at least 30% must be in eligible Ordinary shares. A 'qualifying holding' consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £7 million at the time of investment, and whose total number of employees is less than 50, also at the time of investment. The Company will continue to ensure its compliance with these qualification requirements.

FINANCIAL SUMMARY

Ordinary shares	Year to 31 January 2010	Year to 31 January 2009
Net assets (£'000s)	24,552	25,139
Net revenue profit after tax (£'000s)	245	582
Net total profit/(loss) after tax (£'000s)	244	(101)
Net asset value per share (NAV)	90.1p	92.2p
Proposed dividend per share	1.5p	1.5p

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the fourth Annual Report of Octopus Protected VCT plc for the year ended 31 January 2010.

Performance

At 31 January 2010 the total return (being NAV plus dividends paid) of the Fund was 96.1p, which compares to 95.2p at 31 January 2009. This increase is largely due to the successful sale of the Fund's investment in Funeral Services Partnership which resulted in a return of almost 1.4 times the original investment of £1 million in October 2007. Aside from this the performance of the Fund has been relatively stable as there have been no changes in the valuations of the companies in its portfolio and because a proportion of its assets remain held in cash and cash equivalent securities. The investments held are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines and Financial Reporting Standards and are therefore subject to regular valuation reviews.

Given your Company's performance, and in line with HM Revenue & Customs ("HMRC") requirements, your Board has proposed a final dividend of 1.5 pence per share (comprising 0.1 pence from revenue reserves) in respect of the year ended 31 January 2010. This dividend, if approved by shareholders at the AGM, will be paid be paid on 4 August 2010 to shareholders on the register on 9 July 2010. In addition to the 1.50 pence interim dividend paid in October 2009, this will take dividends for the year ended 31 January 2010 to 3.0 pence.

Investment Portfolio

The year under review, particularly during the first 6 months, has proved challenging for many businesses due to the difficult economic environment. However it is encouraging to report that none of your Company's investments suffered any reductions in their fair value. That said it is too early to recognise any uplift in values, although we are optimistic about the potential of the portfolio companies.

During the year the Fund has made nine new investments totalling £13,000,000 and completed two follow on investments into existing portfolio companies Bruce Dunlop & Associates International Limited and Vulcan Services II Limited, totalling £18,000 and £1,000,000 respectively.

New investments include CSL DualCom Limited, the UK's leading supplier of dual path signalling devices, which link burglar alarms to the police or a private security firm, Diagnos Limited, which develops and sells sophisticated automotive diagnostic software and hardware, and Clifford Thames Group Limited, a provider of data and support services for the auto industry. The Fund has also made six investments into companies that have been established to seek suitable qualifying investments across a range of sectors.

All of these investments are discussed in more detail in the Investment Managers Review on pages 7 to 13.

Investment Strategy

The Fund is being invested on the basis of taking less risk than a typical VCT. Typically the Fund will receive its return from interest paid on secured loan notes as well as an exposure to the value of the shares of a company. The investment strategy is to derive sufficient return from the secured loan notes to achieve the Fund's investment aims and to use the equity exposure to boost returns. As portfolio companies are unquoted the Fund will receive a return from an equity holding when a company is sold.

The Manager of the Fund aims to reduce risk by investing in well managed and profitable businesses with strong recurring cash-flows. Furthermore with the majority of the investment being made in the form of a secured loan, in the event of the business failing, the Fund will rank ahead of unsecured creditors and equity investors.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice concerning ongoing compliance with Her Majesty's Revenue & Customs ('HMRC') rules and regulations concerning VCTs. The Board has been advised that Octopus Protected VCT plc is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT. This is discussed further on page 17.

A key requirement is now to maintain the 70% qualifying investment level. As at 31 January 2010, 77% of the portfolio, as measured by HMRC rules, was invested in VCT qualifying investments.

VAT on Management Fees

The Government announced that VCTs are now exempt from paying VAT on investment management fees with effect from 1 October 2008 and with retrospective application. This follows a European Court of Justice Judgement against the Government in a case relating

CHAIRMAN'S STATEMENT (continued)

to VAT payable by investment trusts. I am pleased to report that an amount of £96,900 has been received post year end. This is below the £110,000 originally accrued, however we are pursuing HMRC for the full rebate together with interest. On this basis, and with guidance from our advisers at Octopus, the £110,000 remains accrued in these accounts.

Change of Company Name

At the forthcoming Annual General Meeting it is proposed to change the name of the Company to Octopus Apollo VCT 3 plc. The proposed change of name is to bring the VCT in line with other VCTs managed by Octopus that follow the same investment strategy. There will be no change to the way in which this VCT is managed or the type of investments that it makes.

Outlook

Your Board remains confident that the Fund will be able to meet its investment objectives and produce good returns for shareholders. The imperative is to find lower risk investments and take advantage of current market conditions whenever possible. Since 31 January 2010, the Fund has made two such investments into Businessco Services 3 Limited and Carebase (Col) Limited. Further details of these investments can be found in the Investment Managers Review.

Last year I reported that Octopus launched a further VCT called Octopus Protected VCT 2 plc with the aim of investing alongside Protected and two other VCTs under the management of Octopus that have the same investment policy. I can confirm that this remains the case and is allowing Protected to invest in larger, safer companies and to invest on more favourable terms than would otherwise be the case. I believe this structure will enable Protected to be well placed to benefit from any economic recovery.

Tony Morgan

Chairman
12 May 2010

INVESTMENT MANAGER'S REVIEW

Personal Service

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

Octopus Investments Limited was established in 2000 and has a strong commitment to both smaller companies and to VCTs. We currently manage 17 VCTs, including this Company, and manage nearly £300 million in the VCT sector. Octopus has over 145 employees and has been voted as 'Best VCT Provider of the Year' by the financial adviser community for the last four years.

Investment Policy

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

Portfolio Review

As at 31 January 2010 the NAV stood at 90.1p, compared to 92.2p at 31 January 2009, and when adding back the 3.0p of cumulative dividends paid, this represents a positive total return of 1.0%. Recent improvements in the economy have created a better environment for the companies in the portfolio. There is a sense that the worst of the recession is over and that we may be on the road to recovery. We are confident about the stability in the market for the smaller private companies included in the Fund's portfolio.

The positive return is largely due to the successful exit of Funeral Services Partnership (FSP). Protected originally invested £1,000,000 in FSP in October 2007 which together with a loan note redemption premium of £264,000 and capital profits realised on equity of £115,000, generated a return of almost 1.4 times the original investment.

FSP had the characteristics we typically look for in our investments, having an experienced management team and being a successful business with strong recurring cash flows along with a clear market opportunity. The investment also had a defensive structure being low initial bank debt and an equity investor taking the main financial risk. The returns therefore predominantly came from our loan notes rather than our equity. A quote from Philip Greenfield, the managing director of FSP, corroborates the commitment and integrity we strive to provide here at Octopus and goes a long way to showing why the investment was such a success:

"We know from experience that when growing a business there can be conflicts and differing agendas between management teams and institutional investors. We found the approach of Stuart and Octopus very refreshing with a real focus on what is right for the business, providing assistance and support to us throughout. This created a strong and trusting relationship that really helped us all to make great progress. We very much look forward to working with them again."

Elsewhere, the Fund made nine new investments totalling £13,000,000 and completed two follow on investments into existing portfolio companies Bruce Dunlop & Associates International Limited of £18,000 and Vulcan Services II Limited of £1,000,000.

Since the date of these accounts we have completed a qualifying investment into Businessco Services 3 Limited, a company that seeks to acquire businesses operating in the business services industry, of £1,000,000 and a non-qualifying investment into Carebase (CoI) Limited of £350,000, a company involved in the construction of a care home.

Outlook

While the Company is invested in established businesses that are relatively unaffected by economic shifts, changes in the economy can of course alter the trading environment for the Company. It is fair to say that the worst of the economic upheavals appear to be over, leading to an improved environment which can aid progress of the Fund.

We will continue to consider low risk investments in sound companies and to support existing holdings that merit capital for sensible expansion plans, including well priced acquisitions. Taking a longer term view, which a VCT affords, we expect to be able to develop and generate successful exits that will bring rewards for shareholders.

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

Stuart Nicol
Director
Octopus Investments Limited
12 May 2010

INVESTMENT MANAGER'S REVIEW (continued)

Investment Portfolio

Qualifying investments	Sector	Investment at cost 31 January 2010 (£'000)	Movement in valuation (£'000)	Fair value at 31 January 2010 (£'000)	% equity held by Protected	% equity managed by Octopus
Clifford Thames Group Limited	Automotive	2,000	-	2,000	3.00%	8.00%
Vulcan Services II Limited	Oil & gas services	2,000	-	2,000	24.50%	49.00%
GreenCo Services Limited	Environmental	2,000	-	2,000	32.80%	57.40%
PubCo Services Limited	Restaurants & bars	2,000	-	2,000	30.40%	56.90%
Salus Services 1 Limited	Care homes	2,000	-	2,000	48.10%	100.00%
Bruce Dunlop & Associates International Limited	Media	1,018	-	1,018	1.74%	35.05%
Tristar Limited	Chauffeur Services	1,000	-	1,000	2.50%	35.00%
Diagnos Limited*	Automotive	1,000	-	1,000	0.00%	0.00%
CSL DualCom Limited*	Security devices	1,000	-	1,000	0.00%	0.00%
BusinessCo Services 2 Limited	Business services	1,000	-	1,000	24.50%	49.00%
Ticketing Services 1 Limited	Ticketing	1,000	-	1,000	49.40%	100.00%
Ticketing Services 2 Limited	Ticketing	1,000	-	1,000	49.40%	100.00%
Hydrobolt Limited	Manufacturing	606	-	606	2.73%	4.63%
British Country Inns plc	Restaurants & bars	100	(16)	84	1.30%	1.30%
Total Qualifying investments		**17,724**	**(16)**	**17,708**		
Floating rate notes		1,931	-	1,931		
Money market funds		4,374	-	4,374		
Cash at bank		374	-	374		
Total investments		**24,403**	**(16)**	**24,387**		
Debtors less creditors				165		
Total net assets				**24,552**		

* Debt based investment

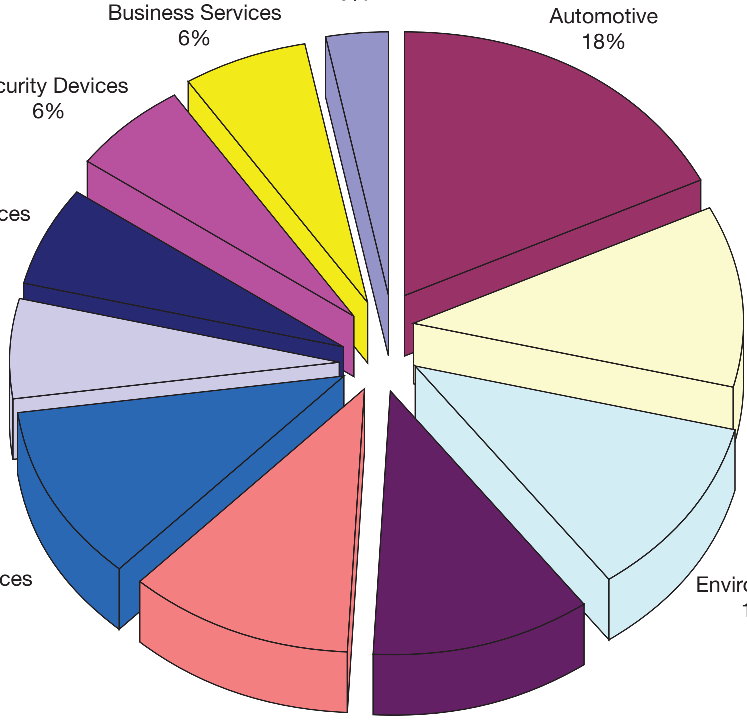
Valuation Methodology

The investments held by Protected are all unquoted and as such there is no trading platform from which prices can be easily obtained. As a result, the methodology used in fair valuing the investments is the transaction price of the recent investment round. Subsequent adjustment to the fair value has then been made according to any significant under or over performance of the business.

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

Sector Analysis

Total Qualifying Investments by Fair Value



Review of Investments

During the year, the Fund made nine new investments amounting to £13 million and two follow-on investments into Bruce Dunlop & Associates International Limited and Vulcan Services II limited for £18,000 and £1,000,000 respectively.

Investments are valued in accordance with the accounting policy set out on page 34, which takes account of current industry guidelines for the valuation of venture capital portfolios and is compliant with International Private Equity and Venture Capital Valuations guidelines and current financial reporting standards.

Clifford Thames Group Limited ('CT')

CT is a market leading provider of consultancy and business outsourcing services for the automotive industry and is a key partner of most of the world's leading car manufacturers. With offices in eight countries, having recently opened up in China and Poland, CT has a well established and impressive client list including Ford, GM Europe, Jaguar Land Rover, Mazda and Fiat. Our investment into CT was made via BusinessCo Services Limited. This was a company that we had previously created to invest in this type of business. Further information can be found at the company's website www.clifford-thames.com.

Investment date:	January 2009
Cost:	£2 million
Valuation:	£2 million
Equity held:	3.0%
Last audited accounts:	N/A

CLIFFORD THAMES
SUPPORTING CAR MANUFACTURERS GLOBALLY

INVESTMENT MANAGER'S REVIEW (continued)

Vulcan Services II Limited

Vulcan Services II Limited has been established to seek the acquisition of businesses engaged in any of the activities of design, manufacture, development, marketing or sale of equipment and components for use in the oil and gas sector.

Investment date:	November 2008
Cost:	£2.0 million
Valuation:	£2.0 million
Equity held:	24.5%
Last audited accounts:	N/A

GreenCo Services Limited

GreenCo Services Limited has been set up to investigate and seek the acquisition of companies engaged in the provision of environmental products or services.

Investment date:	April 2009
Cost:	£2.0 million
Valuation:	£2.0 million
Equity held:	32.8%
Last audited accounts:	N/A

PubCo Services Limited

PubCo Services Limited has been set up to acquire and operate freehold pubs.

Investment date:	April 2009
Cost:	£2.0 million
Valuation:	£2.0 million
Equity held:	30.4%
Last audited accounts:	N/A

Salus Services 1 Limited

Salus Services 1 Limited has been set up to investigate and seek the acquisition of companies engaged in the provision of products or services into the health care sector.

Investment date:	January 2010
Cost:	£2.0 million
Valuation:	£2.0 million
Equity held:	48.1%
Last audited accounts:	N/A

Bruce Dunlop & Associates International Limited ('BDA')

BDA provides promotion and design services to broadcasters and advertisers worldwide and also creates brand films and internal communications for leading UK corporations, including Hallmark, Barclays, Discovery and Sony. After a tough early 2009 the business stabilised its trading in summer 2009 and since then has been trading in line with a revised budget. Further information can be found at the company's website www.bdacreative.com.

Investment date:	December 2007
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	1.7%
Revenues:	£4.5 million
Profit before interest & tax:	£0.3 million
Net assets:	£1.0 million

Tristar Worldwide Limited

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

Investment date:	January 2008
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	2.5%
Last audited accounts:	31 May 2009
Revenues:	£35.1 million
Profit before interest & tax:	£0.7 million
Net assets:	£2.0 million

Diagnos Limited

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

Investment date:	February 2009
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	0.0%
Last audited accounts:	N/A
Revenues:	£0.4 million
Loss before interest & tax:	£(0.02) million
Net assets:	£2.7 million

CSL DualCom Limited (subsidiary of Dualcom Holdings Limited)

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

Investment date:	February 2009
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	0.0%
Last audited accounts:	31 March 2009
Revenues:	£7.2 million
Profit before interest & tax:	£0.8 million
Net assets:	£0.7 million

INVESTMENT MANAGER'S REVIEW (continued)

BusinessCo Services 2 Limited

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

Investment date:	November 2008
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	24.5%
Last audited accounts:	N/A

Ticketing Services 1 Limited

Ticketing Services 1 Limited is involved in the purchase and resale, at a margin, of tickets from various ticketed events.

Investment date:	September 2009
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	49.4%
Last audited accounts:	N/A

Ticketing Services 2 Limited

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

Investment date:	September 2009
Cost:	£1.0 million
Valuation:	£1.0 million
Equity held:	49.4%
Last audited accounts:	N/A

Recent Transactions

Since the end of the period under review, two further investments have been made. The Fund invested £1,000,000 into Businessco Services 3 Limited and £350,000 into Carebase (Col) Limited.

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

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

Investment Process

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

Initial Screening

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

Due Diligence

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

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

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

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

DETAILS OF DIRECTORS

Tony Morgan (Chairman – Age 78)

Tony spent seven years as Chairman and Chief Executive of a highly successful and multi-national company, Purle Bros, until its merger with Redland in 1971 when he joined their main board. He became a Governor of the BBC in the same year. He was later to become Deputy Chairman and shareholder in a joint venture with Wimpey Construction developing their substantial environmental business. In 1992 he was appointed Chief Executive of The Industrial Society. Tony has had more than seven years specific VCT experience as a non executive director of Octopus Phoenix VCT plc and is currently a non-executive Director of a number of private companies.

Neil Wilson (Director – Age 42)

Neil has spent his entire professional career in recruitment consultancy having joined the MPS Group in 1990 as a recruitment consultant and rising through the ranks to become managing director of group company, Badenoch and Clark, in 2003. Badenoch and Clark is one of the UK's largest recruitment agencies and has attained a top-20 placing in the last three annual 'Sunday Times Best Companies to Work for' surveys.

Matt Cooper (Director – Age 43)

Matt is the Chairman of Octopus Investments. Prior to joining Octopus, Matt was the Principal Managing Director of Capital One Bank (Europe) plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to two million customers, generating revenues of over £275 million and employing over 2,000 people. Matt is also Chairman of Perfect Pizza Limited and Imaginatik Plc and a non-executive director of 10Duke Software Limited, MyDish Limited, Global Collect and nine other VCTs.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 January 2010.

This report has been prepared by the Directors in accordance with the requirements of s415 of the Companies Act 2006. The Company's independent auditor is required by law to report on whether the information given in the Directors' Report (including the review of business activities) is consistent with the financial statements. The auditor's opinion is included in their report on page 28.

Principal Activity and Status

The principal activity of the Company is to invest in a diversified portfolio of unquoted UK smaller companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream. The Company has been granted provisional approval as a VCT by HMRC.

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

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

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

Review of Business Activities

The Directors are required by s417 of the Companies Act 2006 to include a business review to shareholders.

The business review is set out below and also includes the Chairman's Statement on pages 5 and 6, and the Investment Manager's Review on pages 7 to 13 by reference.

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

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

- on 11 March 2010 the Company invested £350,000 into Carebase (Col) Limited; and
- on 31 March 2010 the Company invested £1,000,000 into Businessco Services 3 Limited.

Performance and Key Performance Indicators

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of unquoted UK smaller companies which meet the relevant criteria for venture capital trusts. The Board has a number of performance measures to assess the Company's success in meeting its objectives. Performance, measured by the change in NAV and total return per share, is also measured against the FTSE All-Share index and the FTSE UK Smaller Companies index. This is shown in the graph on page 27 of the Directors' Remuneration Report. These indices have been adopted as an informal benchmark. The Chairman's Statement, on pages 5 and 6, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 7 to 13. Further details of the Company's risk management policies are provided in note 15 to the financial statements.

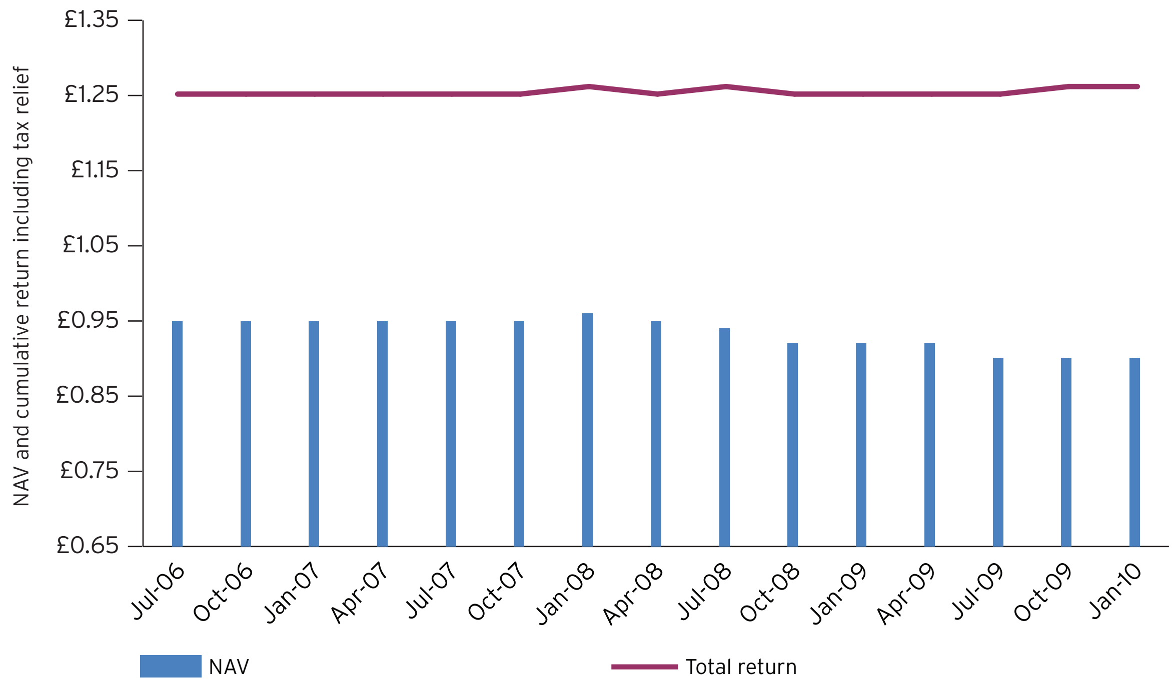
DIRECTORS' REPORT (continued)

Results and dividend

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Net return/(loss) attributable to shareholders	244	(101)
Appropriations: Final dividend proposed – 1.50p per share (2009: 1.50p)	(409)	(409)

The proposed final dividend will, if approved by shareholders at the AGM, be paid on 4 August 2010 to shareholders on the register on 9 July 2010. In addition to the 1.50p interim dividend paid in October, this will take dividends for the year ended 31 January 2010 to 3.0p.

NAV and total return since launch



Objective and Investment Policy

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

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

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

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

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

VCT Regulation

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

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

Principal Risks, Risk Management and Regulatory Environment

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

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The Investment Manager keeps the Company's VCT qualifying status under continual review and reports to the Board regularly throughout the year. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

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

Financial risk: as most of the Company's investments involve medium to long-term commitment and are relatively illiquid, the Directors consider that it is inappropriate to finance the Company's activities through borrowing. Accordingly, they seek to maintain a proportion of the Company's assets in cash or cash equivalents in order to be in a position to take advantage of new investment opportunities. The Company has very little exposure to foreign currency risk and does not enter into derivative transactions. The Company has cash deposits which are held on the balance sheet of HSBC Bank plc and in two cash funds managed by professional cash managers. The risk of loss to this cash is deemed to be extremely low, due to HSBC's historical credit rating and a current S&P rating of AA, and all cash funds have S&P ratings of A to AAA. The Company also has exposure via direct holdings to a small portfolio of AA rated corporate bonds and floating rate notes. These will be held to maturity. Given their credit rating and recent Government intervention, the risk of loss of value at maturity is deemed to be low.

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

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

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

DIRECTORS' REPORT (continued)

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

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the revised 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 21 to 23.

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

Directors

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

	31 January 2010	31 January 2009
Tony Morgan (Chairman)	5,000	5,000
Neil Wilson	9,970	9,970
Matt Cooper	10,023	10,023

All of the Directors' shares were held beneficially. There have been no changes in the Directors' share interests between 31 January 2010 and the date of this report.

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

Brief biographical notes on the Directors are given on page 14.

Directors' and Officers' Liability Insurance

The Company has, as permitted by s233 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Whistleblowing

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

Management

Octopus Investments Limited acts as Investment Manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in notes 3 and 18 to the financial statements. Matt Cooper is Chairman of Octopus Investments Limited, which also provides secretarial, administrative and custodian services to the Company. Liquid resources (being cash and money market funds) are managed by professional cash managers.

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

The Company has established a performance incentive scheme whereby the Investment Manager is entitled to an annual performance related incentive fee in the event that certain performance criteria are met, commencing at the end of the 2011 financial year. Further details of this scheme are disclosed within note 19 to the financial statements.

Share Issues and Open Offers

No shares (2009: nil) were allotted during the year to 31 January 2010. As at 31 January 2010, there were no open offers for subscription.

Share Buy-backs

During the year, the Company purchased 16,216 (2009: 64,225) shares for cancellation for a weighted average price of 81.0p per share for total consideration of £13,135. The total nominal value of the shares re-purchased in the year amounted to £1,622 (2009: £6,423), representing 0.06% of total issued share capital (2009: 0.24%).

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

The Company's Ordinary share capital as at 31 January 2010 is 27,256,003 Ordinary shares of 10p (2009: 27,272,119 Ordinary shares) and no shares were held in Treasury.

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

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;

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

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

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

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

Appointment and Replacement of Directors

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

DIRECTORS' REPORT (continued)

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

Powers of the Directors

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

International Financial Reporting Standards

As the Company is not part of a group it is not mandatory for it to comply with International Financial Reporting Standards. The Company does not anticipate that it will voluntarily adopt International Financial Reporting Standards.

Creditor Payment Policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The Company does not follow any code or standard with regard to creditor payment practice. At 31 January 2010 there were £nil trade creditors, (31 January 2009: £nil).

Environmental Policy

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

Going Concern

The Company's business activities and the factors likely to affect its future performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 5 to 13. Further details on the management of financial risk may be found in note 16 to the Financial Statements.

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

The assets of the Company consist of securities which are readily realisable (27.2% of net assets) and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Substantial Shareholdings

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

Annual General Meeting

The Notice convening the 2010 Annual General Meeting of the Company and a form of proxy in relation to the meeting can be found at the end of this document.

Independent Auditor

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

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

The authority proposed under Resolution 7 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase Ordinary shares in the market. Resolution 7 renews the Directors' authority to allot Ordinary shares. This would enable the Directors until June 2011, to allot up to 2,725,600 Ordinary shares (representing approximately 10% of the Company's issued share capital as at

31 January 2010). Any shares allotted under this authority would be issued at prices at or above NAV.

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

Resolution 8 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of an offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 2,725,600 Ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 31 January 2010). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders, as a whole.

Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 9 is required so that the Directors may make purchases of up to approximately 5% of the Company's issued share capital and Resolution 10 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Change of Company Name

At the Annual General Meeting a Special Resolution will be proposed to change the name of the Company to Octopus Apollo VCT 3 plc.

Corporate Governance

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

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in the 2008 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement at page 23.

Board of Directors

The Company has a board of three non-executive Directors, one of whom is considered to be independent of the Company's Investment Manager, Octopus Investments Limited. Mr Matt Cooper is not considered to be independent due to his role as Chairman of Octopus Investments Limited and Mr Tony Cooper is not considered to be independent due to being a director of a fellow VCT which is managed by the same Investment Manager. 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.

DIRECTORS' REPORT (continued)

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

During the year the following were held:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
Tony Morgan	4	4	2	2
Neil Wilson	4	3	2	2
Matt Cooper	4	4	2	N/A

Additional meetings were held as required to address specific issues including considering recommendations from the Investment Manager and share repurchases. A brief biographical summary of each Director is given on page 14.

The Company's Articles of Association require that one third of Directors should retire by rotation each year and seek re-election at the Annual General Meeting and that Directors appointed by the board should seek re-appointment at the next Annual General Meeting. All Directors are required to submit themselves for re-election at least every three years. This practice was followed during the year under review.

	Date of original appointment	Due date for Re-election/ election
Tony Morgan	17/07/2006	AGM 2010
Neil Wilson	17/07/2006	AGM 2011
Matt Cooper	17/07/2006	AGM 2010

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

Audit Committee:

Mr N Wilson (Chairman)
Mr T Morgan

The Audit Committee, chaired by Mr Wilson, consists of two independent Directors. The Audit Committee believes Mr Wilson possesses appropriate and relevant financial experience as per the requirements of the Combined Code. The Board considers that the members of the Committee are independent and have collectively the skills and experience required to discharge their duties effectively.

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

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

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any charges required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to Grant Thornton UK LLP, the Company's external auditor. The Audit Committee has reviewed the non audit services provided by the external auditor and does not believe they are sufficient to influence their independence or objectivity.

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

During the year ended 31 January 2010, the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement and remuneration;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing Octopus Investments Limited's statement of internal controls in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of Octopus Investments Limited's compliance procedures;

- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial and interim results statement prior to Board approval; and
- reviewing the external auditor's detailed reports to the committee on the annual financial statements.

Nomination Committee:

Mr N Wilson (Chairman)
Mr T Morgan

The Nomination Committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees. It has not yet been necessary for the Committee to meet and so terms of reference will be agreed if and when appropriate. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report on page 26.

Internal Control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. The Board regularly reviews financial results and investment performance with its Investment Manager.

Octopus identifies the investment opportunities for the consideration of the Board who ultimately make the decision whether to proceed with that opportunity. Octopus monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals and further acquisitions.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Quoted investments are held in CREST, although no quoted investments were held at the year end. Octopus regularly reconciles the client asset register with the physical documents.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out in accordance with the Financial Reporting Council guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

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

Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 16 to the Financial Statements and within the Directors Report on pages 15 to 24.

Relations with Shareholders

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

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 8 Angel Court, London, EC2R 7HP. Alternatively, the team at Octopus is happy to answer any questions and can be contacted on 0800 316 2347.

Compliance Statement

The Listing Rules require the Board to report on compliance with the 48 Combined Code provisions throughout the accounting year. The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 31 January 2010 with the provisions set out in the 2008 Combined Code.

1. New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise.

2. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation process of the Board, its committees, the individual directors and the Chairman has not been put in place or a formal evaluation been undertaken. Specific performance issues are dealt with as they arise.

DIRECTORS' REPORT (continued)

3. The Company has only one independent Director, Neil Wilson, as defined by the 2008 Combined Code. Matt Cooper holds directorships of other companies with the same Investment Manager and with the Investment Manager itself and Tony Morgan is a director of a fellow VCT which is managed by the Investment Manager. In addition, the Audit Committee has only one independent director, as a consequence of the previous point. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.

4. The Company does not have a Chief Executive Officer or senior independent Director. The Board does not consider this necessary for the size of the Company.

5. The Company conducts a formal review as to whether there is a need for an internal audit function. However, the Directors do not consider that an internal audit would be an appropriate control for a venture capital trust.

6. The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.

7. The Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the Annual General Meeting.

8. The Company does not have a Remuneration Committee as it does not have any executive Directors.

By Order of the Board

Celia L Whitten, FCIS
Company Secretary
12 May 2010

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the accounts in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

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

To the best of my knowledge:

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

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

On behalf of the Board

Tony Morgan
Chairman
12 May 2010

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with s420-422 of the Companies Act 2006, in respect of the year ended 31 January 2010. An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The Company's auditor, Grant Thornton UK LLP, is required to give its opinion on certain information included in this report; this comprises the Directors' emoluments section below only. Their report on these and other matters is set out on page 28.

Consideration by the Directors of Matters relating to Directors' Remuneration

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

Statement of the Company's Policy on Directors' Remuneration

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

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

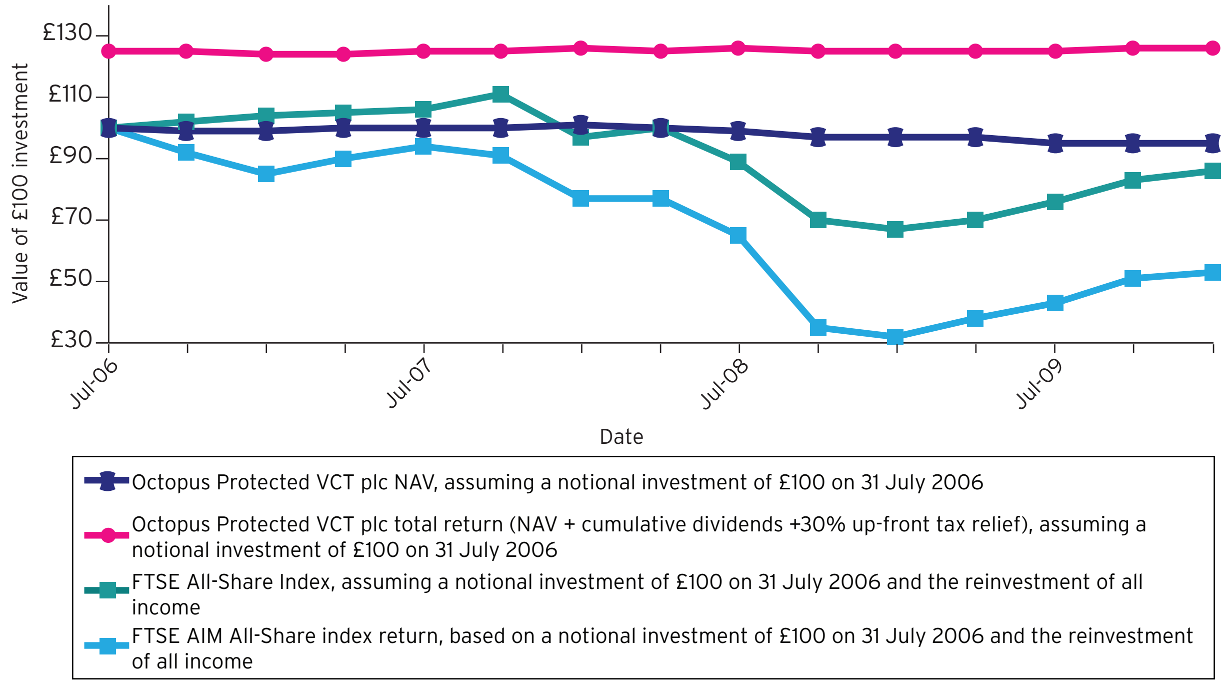
The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid higher fees than the other Directors in recognition of his more onerous role. The policy is to review these rates from time to time, although such review will not necessarily result in any changes.

The Company's policy for the current, forthcoming and future years is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report. The graph overleaf compares the NAV return and total return (including dividends and up-front tax relief, rebased to 100) of Protected over the period from July 2006 to 31 January 2010, with the total return from a notional investment (rebased to 100) in the FTSE AIM All-Share index and the FTSE Small Cap index over the same period. These indices are considered to be the most appropriate broad equity market indices for comparative purposes. However, the Directors wish to point out that VCTs are not able to make qualifying investments in companies quoted on the Main Market in their observance of the VCT rules.

Octopus Protected VCT plc performance



Date	NAV	Total return*	FTSE All share index	AIM All share index
Jul 2006	0.0%	0.0%	0.0%	0.0%
Jan 2007	(0.4%)	(1.0%)	1.5%	(7.4%)
Jul 2007	(0.1%	0.7%	1.0%	4.9%
Jan 2008	0.5%	0.4%	(13.1%)	(15.7%)
Jul 2008	(1.3%)	0.2%	(11.3%)	(15.8%)
Jan 2009	0.2%	0.2%	(4.8%)	(9.0%)
Jul 2009	(1.6%)	0.0%	8.3%	13.0%
Jan 2010	0.0%	0.0%	2.9%	2.8%

*includes upfront tax relief at 30%

Directors' Emoluments

	Year ended 31 January 2010 £	Year ended 31 January 2009 £
Mr Tony Morgan (Chairman)	21,000	19,500
Mr Neil Wilson	16,000	15,000
Mr Matt Cooper	16,000	15,000
Total	53,000	49,500

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

By Order of the Board

Celia L Whitten FCIS
Secretary
12 May 2010

REPORT OF THE INDEPENDENT AUDITOR

Independent Auditor's Report to the Members of Octopus Protected VCT plc

We have audited the financial statements of Octopus Protected VCT plc for the year ended 31 January 2010 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, 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).

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 Auditors

As explained more fully in the Directors' Responsibility Statement set out on page 25, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2010 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; 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.

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 25, 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 2008 Combined Code specified for our review.

Tracey James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

INCOME STATEMENT

	Notes	Year ended 31 January 2010 Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	10	-	255	255
Loss on disposal of current asset investments		-	(28)	(28)
Loss on valuation of fixed asset investments		-	-	-
Gain on valuation of current asset investments		-	144	144
Investment income	2	638	-	638
Investment management fees	3	(124)	(372)	(496)
VAT management fee rebate	3	-	-	-
Other expenses	4	(269)	-	(269)
Profit/(loss) on ordinary activities before tax		**245**	**(1)**	**244**
Taxation on profit/(loss) on ordinary activities	6	-	-	-
Profit/(loss) on ordinary activities after tax		**245**	**(1)**	**244**
Earnings per share - basic and diluted	**8**	**0.9p**	**(0.0)p**	**0.9p**

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

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

INCOME STATEMENT

	Notes	Year ended 31 January 2009 Revenue £'000	Capital £'000	Total £'000
Gain on disposal of current asset investments		-	58	58
Loss on disposal of current asset investments		-	-	-
Loss on valuation of fixed asset investments		-	(16)	(16)
Loss on valuation of current asset investments		-	(595)	(595)
Investment income	2	1,453	-	1,453
Investment management fees	3	(147)	(444)	(591)
VAT management fee rebate	3	27	83	110
Other expenses	4	(338)	-	(338)
Profit/(loss) on ordinary activities before tax		**995**	**(914)**	**81**
Taxation on profit/(loss) on ordinary activities	6	(413)	231	(182)
Profit/(loss) on ordinary activities after tax		**582**	**(683)**	**(101)**
Earnings per share - basic and diluted	**8**	**2.1p**	**(2.5)p**	**(0.4)p**

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

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Shareholders' funds at start of year	25,139	26,114
Profit/(loss) on ordinary activities after tax	244	(101)
Purchase of own shares	(13)	(54)
Dividends paid	(818)	(820)
Shareholders' funds at end of year	**24,552**	**25,139**

BALANCE SHEET

		As at 31 January 2010		As at 31 January 2009 (re-stated)	
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Fixed asset investments*	10		17,708		4,690
Current assets:					
Debtors	11	243		212	
Investments – money market funds*	10	6,305		16,847	
Cash at bank		374		3,685	
		6,922		20,744	
Creditors: amounts falling due within one year	12	(78)		(295)	
Net current assets			6,844		20,449
Net assets			**24,552**		**25,139**
Called up equity share capital	13		2,725		2,727
Capital redemption reserve	14		13		11
Special distributable reserve	14		22,617		23,039
Capital reserve gains & losses on disposal	14		(406)		(325)
Capital reserve holding gains & losses	14		(479)		(559)
Revenue reserve	14		82		246
Total shareholders' funds			**24,552**		**25,139**
Net asset value per share	9		**90.1p**		**92.2p**

*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 12 May 2010 and are signed on their behalf by:

Tony Morgan
Chairman

Company number: 05840377

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

CASH FLOW STATEMENT

	Notes	Year to 31 January 2010 £'000	Year to 31 January 2009 £'000
Net Cash (outflow)/inflow from operating activities		(375)	647
Taxation		-	(18)
Financial investment:			
Purchase of fixed asset investments	10	(14,017)	(1,606)
Sales of fixed asset investments	10	1,254	
Management of liquid resources:			
Purchase of current asset investments		(9,847)	(13,249)
Sales of current asset investments		20,505	18,769
		2,480	4,543
Dividends paid		(818)	(820)
Financing			
Purchase of own shares	13	(13)	(54)
		(831)	(874)
(Decrease)/increase in cash		**(3,311)**	**3,669**

RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 January 2010 £'000	Year to 31 January 2009 £'000
Profit on ordinary activities before tax	244	81
Decrease in debtors	(31)	40
Decrease in creditors	(217)	(27)
Gains on disposal of fixed assets	(255)	-
Loss/(gains) on disposal of current assets	28	(58)
Loss on valuation of fixed asset investments	-	16
Loss/(gains) on valuation of current asset investments	(144)	595
(Outflow)/inflow from operating activities	**(375)**	**647**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 31 January 2010 £'000	Year to 31 January 2009 £'000
(Decrease)/increase in cash at bank	(3,311)	3,669
Movement in cash equivalent securities	(10,542)	(6,057)
Opening cash funds	20,532	22,920
Net funds at 31 January	**6,679**	**20,532**

Net Funds at 31 January comprised:

	As at 31 January 2010 £'000	As at 31 January 2009 £'000
Cash at bank	374	3,685
Bonds	-	2,876
Floating rate notes	1,931	2,301
Money market funds	4,374	11,670
Net Funds at 31 January	**6,679**	**20,532**

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

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

The principal accounting policies have remained unchanged from those set out in the Company's 2009 Annual Report and financial statements. A summary of the principal accounting policies is set out below.

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

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

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

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

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

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

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

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

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

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

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

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

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 funds and includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on debt and money market funds are recognised on a time apportionment basis, provided there is no reasonable doubt that payment will be received in due course.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Financing strategy and capital structure

FRS 29 'Financial Instruments: Disclosures' comprises disclosures relating to financial instruments. We define capital as shareholders' funds and our financial strategy in the medium term is to manage a level of cash that balances the risks of the business with optimising the return on equity. The Company currently has no borrowings nor does it anticipate that it will drawdown any borrowing facilities in the future to fund the acquisition of investments.

Financial instruments

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

Capital management is monitored and controlled using the internal control procedures set out on page 23 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors. The Company does not have any externally imposed capital requirements.

Dividends

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

2. Income

	31 January 2010 £'000	31 January 2009 £'000
Interest receivable money market funds and bank balances	92	629
Money market securities – dividend income	101	620
Loan note interest receivable	445	204
	638	**1,453**

3. Investment Management Fees

	31 January 2010			31 January 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	124	372	496	130	394	524
Irrecoverable VAT thereon	–	–	–	17	50	67
VAT rebate	–	–	–	(27)	(83)	(110)
	124	**372**	**496**	**120**	**361**	**481**

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

Octopus provides investment management and accounting and administration services to the Company under a management agreement which runs for a period of five years with effect from 27 July 2006 and may be terminated at any time thereafter by not less than twelve months' notice given by either party. No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given. The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given. The basis upon which the management fee is calculated is disclosed within note 18 to the financial statements.

The Chancellor of the Exchequer announced in his budget statement on 12 March 2008 that the Finance Act 2008 would contain draft legislation exempting VCTs from VAT on management fees with effect from 1 October 2008. This legislation was passed in July 2008 and as such all VCTs are now exempt from paying VAT on management fees from this date. VAT has not been included on management fees since 1 November 2008 and an amount of £96,900 has been refunded since the year end.

4. Other Expenses

	31 January 2010 £'000	31 January 2009 £'000
Directors' remuneration	53	50
Fees payable to the Company's auditor for the audit of the financial statements	12	12
Fees payable to the Company's auditor for other services – tax compliance	4	4
Accounting and administration services	75	92
Legal and professional expenses	1	44
Other expenses	124	136
	269	**338**

The total expense ratio for the Company for the year to 31 January 2010 was 3.1% (2009: 2.9%). Total running costs are capped at 3.5%.

5. Directors' Remuneration

	31 January 2010 £'000	31 January 2009 £'000
Directors' emoluments		
Mr Tony Morgan (Chairman)	21	20
Mr Neil Wilson	16	15
Mr Matt Cooper	16	15
	53	**50**

None of the Directors received any other remuneration or benefit from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was three (2009: three).

6. Tax on Ordinary Activities

The corporation tax charge for the year was £nil (2009: £182,000).

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 28% (2009: 28%).

The differences are explained below.

Current tax reconciliation:

	31 January 2010 £'000	31 January 2009 £'000
Profit on ordinary activities before tax	244	81
Non taxable gains/(losses)	371	(553)
Net (loss)/profit on ordinary activities	(127)	634
Current tax at 28% (2009: 28%)	(36)	178
Unutilised tax losses	54	-
Income not liable to tax	(18)	-
Marginal relief	-	(14)
Adjustment in respect of prior year	-	18
Total current tax charge	**-**	**182**

The company has excess management charges of approximately £193,000 (2009: £nil) to carry forward to offset against future taxable profits.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Dividends

	31 January 2010 £'000	31 January 2009 £'000
Recognised as distributions in the financial statements for the year		
Previous year's final dividend	409	410
Current year's interim dividend	409	410
	818	**820**
Proposed in respect of the year		
Interim dividend – 1.5p per share (2009: 1.5p per share)	409	410
Final dividend 1.5p per share (2009: 1.5p per share)	409	409
	818	**819**

The final dividend of 1.5p per share for the year ended 31 January 2010, subject to shareholder approval at the Annual General Meeting, will be paid on 4 August 2010 to shareholders on the register on 9 July 2010.

8. Earnings/(loss) per Share

The revenue earnings per share is based on 27,262,160 (2009: 27,324,977) shares, being the weighted average number of shares in issue during the year, and on a profit after tax of £245,000 (2009: £582,000).

The capital earnings per share is based on 27,262,160 (2009: 27,324,977) shares, being the weighted average number of shares in issue during the year, and on a loss after tax of £1,000 (2009: £683,000).

The total earnings per share is based on 27,262,160 (2009: 27,324,977) shares, being the weighted average number of shares in issue during the year, and a profit for the year totaling £244,000 (2009: loss of £101,000).

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

9. Net Asset Value per Share

The calculation of net asset value per share as at 31 January 2010 is based on net assets of £24,552,000 (2009: £25,139,000) divided by the 27,256,003 (2009: 27,272,119) shares in issue at that date.

10. Fixed Asset Investments at Fair Value through Profit or Loss

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

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

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 date where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company holds no such investment in the current or prior year.

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

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

All items held at fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 January 2010 are summarised below.

Fixed asset investments:

	Level 3: Unquoted equity investments £'000	Level 3: Unquoted loan investments £'000	Total unquoted investments £'000
Valuation and net book amount:			
Book cost at 1 February 2009	1,482	3,224	4,706
Cumulative revaluation	(16)	-	(16)
Valuation at 1 February 2009	1,466	3,224	4,690
Movement in the year:			
Purchases at cost	6,401	7,616	14,017
Proceeds from the sale of investments	(554)	(700)	(1,254)
Gain on disposal of investments	255	-	255
Change in fair value in year	-	-	-
Closing fair value at 31 January 2010	**7,568**	**10,140**	**17,708**
Closing cost at 31 January 2010:	7,584	10,140	17,724
Closing holding loss at 31 January 2010:	(16)	-	(16)
Valuation at 31 January 2010	**7,568**	**10,140**	**17,708**

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect impairment of financial assets held at the price of recent investment, or to adjust earnings multiples. The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 15.

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 7 to 13.

Current asset investments

Level 1 money market funds: Level 1 valuations are based on quoted prices (unadjusted) in active markets for identical assets or liabilities. The valuation of money market funds at 31 January 2010 was £4,374,000 (2009: £11,670,000) and the valuation of floating rate notes was £1,931,000 (2009: £5,177,000).

At 31 January 2010 and 31 January 2009 there were no commitments in respect of investments approved by the Manager but not yet completed.

11. Debtors

	31 January 2010 £'000	31 January 2009 £'000
Other debtors	4	8
Prepayments and accrued income	239	204
	243	**212**

12. Creditors: Amounts Falling Due Within One Year

	31 January 2010 £'000	31 January 2009 £'000
Accruals	78	-
Corporation tax	-	164
Other creditors	-	1
Applications	-	130
	78	**295**

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Share Capital

	31 January 2010 £'000	31 January 2009 £'000
Authorised: 50,000,000 Ordinary shares of 10p	5,000	5,000
Allotted and fully paid up: 27,256,003 Ordinary shares of 10p (2009: 27,272,119)	2,725	2,727

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set out on page 5. The Company is not subject to any externally imposed capital requirements.

The Company did not issue any shares in the year (2009: nil).

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

- 19 June 2009: 16,216 Ordinary shares at a price of 81.0p per share

The total nominal value of the shares repurchased was £1,621.60 representing 0.059% of the issued share capital.

14. Reserves

	Special distributable reserve £'000	Capital reserve – gains & losses on disposal £'000	Capital reserve – holding gains & losses £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
As at 1 February 2009	**23,039**	**(832)**	**(52)**	**11**	**246**	**22,412**
Transfer to comply with SORP 2009**	-	507	(507)	-	-	-
As at 1 February 2009 restated	23,039	(325)	(559)	11	246	22,412
Repurchase of own shares – cancellation	(13)	-	-	2	-	(11)
Profit/(loss) on ordinary activities after tax	-	-	-	-	245	245
Management fees allocated as capital expenditure	-	(372)	-	-	-	(372)
Prior period holding gains/ losses now crystallised	-	64	(64)	-	-	-
Current year gains/losses on disposal	-	227	-	-	-	227
Current period gains/losses on fair value of investments	-	-	144	-	-	144
Dividends paid	(409)	-	-	-	(409)	(818)
Balance as at 31 January 2010	**22,617***	**(406)**	**(479)**	**13**	**82***	**21,827**

*Available for potential distribution by way of a dividend

**This transfer is to comply with SORP 2009 whereby gains or losses on investments held by the Company are to be maintained in capital reserve holding gains/(losses)

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

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

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

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

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

	£'000
As at 1 February 2009	23,285
Movement in year	(586)
As at 31 January 2010	**22,699**

15. Financial Instruments and Risk Management

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

Fixed and current asset investments (see note 10) are valued at fair value. 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.

Fair value methods and assumptions
Where investments are in quoted stocks, fair value is set as market price, discounted if appropriate. Unquoted investments are valued in line with IPEVC valuation guidelines.

Market risk
The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 5. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Directors' Report on pages 15 to 24, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on page 8.

72.6% (31 January 2009: 18.5%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 10% overall increase in the valuation of the unquoted investments at 31 January 2010 would have increased net assets and the total profit for the year by £1,783,000 (31 January 2009: £469,000) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

25.7% (31 January 2009: 66.6%) by value of the Company's net assets comprises money market funds held at fair value. A 1% overall increase in the valuation of the money market funds at 31 January 2010 would have increased net assets and the total profit for the year by £63,100 (31 January 2009: £1,685,000) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Fixed rate

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

	As at 31 January 2010			As at 31 January 2009		
	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years
Unquoted fixed-interest investments	1,824	10.82%	3.0	3,224	13.18%	4.0
Fixed-interest investments	-	-	-	2,876	4.58%	0.5

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market funds. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.5% at 31 January 2010 (31 January 2009: 1.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 January 2010 £'000	31 January 2009 £'000
Unquoted floating loan notes	-	700
Listed floating rate notes	1,931	4,477
Money market funds	4,374	11,670
Cash on deposit	374	3,685
	6,679	**20,532**

Every 1% increase or decrease in the base rate would increase or decrease income receivable from these investments and the total profit for the year by £67,000 (31 January 2009: £184,000).

Credit risk

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

At 31 January 2010 the Company's financial assets exposed to credit risk comprised the following:

	31 January 2010 £'000	31 January 2009 £'000
Investments in floating rate instruments	1,931	14,672
Cash on deposit	374	3,685
Investments in fixed rate instruments	1,824	6,100
Accrued dividends and interest receivable	5	95
	4,134	**24,552**

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

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

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

Other than cash or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 31 January 2010 or 31 January 2009.

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

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

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

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 January 2010 these investments were valued at £6,679,000 (31 January 2009: £20,628,000).

16. Post Balance Sheet Events

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

- on 11 March 2010 the Company invested £350,000 into Carebase (Col) Limited; and
- on 31 March 2010 the Company invested £1,000,000 into Businessco Services 3 Limited.

17. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments as at 31 January 2010 (2009: £nil).

18. Related Party Transactions

Matt Cooper, a non-executive Director of Octopus Protected VCT plc, is also Chairman of Octopus Investments Limited. Octopus Protected VCT plc has employed Octopus Investments throughout the year as Investment Manager.

Octopus Protected VCT plc has paid Octopus Investments £495,600 (2009: £592,100) in management fees. At 31 January 2010, £nil was outstanding (2009: £nil). The management fee is payable quarterly in advance and is based on 2.0% of the NAV calculated at annual intervals as at 31 January.

Octopus Investments also provides accounting and administrative services to the Company, payable quarterly in advance for a fee of 0.3% of the NAV calculated at annual intervals as at 31 January. During the year £75,417 (2009: £92,247) was paid to Octopus Investments and there is £nil outstanding at the balance sheet date, for the accounting and administrative services.

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

DIRECTORS AND ADVISERS

Board of Directors
Tony Morgan (Chairman)
Neil Wilson
Matt Cooper

Company Number
Registered in England No 05840377

Secretary and Registered Office
Celia L Whitten FCIS
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London
EC2R 7HP

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HSBC Bank plc
31 Holborn
London
EC1N 2HR

Registrars
Capita Registrars Limited
The Registry
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Beckenham
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Tel: 0871 664 0300
(calls cost 10p per minute plus network extras. Lines are open Monday – Friday 8.30 a.m. – 5.30 p.m.)
www.capitaregistrars.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus Protected VCT plc will be held at 8 Angel Court, London, EC2R 7HP on Wednesday, 14 July 2010 at 2.30 p.m. for the following purposes:

Ordinary Business

1. **To receive and adopt the financial statements for the year to 31 January 2010 and the Directors' and Auditor's Reports thereon.**

2. **To approve a final dividend of 1.5 pence per share.**

3. **To approve the Directors' Remuneration Report.**

4. **To re-elect Matt Cooper as a Director.**

5. **To re-elect Tony Morgan as a Director.**

6. **To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine their remuneration.**

Special Business

To consider and if thought fit, pass Resolution 7 as an Ordinary Resolution and Resolutions 8, 9 and 10 as Special Resolutions:-

7. **AUTHORITY TO ALLOT RELEVANT SECURITIES**
THAT the Directors be generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to allot shares up to a maximum of 2,725,600 shares (representing approximately 10% of the Ordinary share capital in issue at today's date) this authority to expire at the later of the conclusion of the Company's Annual General Meeting next following the passing of this Resolution and the expiry of 15 months from the passing of the relevant resolution (unless previously revoked, varied or extended by the Company in general meeting but so that such authority allows the Company to make Offers or agreements before the expiry thereof which would or might require relevant securities to be allotted after the expiry of such authority).

8. **EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES**
TO empower the Directors pursuant to s571(1) of the Companies Act 2006 to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the said Act) for cash pursuant to the authority referred to in resolution 6 as if s560(1) of the said Act did not apply to any such allotments and so that:

   (a) Reference to allotment in this Resolution shall be construed in accordance with s560(1) of the said Act; and

   (b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power.

   And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

9. **AUTHORITY TO MAKE MARKET PURCHASES**
THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of s693(4) of the Companies Act 2006 of Ordinary shares of 10p each in the Company ("Ordinary shares") provided that:

   (a) the maximum number of Ordinary shares so authorised to be purchased shall not exceed 5% of the present issued Ordinary share capital of the Company;

   (b) the minimum price which may be paid for an Ordinary share shall be 10p;

NOTICE OF ANNUAL GENERAL MEETING (continued)

(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.

10. CHANGE OF COMPANY NAME
THAT the name of the Company be changed to Octopus Apollo VCT 3 plc.

By Order of the Board

Celia L Whitten FCIS
Secretary
12 May 2010

NOTES:

(a) A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.

(b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the Company, **Capita Registrars, The Registry, (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU** so as to be received by no later than 48 hours before the time the Annual General Meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the Annual General Meeting.

(c) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion, as well as on the Investment Manager's website www.octopusinvestments.com.

Perivan Financial Print 217992

PROXY FORM OCTOPUS PROTECTED VCT PLC ANNUAL GENERAL MEETING 14 JULY 2010 AT 2.30 P.M.

I/We ____
(BLOCK CAPITALS PLEASE)

of ____

being a member of Octopus Protected 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 14 July 2010, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 31 January 2010, 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
Ordinary Business			
1. To receive, consider and adopt the financial statements for the year ended 31 January 2010	☐	☐	☐
2. To approve a final dividend of 1.5 pence per share	☐	☐	☐
3. To approve the Directors' Remuneration Report	☐	☐	☐
4. To re-elect Matt Cooper as a Director	☐	☐	☐
5. To re-elect Tony Morgan as a Director	☐	☐	☐
6. To re-appoint Grant Thornton UK LLP as auditor and authorise the Directors to agree their remuneration	☐	☐	☐
Special Business			
7. To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution)	☐	☐	☐
8. To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution)	☐	☐	☐
9. To authorise the Directors to make market purchases of its own shares (Special Resolution)	☐	☐	☐
10. To change the name of the Company to Octopus Apollo VCT 3 plc (Special Resolution)	☐	☐	☐

Signed: ________________________________ Dated: ____________________________2010

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 Protected VCT plc at, **Capita Registrars, The Registry, (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU** no later than 48 hours before the commencement of the meeting. If delivering by courier please use the full address of Capita set out in the Notice.

2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.

3. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement. (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.)

4. To appoint more than one proxy, you may photocopy this form. Please indicate next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

5. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

6. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.

7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

8. The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300. (calls cost 10p per minute plus network extras, lines are open 8.30 a.m. – 5.30 p.m. Monday – Friday) to request a change of address form.)

9. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

PLEASE USE THE REPLY PAID ENVELOPE PROVIDED

OCTOPUS
INVESTMENTS